# Ronson Europe N.V.

Annual Report
for the year ended
31 December 2010

**GENERAL INFORMATION**

## Management Board

Shraga Weisman
Tomasz Łapiński
Andrzej Gutowski
Karol Pilniewicz
David Katz
Amos Weltsch

## Supervisory Board

Uri Dori, *Chairman*
Mark Segall, *Vice-Chairman*
Frank Roseen
Yair Shilhav
Reuven Sharoni

## Company Secretary

Rami Geris

## Registered office

Weena 210-212
3012 NJ Rotterdam
The Netherlands

## Auditors

Ernst & Young Accountants LLP
Antonio Vivaldistraat 150
1083 HP Amsterdam
The Netherlands

# To our shareholders

2010 was characterised by mixed trends in the global economy. With the lingering effects of the 2008 financial crisis still impacting many countries around the world, the Polish economy continued to generate growth and stability. In 2010, the Polish economy grew by 3.4%, while unemployment continued to remain stable at approximately 11%, with many of the larger Polish cities showing rates under 10%. The Polish economy is expected to grow by another 4% in 2011.

During the year, the residential market in Poland showed signs of improvement, both on the demand and the supply sides. In 2010 construction began on 158,000 new units in Poland, which is lower by only 10% compared to the highest number observed in 2008.

The Company succeeded to achieve the majority of the goals it had set for itself during 2010, including:

- commencement of seven projects / stages (Nautica II, Imaginarium III, Impressio I, Naturalis I+II, Verdis I, Sakura I and Mozart I),
- commencement of operations in two new cities (Wrocław and Szczecin), adding to the Company's existing presence in Warsaw and Poznań,
- implementation of internal control systems, which will position the Company for significant expansion of its activity, and
- further strengthening of Ronson's brand name in the marketplace.

During 2010, the Company sold 270 units with a total value of PLN 173.3 million while in 2009 the Company sold 263 units with the total value of PLN 142.3 million. The profit for 2010 amounted to PLN 35.1 million which compares favourably to 2009 when it amounted to PLN 21.0 million.

We continue to strongly believe that in the medium and long term, the residential Polish market holds great promise. Over 4 million new units will need to be built in order for Poland to reach the EU27 average number of units per 1,000 inhabitants. With current annual production topping out at approximately 160,000 units (which has been even further reduced in the current market environment), the long-term shortage in the residential market will remain pronounced and should continue to create great residential development opportunities.

We believe the Company is in an advantageous position to exploit the current market conditions. The Company currently enjoys the following advantages:

- a strong capital structure allowing the Company to start and finance new projects,
- a pipeline of projects at attractive locations,
- a highly professional staff, and
- a known brand in Warsaw and an emerging brand in other Polish cities.

The advantages mentioned above should give the Company the opportunity to significantly expand the scale of its operations and sales, and ultimately to rank amongst the largest residential development companies in Poland.

We wish to thank all of our shareholders for their continued support and confidence in our ability to carry out our corporate vision.

Sincerely,

**Shraga Weisman**
**CEO**

# Contents

# Supervisory Board report

We take pleasure in presenting the Financial Statements of Ronson Europe N.V. for the financial year 2010, accompanied by the report of the management board. Ernst & Young Accountants LLP have audited the Financial Statements and issued an unqualified Auditor's Report. We recommend the shareholders to adopt the Financial Statements as presented.

We concur with the Management Board’s proposal as taken up on page 99 to allocate the net profit for the year 2010 amounting to PLN 35,091 thousand to retained earnings.

### *Supervision*

During 2010, there were frequent Supervisory Board and Management Board meetings, during which, among others, the following topics were discussed:

- the Company’s business strategy, including the responses by the Company to the changed market environment as a result of the financial crisis;
- the strengthening of the Company’s financial position;
- potential sources of long term capital;
- performance review of the Management Board and evaluation of the Company’s remuneration policy;
- the corporate governance structure of the Company;
- risk management and processes undertaken during the year;
- group restructuring anticipating Polish tax regulations;
- evaluation and re-appointment of the Company’s auditors and;
- financial results and other related issues.

The Supervisory Board (including its committees) met eight times (including five meetings of the Audit Committee) without the presence of the Management Board to discuss, among other things, the functioning of the Management Board. The Board also met with the external auditors without the presence of the Management Board. All Supervisory Board meetings held in 2010 were attended by the majority of the members of the Supervisory Board. None of the members of the Supervisory Board has been absent during more than one Supervisory Board meeting in 2010.

### *Audit Committee*

The roles and responsibilities of the Audit Committee are to supervise, monitor and advise the Management Board and Supervisory Board on all matters related to risk management, audit, control and compliance to relevant financial legislation and regulations. The Audit Committee evaluates the performance of external auditors and related costs. During 2010, the Audit Committee met five times. The Audit Committee has also been involved in the process of the assessment of the performance and costs of the external auditors, with whom the committee met twice during the year.

### *Remuneration and Nominating Committee*

It is the primary task of the Remuneration and Nominating Committee to: (i) propose to the Supervisory Board remuneration of the members of the Management Board, including a review and monitoring of the Group’s total remuneration policy, (ii) advise the Supervisory Board on matters relating to the nominations of both Supervisory and Management Board members. The Remuneration and Nominating Committee regularly reviews the Supervisory Board profile, its effectiveness and composition. The committee also reviews the performance of the members of the Management Board. During 2010, the Remuneration and Nominating Committee met once during the year.

### *Financial statements*

The Management Board has prepared the 2010 financial statements. These financial statements were discussed at a Supervisory Board meeting attended by the auditors.

### *Change in composition of the Supervisory Board*

In order to secure continuity within the Board, the Supervisory Board has adopted an arrangement that provides for a staggered expiration of individuals terms. Under this arrangement, the reappointment for a four-year term of one member of the Supervisory Board was scheduled prematurely for the Annual General Meeting of Shareholders held on 9 April 2010. During this General Meeting of Shareholders, Mr U. Dori has been reappointed as Supervisory Director of the Company. His new term will expire in April 2014. For the upcoming General Meeting of Shareholders, the reappointment of Messrs Segall and Shilhav will be scheduled.

### *Change in composition of the Management Board*

During 2010, there have been no changes in the composition of the Management Board of the Company. With a view to the expiration of their four year term as Managing Directors in 2011, the reappointment of Messrs Katz and Weltsch, which is recommended by the Supervisory Board, will be scheduled for the upcoming General Meeting of Shareholders.

**8 March 2011**
**For the Supervisory Board**

Uri Dori,
Chairman

# Corporate Governance

## Governance structure

The Company is a Dutch public company with a listing on the Warsaw Stock Exchange (‘WSE’). For this reason the Company is subject to both Dutch and Polish rules and regulations regarding corporate governance.

### *Corporate Governance Code in the Netherlands*

On 9 December 2003, the Dutch Corporate Governance Committee released the Dutch Corporate Governance Code. It was updated on 10 December 2008 by the Corporate Governance Code Monitoring Committee to take effect as of financial year 2009. The updated Dutch Corporate Governance Code (‘the Code’) contains principles and best practice provisions for management boards, supervisory boards, shareholders and general meetings of shareholders, financial reporting, auditors, disclosure, compliance and enforcement standards.

Dutch companies listed on a government-recognized stock exchange, either in the Netherlands or elsewhere, are required under Dutch law to disclose in their annual reports whether or not they apply the provisions of the Code and, if they do not apply, to explain the reasons why. The Code provides that if a company's general meeting of shareholders explicitly approves the corporate governance structure and policy and endorses the explanation for any deviation from the best practice provisions, such company will be deemed to have complied with the Code.

The Company acknowledges the importance of good corporate governance. The Management and Supervisory Boards have reviewed the Code, and generally agree with its purport. The Boards have taken and will take any further steps they consider required and appropriate to further implement the Code and improve the Company’s corporate governance features. This is very much a living process. It is the Company’s policy to discuss the topic annually with the shareholders and schedule it for this purpose for the annual general meeting of shareholders each financial year. The topic has been part of the agenda for each general meeting of shareholders since 2008.

The corporate governance policy and the corporate governance framework of the Company were approved for the first time by the shareholders in 2007 at the occasion of the IPO of the Company. The topic of corporate governance has been scheduled for each general meeting of shareholders since 2007.

### *Exceptions to the application of the Dutch Corporate Governance Code:*

The Company endorses the Code and has applied the relevant best practice provisions of the Dutch Corporate Governance Code, except for the provisions set out below.

II. 1.1 *A Management Board member is appointed for a maximum period of four years. A member may be reappointed for a term not more than four years at a time.*

Members of the Management Board that were appointed before the end of the financial year 2007, have been appointed for an unlimited period and the Company does not consider it appropriate to renegotiate the existing agreements, in so far as this would be possible given the mandatory provisions of Dutch labour law. Any appointments of members of the Management Board after 1 January 2008 have been in compliance with this provision.

II. 2.4 *If options are granted, they shall, in any event, not be exercised in the first three years after the date of granting. The number of options to be granted shall be dependent on the achievement of challenging targets specified beforehand.*

The currently outstanding options have been granted unconditionally and independent on the achievement of targets. The Company shall not amend these existing agreements. Considering that the Company is still in a relatively early stage of development and that the setting of credible predetermined performance criteria at a term of at least three years is not practical at this stage, the Company shall not apply this provision.

## Governance structure (cont'd)

III. 2.1 *The supervisory board members, with the exception of not more than one person, shall be independent within the meaning of best practice provision III. 2.2.*

Our Supervisory Board currently consists of five members, of which two are independent within the meaning of the Dutch Corporate Governance Code. GE (15.3% shareholding) and ITR Dori (64.2% shareholding) have agreed to use their voting rights in such a manner to procure that ITR Dori will be in a position to nominate independent supervisory directors to the Company. Moreover, the Company's articles of association state that the Supervisory Board shall have at least two independent Supervisory Board directors.

III. 6.5 *The terms of reference of the supervisory board shall contain rules on dealing with conflicts of interest and potential conflicts of interest between management board members, supervisory board members and the external auditor on the one hand and the company on the other. The terms of reference shall also stipulate which transactions require the approval of the supervisory board. The company shall draw up regulations governing ownership of and transactions in securities by management or supervisory board members, other than securities issued by their 'own' company.*

The Company believes that the restrictions under Dutch securities law are sufficient to govern the ownership of, and transactions in, securities by Supervisory and Management Board members. Implementing additional restrictions would potentially harm its ability to attract and ensure the continued services of Supervisory and Management Board members and the Company therefore believes that applying this best practice provision is not in its best interest.

IV. 3.1 *Meetings with analysts, presentations to analysts, presentations to investors and institutional investors and press conferences shall be announced in advance on the company's website and by means of press releases. Provision shall be made for all shareholders to follow these meetings and presentations in real time, for example by means of web casting or telephone lines. After the meetings, the presentations shall be posted on the company's website.*

Considering the Company's size, it would create an excessive burden to provide facilities which enable shareholders to follow in real time the meetings and presentations referred to in the best practice provision. The Company will ensure that presentations are posted on its website immediately after the meetings in question.

### *Transactions with a conflict of interest*

During the financial year 2010, no transactions as referred to in best-practice provisions II.3.4, III.6.3 and III.6.4 took place involving a conflict of interest relating to directors, supervisory board members or natural and/or legal persons holding at least 10% of the shares in the company. Applying best-practice provisions II.3.2, II.3.3, III.6.1 and III.6.2 was therefore not relevant.

Notwithstanding the above, during the year ended 31 December 2010, the Group has sold 3 residential units including parking places and storages ("Units") to Mr Andrzej Gutowski and, Mr Tomasz Łapiński and Mr Karol Pilniewicz for a total net amount (excluding VAT) PLN 424 thousand, PLN 467 thousand and PLN 429 thousand, respectively. These transactions were executed at arm's length and were in adherence to the Group's policy in respect of related-party transactions.

## Governance structure (cont'd)

### *Statement referred to in Section 3 of the Decree of 10 December 2009, Stb 545, determining the further requirements concerning the contents of annual reports*

Based on Section 391 of Book 2 of the Dutch Civil Code (Act of 9 July 2004, Stb 370, to amend Book 2, CC) and the Royal Decree of 23 December 2004, limited liability companies, whose shares – to put it briefly – are listed on a regulated stock exchange, must include a statement in their annual reports about their compliance with the principles and best practices of the Code.

In light of the foregoing the Company confirms that in the year under review, it did not comply fully with the provisions of the Code, nor does it intend to comply with these during the current financial year or the next financial year. Its reasons for doing so are explained in the paragraphs above.

### *Corporate Governance Code in Poland*

The Code of Best Practice for WSE-Listed Companies (the 'WSE Corporate Governance Rules') applies to companies listed on the WSE, irrespective of whether such companies are incorporated in Poland or outside of Poland. The WSE Corporate Governance Rules consist of general recommendations relating to best practices for listed companies (Part I) and best practice provisions relating to management boards, supervisory board members and shareholders (Parts II to IV).

The WSE Corporate Governance Rules impose upon the companies listed on the WSE an obligation to disclose in their current reports continuous or incidental non-compliance with best practice provisions (with the exception of the rules set forth in Part I). Moreover, every year each WSE-listed company is required to publish a detailed statement on any non-compliance with the WSE Corporate Governance Rules (including the rules set forth in Part I) by way of a statement submitted with the company's annual report (the 'Yearly Compliance Statement').

Companies listed on the WSE are required to justify non- or partial compliance with any WSE Corporate Governance Rules and to show the ways of eliminating the possible consequences of such non-compliance or the steps such company intends to take to mitigate the risk of non-compliance with such rule in future.

The Company intends, to the extent practicable, to comply with all principles of the WSE Corporate Governance Rules. However, certain principles will apply to the Company only to the extent permitted by Dutch law. Detailed information regarding non-compliance, as well as additional explanations regarding partial compliance with certain WSE Corporate Governance Rules due to incompatibilities with Dutch law, are included in the aforementioned reports, which are also available on the Company's website (www.ronson.pl) and are being published by way of a current report.

The Company makes all efforts to comply with all principles of both the Dutch Code and the WSE Corporate Governance Rules and to enforce such corporate structure that ensures the Company's transparency to the most possible extent. The Company believes that its efforts are appreciated by its stakeholders and that these efforts will support the Company's growth and its reliability.

## General Meeting of Shareholders

The annual General Meeting of Shareholders shall be held within six months after the end of the financial year to deal with, among other matters: (i) the annual report; (ii) adoption of the annual accounts, (iii) discussion of (any substantial changes in) corporate governance; (iv) discussion of remuneration policy for the Board of Managing Directors, (v) granting of discharge to the Board of Managing Directors for the management over the past financial year (vi) discussion of remuneration of Supervisory Board members, (vii) granting of discharge to the Supervisory Board for the supervision over the past financial year, (viii) policy on additions to reserves and dividends, (ix) adoption of the profit appropriation, (x) (re)appointment of members of the Board of Managing Directors and (xi) (re)appointment of members of the Board of Supervisory Directors.

Other General Meetings of Shareholders shall be held as often as the Management Board or the Supervisory Board deems necessary. Shareholders representing in the aggregate of at least one-tenth of the Company's issued capital may request the Management Board or the Supervisory Board to convene a General Meeting of Shareholders, stating specifically the business to be discussed.

## Issue of new shares

The Company shall only issue shares pursuant to a resolution of the General Meeting or of another corporate body designated to do so by a resolution of the General Meeting for a fixed period not exceeding five years. The designation must be accompanied by a stipulation as to the number of shares that may be issued. The designation may each time be extended for a period of up to five years. The designation may not be cancelled, unless the designation provides otherwise. A decision by the General Meeting to issue shares or to designate another body to issue shares can only be taken upon the proposal of the Board of Managing Directors. The proposal is subject to the approval of the Board of Supervisory Directors.

The Board of Managing Directors is, subject to the approval of the Supervisory Board, authorized to resolve to issue shares for a certain period that lapses at 9 October 2011 for a maximum issue of shares of 25% of the issued share capital immediately prior to that issue, with an aggregate maximum of all non-issued shares of the authorized capital.

Each shareholder shall have a pre-emptive right with respect to any share issue in proportion to the aggregate amount of his shares, except if shares are issued for a non-cash consideration or if shares are issued to employees of the Group.

As the two leading shareholders – ITR Dori B.V. and GE Real Estate CE Residential B.V. – are controlling respectively 64.2% and 15.3% of the Company's share capital and votes in the General Meeting of Shareholders of the Company, the change of control over the Company is not possible without their consent and involvement. In addition, the two leading shareholders are represented both in the Supervisory Board and in the Management Board of the Company.

## Supervisory and management boards

The Company has a two-tier corporate governance structure, consisting of an executive Management Board (the 'Management Board') and a non-executive Supervisory Board (the 'Supervisory Board'). The day-to-day management and policy-making of the Company is vested in the Management Board, under the supervision of the Supervisory Board. There are currently six members of the Management Board whose names are set out below. The Supervisory Board supervises the Management Board and the Company's general course of affairs and the business it conducts. It also supports the Management Board with advice. In performing their duties the Supervisory Board members must act in accordance with the interests of the Company and the business connected with it.

## Supervisory Board

The Articles of Association provide that the Company shall have a Supervisory Board consisting of at least three and at most seven persons of which at least two Supervisory Directors shall be independent. Supervisory Directors are appointed by the General meeting of shareholders for a period of four years. After holding office for the first period of four years, Supervisory Directors are eligible for re-election for two additional terms of four years each. The General meeting of shareholders shall establish the remuneration for each Supervisory Director.

## Supervisory Board Committees

The Supervisory Board is supported by two committees:

- the Audit Committee (comprising Mr Shilhav (chairman), Mr Dori and Mr Segall);
- the Remuneration and Nominating Committee (comprising Mr Dori (chairman), Mr Segall and Mr Sharoni);

These committees are composed from members of the Supervisory Board with relevant experience. All committees operate under the overall responsibility of the Supervisory Board, in accordance with the best practice stipulations of the Dutch Corporate Governance Code.

## Composition of the Supervisory Board

***Uri Dori (age 68, Israeli citizen, male), Chairman***

Uri Dori was appointed a member of the Supervisory Board of the Company on 28 September 2007. He is the Chairman of the Management Board and Chief Executive Officer in U Dori Group Ltd. Mr Dori is a board member of the following companies: U. Dori Group Ltd, ACAD Building and Investments Ltd, ACAD Equipment and Assets (1979) Ltd, ROM GEVES Casing and Covering (1997) Ltd, Innovate Ltd, Bay Heart Limited, U. Dori Technologies & Investments Ltd, Bay Heart Assets (1994) Limited, Undoran Engineering Ltd, U Dori Construction Ltd, Mildan Initiating and Investments Ltd, Udor Holdings Ltd, U Dori Energy Infrastructure Ltd, U Dori Enterprises Ltd and Dorad Energy Ltd. His current term as Supervisory Board Director expires in April 2014. There is no conflict of interest between the Company and other business activities of Mr Dori.

***Mark Segall (age 48, US citizen, male), Vice-Chairman***

Mark Segall was appointed a member of the Supervisory Board of the Company on 28 September 2007. Mr Segall is the founder of Kidron Corporate Advisors LLC, a corporate advisory and mergers and acquisitions boutique, Kidron Capital Advisors LLC, a US registered broker dealer, and of Kidron Opportunity Fund I, LLC, a small private equity fund. Prior to forming Kidron in 2003, he was the Co-chief executive officer of Investec Inc. Mr Segall serves on the board of directors of Integrated Asset Management plc, Answers Corporation and Temco Services Inc. His current term as Supervisory Director expires in September 2011. There is no conflict of interest between the Company and other business activities of Mr Segall.

***Frank Roseen (age 48, Sweden citizen, male)***

Frank Roseen was appointed a member of the Supervisory Board of the Company on 29 May 2009. Mr Roseen Joined GE Capital in 2002, and has 9 years of real estate experience. Mr Roseen has been responsible for GE Capital Real Estate's operations in Central and Eastern Europe since October 2008. His previous role was Managing Director - Asset Management for Asia Pacific. Prior to that, Mr Roseen was CFO for GE Commercial Finance Real Estate Asia Pacific and GE Real Estate Nordic. Before joining GE, he was Finance Director for Xerox Nordic. His current term as Supervisory Director expires in May 2013. There is no conflict of interest between the Company and other business activities of Mr Roseen.

***Yair Shilhav (age 51, Israeli citizen, male)***

Yair Shilhav was appointed a member of the Supervisory Board on 28 September 2007, and he is the Chairman of the Audit Committee. Since 2004, Mr Shilhav has been the owner of a business consulting office. Between 2000 and 2003, he was a member of the executive directory committee of the audit firm, Somekh Chaikin, a member of KPMG. Between 1995 and 2003, he was the head of the Haifa branch of Somekh Chaikin, of which he was partner from 1990 to 2003. Prior to becoming a partner at Somekh Chaikin, he was head of the professional and finance department of the same firm. He was also the head of the accountancy faculty at Haifa University between 1998 and 2002. His current term as Supervisory Director expires in September 2011. There is no conflict of interest between the Company and other business activities of Mr Shilhav.

***Reuven Sharoni (age 72, Israeli citizen, male)***

Reuven Sharoni was appointed a member of the Supervisory Board on 23 June 2008. Mr Sharoni's recent positions include Deputy Manager and head of Non Life Arieh Insurance Company Ltd. from 1980 to 1984. In the years 1984 to 2000, he acted as Deputy General Managing Director and from 2000 until 2002 as the General Managing Director of Arieh Insurance Company Ltd. Since 2003, Mr Sharoni has been an active chairman of Shirbit Insurance Company Ltd. and since 2006 also a Chairman of Millenium Pension Savings Ltd. Mr Sharoni graduated from Hebrew University Jerusalem – Middle East Studies, International Affairs. He also completed his MBA studies at Sehiller University in Paris. His current term as Supervisory Director expires in June 2012. There is no conflict of interest between the Company and other business activities of Mr Sharoni.

## Management Board

The management of the Company is entrusted to the Management Board under the supervision of the Supervisory Board. The Articles of Association provide that the Management Board shall consist of two or more managing directors. Managing directors are appointed by the General meeting of shareholders. The Management Board shall meet as often as a managing director requests a meeting. All resolutions by the Management Board shall be adopted by an absolute majority of the votes cast.

The Management Board as a whole is responsible for the day-to-day management, including comprehensive risk management control, financing and regulatory compliance.

The Company and its operating companies are organised along clear functional reporting lines. Throughout the Group, corporate and operating accountabilities, roles and responsibilities are in place.

## Managing directors A and B

Per the Company's Articles of Association, the board of managing directors shall consist of one or more managing directors A and may in addition consist of one or more managing directors B. The Supervisory Board shall determine precisely the number of managing directors and the precise number of managing directors of a specific class.

The General Meeting of Shareholders shall grant to one of the managing directors A the title of "Chief Executive Officer" who will be the chairman of the Management Board, and may also grant to one of the managing directors A the title of "Chief Financial Officer" and other titles to managing directors A or managing directors B.

The board of managing directors shall represent the Company. The authority to represent the Company shall also be vested in two managing directors among whom, if one or more managing directors B are in office, at least one shall be a managing director B.

## Composition of the Management Board

***Shraga Weisman (age 59, Israeli citizen, male)***

On 10 October 2008, Mr Shraga Weisman was appointed as managing director A and President of the Management Board, for a term of four years and granted the title 'Chief Executive Officer'.

Mr Weisman served as 'Chief Executive Officer' of Ashdar Building Company Ltd. from 1997 until May 2008. Ashdar Building Company Ltd., listed on the Tel-Aviv Stock Exchange since May 2007, is one of the largest real estate development companies in Israel focusing on residential and commercial projects, hotels and protected accommodation projects. From 1990 to 1997, he was 'Chief Executive Officer' of Natanya Tourism Development Company, which developed residential and infrastructure development projects in Israel. Mr Weisman holds a BA title from Tel-Aviv University, an MSC title from Technion, the Israeli Institute of Technology, and is a certified real estate appraiser in Israel. Mr Weisman does not perform any activities other than for the Company.

***Tomasz Łapiński (age 34, Polish citizen, male)***

On 23 June 2008, Mr Łapiński was appointed as managing director A and member of the Management Board, for a term of four years and granted the title 'Chief Financial Officer'.

Between 2000 and 2008, Mr Łapiński worked in the investment banking division of UniCredit Group in Warsaw (formerly of HVB and of Bank Austria Creditanstalt) – in UniCredit CA IB Poland (formerly CA IB Financial Advisers). His experience in investment banking includes mainly M&A (mergers and acquisitions) transactions as well as other corporate finance related assignments. He was also responsible for equity capital market (ECM) transactions, including the initial public offering of Ronson Europe N.V. Before joining CA IB Financial Advisers, from 1998 to 2000, Mr Łapiński worked for the consulting company Central Europe Trust. Mr Łapiński graduated from Warsaw School of Economics (Finance and Banking Faculty). Mr Łapiński does not perform any activities other than for the Company.

## Composition of the Management Board (cont'd)

*Andrzej Gutowski (age 41, Polish citizen, male)*

On 10 October 2008, Mr Gutowski was appointed as managing director A and member of the Management Board, for a term of four years and granted the title 'Sales and Marketing Director'.

Mr Gutowski has been employed by Ronson Development Management Sp. z o.o. for five years as the 'Sales and Marketing Manager'. Mr Gutowski is also a member of the management boards of many subsidiaries of the Company. Before joining Ronson Development Group, between 1994-2003 Mr Gutowski worked for Emmerson Sp. z o.o. (leading real estate agency and Advisory Company in the Polish market) as Director of Primary Markets and member of the management board. From 1988 until 1993, Mr Gutowski studied at Warsaw School of Economics (Foreign Trade). Mr Gutowski does not perform any activities other than for the Company.

*David Katz (age 67, Israeli citizen, male)*

David Katz was appointed as managing director B and member of the Management Board of the Company on 1 October 2007. Since 1983, Mr Katz has been the Vice President of U Dori Group Ltd and is currently the manager of the Initiatives and Enterprises departments. From 1969 to 1983, he was a performance engineer at Ashtrom Engineering & Construction Ltd. He is a member of the board of the following companies: U. Dori Group Ltd, I.T.R Dori B.V., D.A.C. Engineering Ltd, ACAD Building and Investments Limited, ACAD Equipment and Assets (1979) Limited, U. Dori Technologies & Investments Ltd, Bay Heart Assets (1994) Limited, Mildan Initiating and Investments Ltd and David K. Holdings Ltd. There is no conflict of interest between the Company and other business activities of Mr Katz.

*Karol Pilniewicz (age 32, Polish citizen, male)*

On 10 October 2008, Mr Pilniewicz was appointed as managing director B and Member of the Management Board, for a term of four years.

Mr Pilniewicz is employed by GE Real Estate Investment Management Poland Sp. z o.o.. Before joining GE Real Estate, between 2003-2008 Mr Pilniewicz was employed by Aareal Bank A.G. In 2002-2003, Mr Pilniewicz worked in ING Real Estate Investment Management Poland. Mr Pilniewicz is graduated from Academy of Economics in Katowice. There is no conflict of interest between the Company and other business activities of Mr Pilniewicz.

*Amos Weltsch (age 59, Israeli citizen, male)*

Amos Weltsch was appointed as managing director B and member of the Management Board member on 1 October 2007. Mr Weltsch has been the chief operating officer and member of the Management Board of Cinema City International N.V. since 1980. He has also held various senior management positions with Israel Theatres Limited and affiliated companies since 1980. From 1974 to 1978, he was a manager at L. Glickman Building Materials, and from 1978 to 1980, a managing director of Eitan Cement Limited. There is no conflict of interest between the Company and other business activities of Mr Weltsch.

## Explanatory notes by reason of the Decree, Article 10 of the Takeover Directive

By reason of the Decree of 5 April 2006 to implement article 10 of Directive 2004/25/EC of the European Parliament and the Council of the European Union of 21 April 2004 regarding public takeover bids, Ronson Europe N.V. ('the Company') provides the following explanation:

***a. Capital structure of the Company***
The capital of the company consists of one class of shares, being ordinary shares with a nominal value of EUR 0.02 each. Information on issued shares has been included under Note 23 to the Consolidated Financial Statements.

***b. Restriction on transferring shares or issued depositary receipts with the Company's co-operation***
The Articles of Association of the Company have no restriction with respect to the transfer of shares. The Company has no depositary receipts issued with the Company's co-operation.

***c. Duty to report interests in the Company***
The Company has been notified regarding shareholders with a substantial holding in accordance with the Act on Financial Supervision (5% or more) in the Company (I.T.R. Dori B.V., GE Real Estate CE Residential B.V. and Amplico Otwarty Fundusz Emerytalny and ING Otwarty Fundusz Emerytalny).

***d. Special controlling rights***
The Company has issued no shares with special controlling rights.

***e. Employees' shares***
The Company currently does not hold any employee share scheme or option plan where the control rights are not exercised directly by the employees.

***f. Restriction on voting right and issue of depositary receipts***
No restrictions are currently imposed on voting rights attached to issued shares. The Company has no depositary receipts issued with the Company's co-operation.

***g. Agreements with shareholders***
Currently, the Company is unaware of any shareholder agreements, except for the so-called Relationship Agreement between its two largest shareholders, I.T.R. Dori B.V. and GE Real Estate CE Residential B.V. which sets forth certain rights and obligations of the two largest shareholders with respect to each other. For a description of the Relation Agreement reference is made to pages 75 to 77 of the Company's Prospectus dated 10 October 2007 as available from the Company's website: www.ronson.pl.

***h. Regulations pertaining to the appointment and dismissal of executive and supervisory directors and amendments to the Articles of Association***
By virtue of articles 13 and 14 and articles 21 and 22 of the Articles of Association, the general meeting is authorised to appoint, suspend or dismiss members of the Management Board as well as members of the Supervisory Board. The Directors shall be appointed from a list of nominees, containing the names of at least two persons for each vacancy, to be drawn up by the Board of Supervisory Directors. A nomination which is drawn up in time shall be binding. However, the general meeting may deprive the nomination of its binding character by resolution adopted with a majority of not less than two thirds of the votes cast, representing more than half of the issued capital. The members of the Management Board and the Supervisory Board may be suspended or dismissed by the general meeting at any time. If a resolution to suspend or dismiss a Director has not been proposed by the Board of Supervisory Directors, the resolution to suspend or dismiss a managing Director is adopted with not less than two thirds of the votes cast by shareholders, representing more than half of the issued capital.
By virtue of article 40 of the Articles of Association, the Articles of Association can only be amended at the proposal of the Board of Managing Directors subject to approval from the Supervisory Board and the shareholders. A resolution to amend the Articles of Association shall be passed by an absolute majority of the votes cast.

***i. The powers of the board***
By virtue of article 5 of the Articles of Association, the Management Board is, subject to the approval of the Board of Supervisory Directors, authorised to resolve to issue shares for a certain period that lapses at 9 October 2011 for a maximum per issue of shares of 25% of the issued share capital immediately prior to that issue, with an aggregate maximum of all non-issued shares of the authorized share capital.

***j. Important agreements when issuing a public bid***
The Company is not aware of any existing agreement which is relevant in the context of the issuance of a public bid.

***k. Agreements with executive directors or employees in the event of a public bid***
The employment contracts the Members of the Management Board do not contain any specific clauses which refer to a change of control in the Company.

# Remuneration Report

## Introduction

The Extraordinary General meeting of shareholders held on 1 October 2007, upon recommendation of the Supervisory Board, approved the Company's remuneration policy which sets forth the terms of remuneration of the members of the Management Board. The same General meeting approved a long-term incentive plan for members of the Management Board and other key personnel of the Company and its subsidiaries. The remuneration for the Supervisory Board was also adopted at the same General shareholders' meeting.

## Remuneration Policy

The objective of the Company's remuneration policy is to provide a compensation program that allows the Company to attract, retain and motivate members of the Supervisory and Management Boards and those who have the character traits, skills and background to successfully lead, manage and supervise the Company. The remuneration policy is designed to reward members of the Management Boards and other key personnel for their contribution to the success of the Company. Each of the Supervisory Boards member receives fixed annual remuneration and remuneration per attended at meeting.

## Governance

The General meeting of shareholders approves all aspects of the remuneration policy for the Management Board. The General Meeting of Shareholders further determines the remuneration of the Supervisory Board. Compensation of both the Supervisory Board and Management Board is reviewed regularly. The Supervisory Board has a dedicated Remuneration Committee.

## Remuneration of the Management Board

### *Shraga Weisman*

Mr Shraga Weisman, as a member of the Management Board of Ronson Europe N.V., has entered into an employment contract with a subsidiary of the Company (Ronson Development Management Sp. z o.o.). The terms of his compensation package include a gross monthly fee of the PLN equivalent of EUR 2,500. Mr Weisman is also entitled to reimbursement of housing and office costs amounting up to the PLN equivalent of EUR 3,000 per month, as well as certain other social and medical insurance costs. His compensation also includes a reimbursement of reasonably incurred and documented expenses related to the proper performance of his consulting agreement up to the amount of EUR 5,000 per calendar year as well as reimbursement of the costs related to his and his family's travel to Israel up to the maximum amount of EUR 20,000 per year and a company car.

In addition, he provides via his consulting company services to Ronson Europe N.V. For these services Mr Weisman's company charges Ronson Europe N.V. a monthly fee of EUR 22,500. His consulting company is also entitled to an annual bonus set at 3.3% of the consolidated annual pre-tax profit of the Group.

### *Tomasz Łapiński*

Mr Tomasz Łapiński, as a member of the Management Board of Ronson Europe N.V., has entered into an employment contract with a subsidiary of the Company (Ronson Development Management Sp. z o.o.). The conditions of the employment contract include a monthly salary of PLN 42,000 (increased from PLN 37,000 since June 2010), reimbursement of the medical insurance costs and a company car. In addition, he is entitled to an annual bonus set at 0.75% of the consolidated annual pre-tax profit of the Group.

### *Andrzej Gutowski*

Mr Andrzej Gutowski, as a member of the Management Board of Ronson Europe N.V., has entered into an employment contract with a subsidiary of the Company (Ronson Development Management Sp. z o.o.). The conditions of the employment contract include a monthly salary of PLN 25,000 (increased from PLN 20,000 since January 2011), reimbursement of the medical insurance costs and a company car. Mr Gutowski is also entitled to quarterly bonus based on the value of the apartments sold by the Company in the particular quarter. His bonus is tied to value of Company's

## Remuneration of the Management Board (cont'd)

Sales and amounts to 0.1% of the value of sales. The bonus has been capped at a maximum amount of PLN 28,000 per quarter until end of December 2010. Mr Gutowski is also entitled to participate in the Company's Employee Stock Incentive Plan (see below).

### *David Katz*

Mr David Katz is not entitled to any remuneration from Ronson Europe nor from any of the Company's subsidiaries except for a reimbursement of out-of-pocket expenses related to services provided to the Company (mainly comprising travel and accommodation expenses).

### *Amos Weltsch*

Mr Amos Weltsch is not entitled to any remuneration from Ronson Europe nor from any of the Company's subsidiaries except for a reimbursement of out-of-pocket expenses related to services provided to the Company (mainly comprising travel and accommodation expenses).

### *Karol Pilniewicz*

Mr Karol Pilniewicz is not entitled to any remuneration from Ronson Europe nor from any of the Company's subsidiaries except for a reimbursement of out-of-pocket expenses related to services provided to the Company (mainly comprising travel and accommodation expenses).

### *Remuneration of the Management Board in 2010*

Total compensation of the Members of the Management Board – not including any benefits from the employee stock incentive plan (share based payments) and the company car – amounted to PLN 3,825 thousand, of which the compensation of:

- Mr Shraga Weisman amounted to PLN 2,623 thousand,
- Mr Tomasz Łapiński amounted to PLN 841 thousand,
- Mr Andrzej Gutowski amounted to PLN 361 thousand.

## Long-term incentive plan

Towards the end of 2007, an employee stock incentive plan (the 'Employee Stock Incentive Plan') was implemented. The Employee Stock Incentive Plan comprises a maximum of 4,000,000 shares for members of the Management Board and key employees of the Company. The General Meeting of Shareholders has resolved to authorize the Supervisory Board to determine, with the participation of at least one independent member of the Supervisory Board, the exact terms of any stock or stock-based incentive scheme, and the persons entitled to participate therein, upon the recommendation of the Management Board. In addition, under such resolution, the Company may purchase its shares in the open market to satisfy any share entitlements upon exercise of any options issued or granted under its Employee Stock Incentive Plan. The actual grant of share options is disclosed in the Notes to the Consolidated Financial Statements.

On 5 November 2007, the Company issued 1,900,000 options with an exercise price of PLN 5.75 each and right to obtain 300,000 shares. Following the resignation of key management employees in 2008 and 2009, a total of 1,260,667 options were cancelled, whereas the right to obtain 300,000 shares was exercised during 2008. During the year ended 31 December 2010, the other selected employees that joined the option program had not exercised any of their options.

## Remuneration of the Supervisory Board

Each Supervisory Board member currently receives an annual remuneration of EUR 8,900 and EUR 1,500 per attendance at meetings or EUR 750 if attendance is by telephone. Moreover Supervisory Board members are entitled to reimbursement of out-of-pocket expenses related to services provided to the Company (mainly comprising travel and accommodation expenses). The Supervisory Board members are not entitled to any benefits on termination of their service. Two Supervisory Board members (Mr Uri Dori and Mr Frank Roseen) have waived their remuneration from the Company. The remuneration paid (or accrued) to the Supervisory Board members includes only the remuneration for the remaining members: Mr Mark Segall, Mr Yair Shilhav and to Mr Reuven Sharoni. The total Supervisory Board remuneration during 2010 amounted to PLN 179 thousand (EUR 45 thousand).

# Risk Profile and Risk Management

## Risk Profile

Management believes that the residential market as a whole in Poland is less saturated than in any other country within the European Union, including also the developing countries in Central and Eastern Europe, which in general provides for many opportunities for residential developers. However due to the fact that the Polish economy is still experiencing many dynamic changes, it may be sensitive to potential up and down-turns. These market conditions form an important and significant risk factor for the Company and for other residential developers, as the development process (including stages such as the purchase of land, the preparation of land for construction works, the construction process itself and, finally, also the sale of apartments) may take several years from start until completion. It is important to understand that decisions taken by the Company must assume a relatively long-term time horizon for each project as well as a significant volatility of land prices, construction cost levels and sales prices of apartments during the duration of projects which may have a material impact on the Company's profitability and financing needs.

Another specific risk is associated with the rapid development of many Polish cities which very often involves a lack of stability of development plans which could substantially impact the likelihood that projects on particular sites are realised as initially desired or planned. Quite often, residential developers are interested in buying land parcels without zoning conditions or without a valid master plan for the area, which would allow for a better assessment of the ultimate value of the plot. Pursuing such market opportunities may result in relatively low prices of the land parcels. However, this strategy may result in increasing operational and financial risks for the developer. Moreover, changing development plans of the cities could also impact the planned development and realisation of utility infrastructure (including water, gas, sewage and electricity connections), which is critical factor for the Company and other developers. However, for a vast majority of land parcels, the Company has already obtained zoning approvals, which reduces this risk to the Company significantly.

Another operating risk lies within the construction process itself. The Company does not operate a construction business, but, instead, it hires third party general contractors, who are responsible for running the construction and for the finalisation of the project including obtaining all permits necessary for safe use of the apartments. Important selection criteria when hiring a general contractor include experience, professionalism and financial strength of the contractor as well as the quality of the insurance policy covering all risks associated with the construction process.

Recent turbulence in the financial markets has resulted in a lack of stability in the manner in which financing institutions (banks) have approached both real estate companies and individual customers when applying for a mortgage loan. As the real estate business is very capital consuming, the role of the banking sector and its lending abilities are crucial for the Company leveraging not only when land parcels are acquired but also during the later stages of development, especially during the construction phase. Moreover, the availability of external financing is a crucial element driving the demand for apartments, as the vast majority of our customers are using mortgage secured loans to finance the purchase of apartments.

For addition information on financial instruments risks see Note 33 of the Consolidated Financial Statements.

## Risk Management

As part of its risk management measures, the Company is requesting, monitoring and purchasing insurance policies for most common risks associated with the activities of its contractors and their subcontractors, including construction companies and architectural designers, as well as insurance policies with respect to third-party liability. In the Company's opinion, these insurance policies offer adequate coverage for the financial consequences of any misconduct of Company's business partners.

In order to mitigate the market risks involved with the Company's activities, the Company applies relevant internal procedures, which include, for instance, a stipulation that any acquisition of land requires unanimous approval of the Management Board of the Company. Moreover, in response to the recent increasing market instability, the Company decided to scale down the size of individual projects offered for sale, by splitting larger residential projects into relatively smaller phases (usually at below 100 units for each stage of completion). The Company's plans for 2011 assume the commencement of construction of six new projects and four further stages of projects which are currently under construction comprising some 1,100-1,400 units, which means that the average scale of each new project, i.e. stage of completion, will be around 100 units. The Company is mitigating the risks related to the construction process by selecting and hiring experienced construction companies with good reputation and proven track-record in Poland.

Moreover, various other organisational measures and procedures were implemented in order to improve the quality of operations and to incorporate adequate checks and balances, including approvals, authorisations, reviewing investment decisions and so on. As part of implementing best-practice provisions of both the Dutch and Polish corporate governance codes, the Company introduced a tailored internal risk management and control system. During 2010, the proper operation of the new internal risk management and control system has been monitored. The evaluation was discussed with the members of the Audit Committee and the Supervisory Board. Also, the Company has a set whistleblower rules in place to ensure that employees of the Company and its subsidiaries have the possibility of reporting alleged irregularities of a general, operational or financial nature.

The Company's Management Board believes that its existing risk management measures are sufficient to provide a reasonable degree of certainty as to the absence of material inaccuracies in the financial reporting, losses and fraud.

For a description of the Company's financial instruments risk management reference is made to Note 33 of the Consolidated Financial Statements.

# Directors' Report

## General

### Introduction

Ronson Europe N.V. ('the Company') is a Dutch public company with its statutory seat in Rotterdam, the Netherlands, and was incorporated on 18 June 2007.

The Company (together with its Polish subsidiaries, 'the Group') is active in the development and sale of residential units, primarily apartments, in multi-family residential real-estate projects to individual customers in Poland. For information about companies in the Group from which their financial data included in the Consolidated Financial Statements see note 1 of the Consolidated Financial Statements.

The shares of the Company are traded on the Warsaw Stock Exchange since 5 November 2007. As at 31 December 2010, 64.2% of the outstanding shares are held by I.T.R. Dori B.V. ('ITR Dori'), 15.3% of the outstanding shares are held by GE Real Estate CE Residential B.V. ('GE Real Estate') and the remaining 20.5% of the outstanding shares are held by other investors including Amplico Otwarty Fundusz Emerytalny and ING Otwarty Fundusz Emerytalny whereby each party is holding an interest of between 5% and 10% of the outstanding shares. On 8 March 2011, the market price was PLN 1.43 per share giving the Company a market capitalization of PLN 389.5 million.

### Company overview

The Company is an experienced, fast-growing and dynamic residential real estate developer expanding its geographic reach to major metropolitan areas across Poland. Leveraging upon its large portfolio of secured sites, the Company believes it is well positioned to become a leading residential development company throughout Poland.

The Company aims to maximize value for its shareholders by a selective geographical expansion in Poland as well as the creation of a portfolio of real estate development properties. Management believes the Company has positioned itself strongly to navigate the currently challenging economic environment. On the one hand, the Polish economy appears to remain stabile and is continuing to improve, which potentially bodes well for the Company's prospects. On the other hand, the debt crisis, which continues to play out in much of Europe and its destabilizing impact on the Euro, may continue to have a negative impact on the Polish economy, and the Company's overall prospects. As a result, the Company continues to adhere to a development strategy that allows it quickly to adjust to these uncertain conditions by spreading risks through closely monitoring and potentially modifying the number of projects and their quality and sizes as well as through considering various other geographical locations to commence development.

Until 31 December 2010, the Group completed fourteen projects comprising 1,768 units with a total area of 131,800 m$^2$, having delivered to clients 1,658 units with a total area of 116,400 m$^2$. 101 units in these completed projects, with a total area of 14,600 m$^2$, are expected to be delivered to clients during 2011 (see page 25).

As of the date of this Annual Report, the Group is in the midst of developing nine projects comprising a total of 581 units, with a total area of 40,500 m$^2$. 110 units in these projects, with a total area of 10,000 m$^2$, are expected to be completed during 2011 (see page 25).

In addition, the Group has a pipeline of 22 projects in different stages of preparation, comprising approximately 5,400 units with a total area of approximately 386,400 m$^2$ for future development in Warsaw, Poznań, Wrocław and Szczecin. The Group plans to commence in 2011 six new projects and four new stages of other projects that are currently under construction (see pages 27 and 28).

Despite challenging market conditions, the Company's sales results have been gradually improving since the fourth quarter of 2008, which was the most difficult period for the Company as well as for the entire market. During 2009, the Company sold 263 units with the total value PLN 142.3 million, while during 2010, the net sales amounted to 270 units with the total value PLN 173.3 million, which management believes was a quite positive result given the market conditions and the size of the Company's offerings (that was diminished in the first half and increased only during the second half of 2010). As the number of units offered by the Company diminished due to progressing sales, the Company expects to benefit from overall improving markets whereby the Company has already opened seven new projects in 2010 (majority of them in second half of 2010) and plans to initiate during 2011 another six projects and four stages of currently run projects. In order to minimize market risk, management is scaling down these new projects into relatively smaller stages.

## Market overview

The Polish economy has proven to be relatively strong even in the recent turbulent times, which in combination with the general paucity of dwellings in Poland (in comparison to all other European countries) creates, what management believes to be, solid long term prospects for further development of the residential real estate market in spite of the recent downturn. Management believes the Company is well positioned to adapt to changing market conditions and is preparing new projects for development, which will be distinguished in the market by their location, quality and attractive pricing. Positive sales results of the Company during 2009 and 2010 seem to confirm that the Company has indeed successfully adapted to the changing market environment.

Another distinctive factor for the Polish residential market is the fact that construction of as much as over 158,000 new apartments was commenced in Poland in 2010, which is only by some 10% lower number than in the peak year 2008. It confirms that many developers were able to prepare projects and arrange relevant financing, which resulted in increasing competition and translated into increasing expectations of the customers. The management is aware of increasing requirements of the Company's customers and has implemented internal processes aimed at improving customer services by the Company.

In addition, to further minimize market risk, the Company is now taking a very selective approach when initiating new projects. In the preparation phase of all projects, great emphasis is put on splitting the projects into smaller parts. Management is also cognizant of the tightened credit markets. Accordingly, when planning its newest projects, the Company has prepared for increased costs of debt financing as well as for more demanding debt facility structures that are being imposed by the lending banks.

# Business highlights during the year ended 31 December 2010

## A. Projects completed

The table below presents information on the four projects that were completed during the year ended 31 December 2010:

| Project name | Location | Number of units | Area of units ($m^2$) |
|---|---|---|---|
| Nautica (*) | Warsaw | 149 | 10,648 |
| Gemini (*) | Warsaw | 164 | 13,126 |
| Constans I+II (*) | Warsaw | 26 | 7,279 |
| Gardenia (*) | Warsaw | 22 | 3,683 |
| **Total** | | **361** | **34,736** |

(*) *For additional information see section 'B. Results breakdown by projects' below.*

## B. Results breakdown by project

Total revenue of the Group recognized during the year ended 31 December 2010 amounted to PLN 241.3 million, whereas cost of sales before write-down adjustment amounted to PLN 176.4 million and after write-down adjustment amounted to PLN 178.6 million, which resulted in a gross profit before write-down adjustment amounting to PLN 64.9 million and a gross margin of 26.9% and after write-down adjustment amounting to PLN 62.7 million and a gross margin of 26.0%.

The following table specifies revenue, cost of sales and gross profit in 2010 on a project by project basis:

| | Information on the delivered units | | Revenue (*) | | Cost of sales (**) | | Gross profit | Gross margin |
|---|---|---|---|---|---|---|---|---|
| **Project name** | **Number of units** | **Area of units ($m^2$)** | **PLN (thousand)** | **%** | **PLN (thousand)** | **%** | **PLN (thousand)** | **%** |
| Nautica | 137 | 9,744 | 85,993 | 35.7% | 64,472 | 36.5% | 21,521 | 25.0% |
| Gemini | 149 | 11,687 | 93,423 | 38.7% | 67,718 | 38.4% | 25,705 | 27.5% |
| Galileo | 71 | 5,107 | 36,774 | 15.2% | 25,184 | 14.3% | 11,590 | 31.5% |
| Imaginarium II | 20 | 1,329 | 13,286 | 5.5% | 9,276 | 5.3% | 4,010 | 30.2% |
| Constans I + II | 2 | 585 | 4,313 | 1.8% | 4,078 | 2.3% | 235 | 5.4% |
| Meridian | 2 | 349 | 2,964 | 1.2% | 1,799 | 1.0% | 1,165 | 39.3% |
| Gardenia | 3 | 501 | 2,058 | 0.9% | 2,058 | 1.2% | - | 0.0% |
| Imaginarium I | 2 | 147 | 1,544 | 0.6% | 1,054 | 0.6% | 490 | 31.7% |
| Other | N.A | N.A | 910 | 0.4% | 717 | 0.4% | 193 | 21.2% |
| **Total / Average** | **386** | **29,449** | **241,265** | **100.0%** | **176,356** | **100.0%** | **64,909** | **26.9%** |
| Write-down adjustment | N.A | N.A | N.A | N.A | 2,188 | N.A | (2,188) | N.A |
| **Results after write-down adjustment** | **386** | **29,449** | **241,265** | **100.0%** | **178,544** | **100.0%** | **62,721** | **26.0%** |

(*) *Revenue is recognized upon the transfer of significant risks and rewards of the ownership of the residential unit to the buyer, i.e. upon signing of the protocol of technical acceptance and the transfer of the key of the residential unit to the buyer.*

(**) *Cost of sales allocated to the delivered units proportionally to the expected total value of the project.*

# Business highlights during the year ended 31 December 2010 (cont'd)

## *B. Results breakdown by project (cont'd)*

### *Nautica*

The construction of the Nautica project was completed in June 2010. The Nautica project was developed on a land strip of 9,698 $m^2$ located in the Ursynów district in Warsaw (Stryjeńskich Street). The project comprises 4 five-storey, multi-family residential buildings with a total of 148 apartments and 1 commercial unit and an aggregate floor space of 10,648 $m^2$.

### *Gemini*

The construction of the Gemini project was completed in June 2010. The Gemini project was developed on a land strip of 3,929 $m^2$ located in the Ursynów district in Warsaw (KEN Street) situated next to the subway station Imielin. The project comprises one multifamily building of 11 levels with a total of 149 apartments and 15 commercial units with an aggregate floor space of 13,126 $m^2$.

### *Galileo*

The construction of the Galileo project was completed in March 2009. The Galileo project was developed on a land strip of 8,598 $m^2$ located in the city center district of Poznań. The Galileo housing project comprises 5 nine-storey, multi-family residential buildings with a total of 226 apartments and 6 commercial units with an aggregate floor space of 16,700 $m^2$.

### *Imaginarium II*

The construction of the Imaginarium II housing estate was completed in August 2009. This project was developed on part of a land strip of 7,042 $m^2$ located in the Bielany district in Warsaw. The Imaginarium II housing estate comprises 3 four-storey, multi-family buildings with total 65 apartments with an aggregate usable floor space of 4,700 $m^2$.

### *Constans I + II*

The first and second phases of the Constans housing project were completed in July 2010 and November 2010, respectively. This project was developed on part of a land strip of 36,377 $m^2$ located in Konstancin near Warsaw. The first and the second phases of the Constans housing project comprise 8 semi-detached units (total 16 units) with an aggregate floor space of 4,471 $m^2$ and 5 semi-detached units (total 10 units) with an aggregate floor space of 2,808 $m^2$, respectively.

### *Meridian*

The construction of the Meridian housing estate was completed in October 2007. This project was developed on a land strip of 5,196 $m^2$ located in the Wola district of Warsaw. The Meridian housing estate comprise 3 seven- and nine-storey, multi-family buildings with a total of 206 apartments and 7 commercial units and an aggregate floor space of 15,000 $m^2$.

### *Gardenia*

The Gardenia project was completed in December 2010.The project was developed on a land strip of 7,129 $m^2$ located in Józefosław near Warsaw. The Gardenia project, a single family housing (houses in a row) project, comprise 22 units with an aggregate floor space of 3,683 $m^2$.

### *Imaginarium I*

The construction of the Imaginarium I housing estate was completed in August 2008. This project was developed on part of a land strip of 10,343 $m^2$ located in the Bielany district in Warsaw. The Imaginarium housing estate comprises two-storey buildings with a total of 58 apartments with an aggregate floor space of 3,983 $m^2$.

### *Other*

Other revenues are mainly associated with sales of the parking places and storages in other projects that were completed in previous years, as well as rental revenues.

### *Write-down adjustment*

During the year ended 31 December 2010, as a result of Net Realizable Value (NRV) analyses and reviews, a write-down adjustment for the Gardenia project was made in the amount of PLN 2,188 thousand. For additional information regarding Gardenia project see Business highlights during the year ended 31 December 2010 – F. Other issues" (page20).

## *C. Units sold during the year*

The table below presents information on the total units sold (i.e. total number of units for which the Company signed the preliminary sale agreements with the clients), during the year ended 31 December 2010:

| Project name | Location | Units sold until 31 December 2009 | Units sold during the year ended 31 December 2010 | Units for sale as at 31 December 2010 | Total |
|---|---|---|---|---|---|
| Nautica (*) | Warsaw | 99 | 48 | 2 | 149 |
| Gemini (*) / (1) | Warsaw | 92 | 62 | 2 | 156 |
| Galileo (*) / (2) | Poznań | 147 | 65 | 19 | 231 |
| Imaginarium I (*) | Warsaw | 56 | 2 | - | 58 |
| Imaginarium II (*) | Warsaw | 58 | 6 | 1 | 65 |
| Imaginarium III (**) | Warsaw | - | 31 | 14 | 45 |
| Gardenia (**) | Warsaw | - | 16 | 6 | 22 |
| Meridian (*) | Warsaw | 205 | 1 | - | 206 |
| Constans I + II (*) | Warsaw | 2 | 6 | 18 | 26 |
| Constans III (**) | Warsaw | - | - | 10 | 10 |
| Nautica II (**) | Warsaw | - | 1 | 2 | 3 |
| Naturalis I (**) | Warsaw | - | 10 | 42 | 52 |
| Naturalis II (**) | Warsaw | - | - | 60 | 60 |
| Sakura I (**) | Warsaw | - | 13 | 107 | 120 |
| Verdis I (**) | Warsaw | - | 8 | 131 | 139 |
| Impressio I (**) | Wrocław | - | 1 | 69 | 70 |
| Essentia I (**) | Szczecin | - | - | 82 | 82 |
| **Total** | | **659** | **270** | **565** | **1,494** |

(*) *For information on the completed projects see "Business highlights during the year ended 31 December 2010 – B. Results breakdown by project" (pages 17 and 18).*

(**) *For information on current projects under construction, see "Outlook for 2011 – B. Current projects under construction" (pages 25 to 27).*

(1) *After deduction of 8 units that were transferred to property and equipment, which are planned to be used as the Company's headquarter in Warsaw (for additional information see note 15 of the Consolidated Financial Statements) .*

(2) *After deduction of 2 units that were transferred to property and equipment, currently used as the Company's offices in Poznań (for additional information see note 15 of the Consolidated Financial Statements).*

## *D. Commencements of new projects*

The table below presents information on the new eight new projects/stages that commenced during the year ended 31 December 2010:

| Project name | Location | Number of units | Area of units ($m^2$) |
|---|---|---|---|
| Imaginarium III (*) | Warsaw | 45 | 3,800 |
| Nautica II (*) | Warsaw | 3 | 600 |
| Naturalis I (*) | Warsaw | 52 | 2,900 |
| Naturalis II (*) | Warsaw | 60 | 3,400 |
| Sakura I (*) | Warsaw | 120 | 8,100 |
| Verdis I (*) | Warsaw | 139 | 9,400 |
| Impressio I (*) | Wrocław | 70 | 4,400 |
| Essentia I (*) | Szczecin | 82 | 5,200 |
| **Total** | | **571** | **37,800** |

(*) *For additional information see section "Outlook for 2011 – B. Current projects under construction" (pages 25-27).*

## *E. Land purchase*

On 23 December 2010, the Group acquired 57.8% of the equity in Landex Sp. z o.o. ("Landex") for a total amount of PLN 7.5 million (for additional information see note 32 and 36 of the Consolidated Financial Statements). In connection with and in addition to this acquisition, the Group has committed financing through granting loans to Landex for the purchase of plot of land for which Landex had signed a preliminary sale and purchase agreement (Land 2 as described below). The amount of loans committed by Ronson with respect to this transaction, including also financing required by Landex to complete this land acquisition, amounted to PLN 9.5 million.

As per the acquisition date, Landex was the owner of a plot of land with an area of 8,953 m$^2$ located in Warsaw, Wola District, at Jana Kazimierza Street ("Land 1"). In addition, Landex was a party to a preliminary sale and purchase agreement of another plot of land with an area of 7,239 m$^2$ ("Land 2") located nearby Land 1.

In total Land 1 and Land 2 shall allow the Group to build multifamily buildings that will comprise 639 units with an aggregate floor space of 35,000 m$^2$.

## *F. Other issues*

In addition to the write-down adjustment in the Gardenia project made in the amount of PLN 2.2 million, the Company decided to proceed with recognizing an impairment loss on trade receivables from the general contractor in this project amounting to PLN 1.5 million included in other receivables (for more details please see "Overview of results – other expenses").

# Overview of results

The Company's net income for the year ended 31 December 2010 was PLN 35,091 thousand and can be summarized as follows:

| | For year ended 31 December | |
|---|---|---|
| | **2010** | **2009** |
| | **PLN (thousands, except per share data)** | |
| Revenue | 241,265 | 116,309 |
| Cost of sales | (178,544) | (76,115) |
| **Gross profit** | **62,721** | **40,194** |
| Changes in fair value of investment property | - | 5,602 |
| Selling and marketing expenses | (7,397) | (3,331) |
| Administrative expenses | (16,129) | (14,172) |
| Other expense | (6,683) | (2,563) |
| Other income | 610 | 2,117 |
| **Result from operating activities** | **33,122** | **27,847** |
| Finance income | 2,411 | 851 |
| Finance expense | (428) | (2,710) |
| **Net finance income/(expense)** | **1,983** | **(1,859)** |
| **Profit before taxation** | **35,105** | **25,988** |
| Income tax expense | (14) | (4,954) |
| **Profit for the year** | **35,091** | **21,034** |
| **Net earnings per share (basic and diluted)** | **0.13** | **0.09** |

# Overview of results (cont'd)

### *Revenue*

Total revenue increased by PLN 125.0 million (107.4%) from PLN 116.3 million during the year ended 31 December 2009 to PLN 241.3 million during the year ended 31 December 2010, which increase is primarily explained by an increase in apartments delivered to customers in terms of area size (in $m^2$) offset in part by a decrease in average selling price per $m^2$.

### *Cost of sales*

Cost of sales increased by PLN 102.4 million (134.6%) from PLN 76.1 million during the year ended 31 December 2009 to PLN 178.5 million during the year ended 31 December 2010, which is primarily explained by an increase in number of apartments delivered to customers and in terms of area size (in $m^2$).

### *Selling and marketing expenses*

Selling and marketing expenses increased by PLN 4.1 million (122.1%) from PLN 3.3 million for the year ended 31 December 2009 to PLN 7.4 million for the year ended 31 December 2010, which is primarily explained by the increase in the number of projects the Group was developing and the number of apartments that were offered for sale, which resulted in a significant increase in costs for advertising and promotion in newspapers, magazines and on the internet, as well as for outdoor posters and billboards.

### *Administrative expenses*

Administrative expenses increased by PLN 2.0 million (13.8%) from PLN 14.2 million for the year ended 31 December 2009 to PLN 16.2 million for the year ended 31 December 2010. The increase is primarily due to:

- an increase in the Management Board bonus which is calculated in proportion to the profit before tax that increased by 35.1%;
- an increase in tax and legal advisory services due to an implemented corporate restructuring of the Group.

### *Other expenses*

Other expenses increased by PLN 4.1 million (160.7%) from PLN 2.6 million for the year ended 31 December 2009 to PLN 6.7 million for the year ended 31 December 2010. The increase is mainly due to:

- a one-time event related to the write-down expense in connection with the abandoned Aurora project amounting to PLN 2.5 million. For additional information see "Additional information to the report" (page 32);
- an impairment on trade receivables amounting to PLN 1.5 million and was included in other receivables.

### *Other income*

Other income decreased by PLN 1.5 million (71.2%) from PLN 2.1 million for the year ended 31 December 2009 to PLN 0.6 million for the year ended 31 December 2010, which is primarily explained by a decrease in revenues from contractual penalties and other compensation received.

### *Result from operating activities*

As a result of the factors described above, the Company's operating result increased by PLN 5.3 million from an operating profit of PLN 27.8 million for the year ended 31 December 2009 to an operating profit of PLN 33.1 million for the year ended 31 December 2010.

# Overview of results (cont'd)

### *Net finance income*

Finance income and expenses are accrued and capitalized as part of the cost price of inventory to the extent this is directly attributable to the construction of residential units. Unallocated finance income and expenses not capitalized are recognized in the statement of comprehensive income.

The table below shows the finance income and expenses before capitalization into inventories and the total finance income and expenses capitalized into inventories.

| | For the year ended 31 December 2010 | | |
|---|---|---|---|
| | PLN (thousands) | | |
| | **Total amount** | **Amount capitalized** | **Recognized as profit or loss** |
| Finance income | 2,483 | (72) | 2,411 |
| Finance expense | (14,869) | 14,441 | (428) |
| **Net finance (expense)/income** | **(12,386)** | **14,369** | **1,983** |

| | For the year ended 31 December 2009 | | |
|---|---|---|---|
| | PLN (thousands) | | |
| | **Total amount** | **Amount capitalized** | **Recognized as profit or loss** |
| Finance income | 954 | (103) | 851 |
| Finance expense | (20,737) | 18,027 | (2,710) |
| **Net finance (expense)/income** | **(19,783)** | **17,924** | **(1,859)** |

Net finance expenses before capitalization decreased by PLN 7.4 million (37.4%) from PLN 19.8 million during the year ended 31 December 2009 to PLN 12.4 million during the year ended 31 December 2010, which is a result of a decrease in finance expense due to a decrease in loans received from banks and a decrease of interest rates, as well as an increase in finance income due to an increase in short-term deposits kept by the Company on bank accounts.

### *Income tax*

The effective tax rate for the year ended 31 December 2010 is 0.04% in comparison to 19.1% for the year ended 31 December 2009. The decrease in the effective tax rate is explained by the recognition of tax assets created following the organisational restructuring of the Group.

# Selected financial data

| PLN/EUR | Exchange rate of Euro versus the Polish Zloty: Average exchange rate | Minimum exchange rate | Maximum exchange rate | Year end exchange rate |
|---|---|---|---|---|
| **2010 (12 months)** | **3.994** | **3.836** | **4.177** | **3.960** |
| **2009 (12 months)** | 4.328 | 3.917 | 4.900 | 4.108 |

*Source: National Bank of Poland ('NBP')*

| **Selected financial data** | **EUR** | | **PLN** | |
|---|---|---|---|---|
| | **(thousands, except per share data and number of shares)** | | | |
| | **For year ended 31 December or as at 31 December** | | | |
| | **2010** | **2009** | **2010** | **2009** |
| Revenues | **60,407** | 26,874 | **241,265** | 116,309 |
| Gross profit | **15,704** | 9,287 | **62,721** | 40,194 |
| Profit before taxation | **8,789** | 6,005 | **35,105** | 25,988 |
| Profit for the year | **8,786** | 4,860 | **35,091** | 21,034 |
| Cash from/(used in) operating activities | **28,126** | (3,449) | **112,335** | (14,927) |
| Cash from/(used in) investing activities | **(2,168)** | 15 | **(8,657)** | 66 |
| Cash flows from/(used in) financing activities | **(16,734)** | 7,759 | **(66,834)** | 33,582 |
| Increase in cash and cash equivalents | **9,225** | 4,326 | **36,844** | 18,721 |
| Inventory | **137,255** | 157,316 | **543,529** | 646,253 |
| Total assets | **170,462** | 180,962 | **675,030** | 743,391 |
| Long term liabilities | **14,792** | 27,681 | **58,576** | 113,715 |
| Advances received | **11,199** | 17,860 | **44,347** | 73,367 |
| Short term liabilities (including advances received) | **50,272** | 60,238 | **199,077** | 247,458 |
| Shareholders' equity | **105,398** | 93,042 | **417,377** | 382,218 |
| Share capital | **5,054** | 5,054 | **20,762** | 20,762 |
| Average number of equivalent shares (basic) | **272,360,000** | 235,672,238 | **272,360,000** | 235,672,238 |
| Average number of equivalent shares (diluted) | **272,999,333** | 236,311,571 | **272,999,333** | 236,311,571 |
| Net earnings per share (basic and diluted) | **0.032** | 0.021 | **0.129** | 0.089 |

**Information is presented in EUR solely for presentation purposes. Due to the appreciation of the Polish Zloty against the Euro over the past year, the Statement of Financial Position data do not accurately reflect the actual comparative financial position of the Company. The reader should consider changes in the PLN / EUR exchange rate in 2010 comparing to 2009, when reviewing this data.*
*Selected financial data were translated from PLN into EUR in the following way:*
- *(i) Statement of financial position data were translated using the period end exchange rate published by the National Bank of Poland for the last day of the period.*
- *(ii) Statement of comprehensive income and cash flows data were translated using the arithmetical average of average exchange rates published by the National Bank of Poland.*

# Financial condition

### *Liquidity and capital resources*

The Company funds its day-to-day operations principally from cash flows provided by its sales activities as well as from borrowings under several loan facilities. The cash inflow from operating activities, as described below, has enabled the Company not only to proceed with the development of its residential projects but also to redeem its bank borrowings significantly during the year ended 31 December 2010 whilst at the same time maintaining sufficient liquidity for its day-to-day operations. The total amount of cash and cash equivalents increased from PLN 58.0 million as at 31 December 2009 to PLN 94.9 million as at 31 December 2010.

### *Cash flows from operating activities*

The Company's net cash inflow from operating activities for the year ended 31 December 2010 amounted to PLN 112.3 million which compares to a net cash outflow used in operating activities during the year ended 31 December 2009 of PLN 14.9 million. The increase is principally due to a decrease in the cash flow used in inventory from PLN 52.0 million during the year ended 31 December 2009 to a cash inflow from inventory amounting to PLN 122.1 million during the year ended 31 December 2010. The increase in the net cash inflow from operating activities is mitigated by (1) a decrease in the cash flow used in trade and other payables and accrued expense from a cash inflow of PLN 1.4 million during the year ended 31 December 2009 to a cash outflow of PLN 6.3 million during year ended 31 December 2010 and (2) a decrease in the cash flows from advances received from a cash inflow of PLN 19.0 million during the year ended 31 December 2009 to a cash outflow of PLN 29.0 million during the year ended 31 December 2010 .

### *Cash flows from investing activities*

The Company's investing activities is primarily related to proceeds from sale of property and equipment. The cash outflow used in investing activities amounted to PLN 8.7 million during the year ended 31 December 2010 which compares to a net cash outflow of PLN 66 thousand during the year ended 31 December 2009. The increase in cash outflow used in investing activities is explained by the acquisition of a share in a new joint venture during the year ended 31 December 2010 resulting in a cash outflow of PLN 7.4 million.

### *Cash flows from financing activities*

The cash outflow used in financing activities totalled PLN 66.8 million during the year ended 31 December 2010 which compares to a cash inflow from financing activities amounting to PLN 33.6 million for the year ended 31 December 2009. This increase of cash flow used in financing activities is primarily explained by the issue of new shares during the year ended December 2009 with net proceeds amounting to PLN 71.6 million whereas during the year ended 31 December 2010 no new shares were issued. In addition, bank borrowings during the year ended 31 December 2010 (PLN 66.1 million) decreased even more compared to the net decrease during the year ended 31 December 2009 (PLN 38.0 million).

### *Debt and net debt position*

As of 31 December 2010, the Company's total debt to banks, related and third parties amounted to PLN 182.5 million (31 December 2009: PLN 249.0 million), comprising secured bank loans amounting to PLN 123.9 million (31 December 2009: PLN 188.7 million). Taking into account the Company's available cash position at 31 December 2010 amounting to PLN 94.9 million (31 December 2009: PLN 58.0 million), the net debt position of the Company amounted to PLN 87.6 million as at 31 December 2010 (31 December 2009: PLN 191.0 million).

# Employees

The average number of personnel employed by the Company and its subsidiaries – on a fulltime equivalent basis – increased from 41 in 2009 to 49 in 2010. The increase in number of employees results from the Company's growing activities following the commencement of new projects in cities where the Company was already active as well as in two new cities, being Wrocław and Szczecin.

# Research and development

The Company and its subsidiaries are not involved in any research and development activities.

# Environmental protection

The Company, in conducting its business activities, undertakes to comply with all laws and regulations regarding use of land and protection of the natural environment. The Company is not a party to any pending proceedings regarding potential environmental protection violations.

# Outlook for 2011

## *A. Completed projects*

The table below presents information on the total residential units in the eight completed projects that the Company has sold and delivered during 2010 as well as is expecting to sell and deliver during the year 2011:

| | | | Number of residential units sold (*) | | | Number of residential units delivered (*) | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Project name** | **Location** | **Total units** | **Until 31 December 2009** | **During the year ended 31 December 2010** | **Total** | **Until 31 December 2009** | **During the year ended 31 December 2010** | **Total** | **Number of residential units expected to be delivered (*) until 31 December 2011** |
| Galileo (**) / (1) | Poznań | 231 | 147 | 65 | 212 | 124 | 71 | 195 | 36 |
| Constans I + II (**) | Warsaw | 26 | 2 | 6 | 8 | - | 2 | 2 | 24 |
| Gardenia (**) | Warsaw | 22 | - | 16 | 16 | - | 3 | 3 | 19 |
| Nautica (**) | Warsaw | 149 | 99 | 48 | 147 | - | 137 | 137 | 12 |
| Imaginarium II (**) | Warsaw | 65 | 58 | 6 | 64 | 43 | 20 | 63 | 2 |
| Gemini (**)/ (2) | Warsaw | 156 | 92 | 62 | 154 | - | 149 | 149 | 7 |
| Meridian (**) | Warsaw | 206 | 205 | 1 | 206 | 204 | 2 | 206 | - |
| Imaginarium I (**) | Warsaw | 58 | 56 | 2 | 58 | 55 | 2 | 57 | 1 |
| **Total** | | **913** | **659** | **206** | **865** | **426** | **386** | **812** | **101** |

(*) *For the purpose of disclosing information related to the particular projects, the word "sell" ("sold") is used, that relates to signing the preliminary sale agreement with the client for the sale of the apartment; whereas the word "deliver" ("delivered") relates to the transferring of significant risks and rewards of the ownership of the residential unit to the client.*

(**) *For information on the completed projects see "Business highlights during the year ended 31 December 2010 – B. Results breakdown by project" (pages 17 to 18).*

*(1) After deduction of 8 units that were transferred to property and equipment, which are planned to be used as the Company's headquarter in Warsaw (for additional information see note 15 of the Consolidated Financial Statements) .*

*(2) After deduction of 2 units that were transferred to property and equipment, currently used as the Company's offices in Poznań (for additional information see note 15 of the Consolidated Financial Statements).*

## *B. Current projects under construction*

The table below presents information on nine projects for which completion is scheduled in 2011 and 2012. The Company has obtained construction permits for all four projects and has commenced construction.

| **Project name** | **Location** | **Total area of units ($m^2$)** | **Total units** | **Units sold until 31 December 2010** | **Expected completion of construction** |
|---|---|---|---|---|---|
| Constans III | Warsaw | 2,700 | 10 | - | 2011 |
| Imaginarium III | Warsaw | 3,800 | 45 | 31 | 2011 |
| Nautica II | Warsaw | 600 | 3 | 1 | 2011 |
| Naturalis I | Warsaw | 2,900 | 52 | 10 | 2011 |
| Naturalis II | Warsaw | 3,400 | 60 | - | 2012 |
| Sakura I | Warsaw | 8,100 | 120 | 13 | 2012 |
| Verdis I | Warsaw | 9,400 | 139 | 8 | 2012 |
| Impressio I | Wrocław | 4,400 | 70 | 1 | 2012 |
| Essentia I | Szczecin | 5,200 | 82 | - | 2012 |
| **Total** | | **40,500** | **581** | **64** | |

# Outlook for 2011 (cont'd)

## *B. Current projects under construction (cont'd)*

### *Constans III*

*Description of project*

The third phase of the Constans housing project is being developed on a land strip of 36,377 $m^2$ located in Konstancin near Warsaw and will comprise 5 semi-detached units (total 10 units) with an aggregate floor space of 2,700 $m^2$.

*Stage of development*

Construction of the Constans project commenced in February 2008 and is expected to be completed in the first quarter of 2011.

### *Imaginarium III*

*Description of project*

The Imaginarium III project is being developed on a land strip of 7,600 $m^2$ located in the Bielany district in Warsaw (Gwiaździsta Street) and is situated next to the Imaginarium I and Imaginarium II projects. The project is a continuation of the Imaginarium I and Imaginarium II concept in terms of quality and design. The Imaginarium III housing estate comprises 2 four-storey, multi-family buildings with total 45 apartments with an aggregate usable floor space of 3,800 $m^2$.

*Stage of development*

The construction of the Imaginarium III project commenced in May 2010 and is expected to be completed in the third quarter of 2011.

### *Nautica II*

*Description of project*

The Nautica II project is being developed on a land strip of 1,051 $m^2$ located in the Ursynów district in Warsaw (Stryjeńskich Street). The project will comprise one semi-detached unit and one house (in total 3 units) with an aggregate floor space of 600 $m^2$.

*Stage of development*

The construction of the Nautica II project commenced in June 2010 and is expected to be completed in the second quarter of 2011.

### *Naturalis I and II*

*Description of project*

The first and second phases of the Naturalis project are being developed on a part of a land strip of 31,800 $m^2$ located in Łomianki near Warsaw. The first and the second phases of this project will comprise 1 four-storey, multi-family residential building with a total of 52 apartments and an aggregate floor space of 2,900 $m^2$ and 1 four-storey, multi-family residential building with a total of 60 apartments and an aggregate floor space of 3,400 $m^2$, respectively. In total the Naturalis project shall comprise around 490 units with a total estimated flat usable area of 30,200 $m^2$.

*Stage of development*

The construction of the first and the second phases of the Naturalis project commenced in September 2010 and December 2010 and are expected to be completed in the fourth quarter of 2011 and the first quarter of 2012, respectively.

### *Sakura I*

*Description of project*

The first phase of the Sakura project is being developed on a part of a land strip of 21,000 $m^2$ located in the Mokotów district in Warsaw (Kłobucka Street). The first phase of this project will comprise 1 eleven-storey, multi-family residential building with a total of 99 apartments and 21 commercial units and an aggregate floor space of 8,100 $m^2$. In total, the Sakura project shall comprise around 450 units with a total estimated flat usable area of 30,500 $m^2$.

*Stage of development*

The construction of the first phase of the Sakura project commenced in September 2010 and is expected to be completed in the second quarter of 2012.

# Outlook for 2011 (cont'd)

## B. Current projects under construction (cont'd)

### *Verdis I*

*Description of project*

The first phase of the Verdis project is being developed on a part of a land strip of 16,300 m$^2$ located in the Wola district in Warsaw (Sowińskiego Street). The first phase of this project will comprise 3 seven, eight and ten-storey, multi-family residential buildings with a total of 128 apartments and 11 commercial units and an aggregate floor space of 9,400 m$^2$. In total, the Verdis project shall comprise around 380 units with a total estimated flat usable area of 26,100 m$^2$.

*Stage of development*

The construction of the project commenced in November 2010 and is expected to be completed in the third quarter of 2012.

### *Impressio I*

*Description of project*

The first phase of the Impressio project is being developed on a part of a land strip of 14,500 m$^2$ located in the Grabiszyn district in Wrocław. The first phase of this project will comprise 3 four-storey, multi-family residential buildings with a total of 70 apartments and an aggregate floor space of 4,400 m$^2$. In total, the Impressio project shall comprise around 190 units with a total estimated flat usable area of 12,800 m$^2$.

*Stage of development*

The construction of the project commenced in October 2010 and is expected to be completed in the second quarter of 2012.

### *Essentia I (previously named Mozart)*

*Description of project*

The first phase of the Essentia project is being developed on a part of a land strip of 30,300 m$^2$ located in Szczecin at Duńska Street. The first phase of this project will comprise 2 four and five-storey, multi-family residential buildings with a total of 82 apartments and an aggregate floor space of 5,200 m$^2$. In total, the Essentia project shall comprise around 499 units with a total estimated flat usable area of 36,600 m$^2$.

*Stage of development*

The construction of the project commenced in November 2010 and is expected to be completed in the third quarter of 2012.

## C. Projects for which construction work is planned to commence during 2011

As the number of available apartments diminished due to progressing sales in first half of 2010, the Company intends to benefit from improving market conditions and initiated new projects in second half of 2010 and plans to initiate a number of new projects during 2011. However, in order to minimize the market risk, the management of the Company is scaling down new projects into relatively smaller stages. Moreover, the commencement plan assumes gradual openings spread during the next few quarters and in the event of any market deterioration or difficulties with securing financing by the banks for the considered projects, management may delay some of those plans.

## *a) New Projects*

### *Magellan*

The Magellan project will be developed on a part of a land strip of 12,150 m$^2$ located in Warsaw at Magazynowa Street. The project will comprise 271 units with an aggregate floor space of 21,000 m$^2$ and will be divided into 2 or more phases. The Company is considering opening the first phase of this project during 2011. The first stage is to comprise 136 units with an aggregate floor space of 10,550 m$^2$.

### *Picasso*

The Picasso project will be developed on a land strip of 8,121 m$^2$ located in Wrocław at Na Grobli Street. The project will comprise 158 units with an aggregate floor space of 7,500 m$^2$. The Company is considering opening this project during 2011.

# Outlook for 2011 (cont'd)

## *C. Projects for which construction work is planned to commence during 2011 (cont'd)*

### *Matisse*

The Matisse project will be developed on a part of land strip of 25,411 $m^2$ located in Wrocław at Buforowa Street. The project will comprise 433 units with an aggregate floor space of 26,150 $m^2$ and will be divided into 3 or more phases. The Company is considering opening the first phase of this project during 2011. The first stage is to comprise 95 units with an aggregate floor space of 6,250 $m^2$.

### *Copernicus*

The Copernicus project will be developed on a land strip of 5,605 $m^2$ located in Poznań at Kościelna Street. The project will comprise 283 units with an aggregate floor space of 16,708 $m^2$. The Company is considering opening the project during 2011.

### *Plejada*

The Plejada project will be developed on a part of a land strip of 39,604 $m^2$ located in Tulce near Poznań. The project will comprise 274 houses with an aggregate floor space of 17,806 $m^2$ and will be divided into 8 or more phases. The Company is considering opening the first phase and second phase of this project during 2011. The first and second stage is to comprise 30 houses with an aggregate floor space of 2,057 $m^2$ and 20 houses with an aggregate floor space of 1,371 $m^2$, respectively.

### *Jana Kazimierza*

The Jana Kazimierza project will be developed on a part of a land strip of 16,192 $m^2$ located in Warszawa at Jana Kazimierza Street. The project will comprise 639 units with an aggregate floor space of 35,106 $m^2$ and will be divided into 4 stages. The Company is considering opening the first phase of this project during 2011. The first stage is to comprise 167 units with an aggregate floor space of 9,117 $m^2$. Ronson Group purchased 57.8% in this project (i.e. 57.8% of the shares in the company Landex Sp. z o.o., which is running this project).

## *b) New stages of running projects*

### *Gemini II*

The Gemini II project is a continuation of Gemini I that was completed in 2010. The project will comprise 182 units with an aggregate floor space of 13,700 $m^2$. The Company is considering commencing development of this project during the first quarter of 2011.

### *Sakura II*

The Sakura II project is a continuation of Sakura I which is currently under construction. The project will comprise 136 units with an aggregate floor space of 8,200 $m^2$. The Company is considering commencing development of this project during the fourth quarter of 2011.

### *Verdis II*

The Verdis II project is a continuation of Verdis I which is currently under construction. The project will comprise 63 units with an aggregate floor space of 6,378 $m^2$. The Company is considering commencing development of this project during the fourth quarter of 2011.

### *Impressio II*

The Impressio II project is continuation of Impressio I which is currently under construction. The project will comprise 120 units with an aggregate floor space of 8,370 $m^2$. The Company is considering commencing development of this project during the fourth quarter of 2011.

# Outlook for 2011 (cont'd)

## *D. Value of the preliminary sales agreements signed with clients for which revenue has not been recognized in the Consolidated Statement of Comprehensive Income for the year ended 31 December 2010*

The current sales (i.e. volume and value of the preliminary sales agreements signed with the clients) do not impact Statement of Comprehensive Income account immediately but only after final settlement of the contracts with the customers (for more details see under "A" above on page 25). The table below presents the value of the preliminary sales agreements executed with the Company's clients in particular for units that have not been recognized in the Consolidated Statement of Comprehensive Income:

| **Project name** | **Location** | **Value of the preliminary sales agreements signed with clients in thousands of PLN** | **Completed / expected completion of construction** |
|---|---|---|---|
| Nautica I (*) | Warsaw | 6,680 | Completed |
| Gemini (*) | Warsaw | 4,460 | Completed |
| Imaginarium II (*) | Warsaw | 687 | Completed |
| Galileo (*) | Poznań | 9,775 | Completed |
| Imaginarium I (*) | Warsaw | 612 | Completed |
| Constans I+II (*) | Warsaw | 9,621 | Completed |
| Gardenia (*) | Warsaw | 8,793 | Completed |
| Imaginarium III (**) | Warsaw | 25,671 | 2011 |
| Naturalis I (**) | Warsaw | 2,498 | 2011 |
| Nautica II (**) | Warsaw | 1,884 | 2011 |
| Sakura I (**) | Warsaw | 6,682 | 2012 |
| Verdis I (**) | Warsaw | 3,610 | 2012 |
| Impressio I (**) | Wrocław | 702 | 2012 |
| **Total** | | **81,675** | |

*(*) For information on the completed projects see "Business highlights during the year ended 31 December 2010 – B. Results breakdown by project" (pages 17 and 18).*

*(**) For information on current projects under construction, see "Outlook for 2011 – B. Current projects under construction" (pages 25-27).*

## *E. Main risks and uncertainties during 2011*

The economic situation in Europe and in Poland and the uncertainties in the housing market make it very difficult to predict results for 2011. The development of the Polish economy, the banking industry and the consumers' interest in new housing projects are considered to be the most significant uncertainties for the financial year ending 31 December 2011.

# Additional information to the report

## *Major shareholders*

To the best of the Company's knowledge, as of the date of publication of this annual report (8 March 2011), the following shareholders are entitled to exercise over 5% of the voting rights at the General Meeting of Shareholders in the Company:

| | **As of 8 March 2011 Number of shares / % of shares** | **Increase in number of shares** | **As of 31 December 2010 Number of shares / % of shares** | **Increase in number of shares** | **As of 31 December 2009 Number of shares / % of shares** |
|---|---|---|---|---|---|
| ***Shares issued*** | ***272,360,000*** | - | ***272,360,000*** | - | ***272,360,000*** |
| ***Major shareholders:*** | | | | | |
| I.T.R. Dori B.V. | 174,898,374 | - | 174,898,374 | - | 174,898,374 |
| | 64.2% | | 64.2% | | 64.2% |
| GE Real Estate CE Residential B.V. | 41,800,000 | - | 41,800,000 | - | 41,800,000 |
| | 15.3% | | 15.3% | | 15.3% |
| Amplico Otwarty Fundusz Emerytalny | N/A | N/A | N/A | N/A | N/A |
| | Between 5%-10%. | | Between 5%-10%. | | Between 5%-10%. |
| ING Otwarty Fundusz Emerytalny | N/A | N/A | N/A | N/A | N/A |
| | Between 5%-10%. | | Between 5%-10%. | | Between 5%-10%. |

## *Changes in ownership of shares and rights to shares by Management Board members in the year ended 31 December 2010 and until the date of publication of the report*

### *Shares*

The members of the Management Board did not individually own or receive shares in the Company during the period from 1 January 2010 until 8 March 2011, with the exception of Mr David Katz who indirectly holds 5.5% of the shares and voting rights in a 50% shareholder of I.T.R Dori B.V. and, as a result, thus indirectly holds a 1.8% interest in the Company. His indirect ownership in the Company did not change during the period 1 January 2010 until 8 March 2011.

### *Shares options*

The members of the Management Board did not individually receive rights to shares or options on shares in the Company during the period from 1 January 2010 until 8 March 2011. Rights to shares that were granted to individual members of the Management Board before 1 January 2010 but which have not been exercised as of the date of publication of this report are as follows:

- Mr Andrzej Gutowski: a right to subscribe to a total number of 150,000 shares in the capital of the Company with a nominal value of EUR 0.02 each, for an issue price equal to PLN 5.75 per share, one third per year on the anniversary date of the date of 5 November 2007 for three successive years, the optional exercising term will expire on 5 November 2012.

## *Changes in ownership of shares and rights to shares by Supervisory Board members in the year ended 31 December 2010 and until the date of publication of the report*

The members of the Supervisory Board did not individually own any shares and/or rights to shares in the Company during the period from 1 January 2010 until 8 March 2011, with the exception of Mr Uri Dori who indirectly holds 31.4% of the shares and voting rights in a 50% shareholder of I.T.R Dori B.V. and, as a result, thus indirectly holds a 10.1% interest in the Company. Mr Dori's indirect ownership in the Company did not change during the period 1 January 2010 until 8 March 2011.

# Additional information to the report (cont'd)

### *Changes in the Supervisory Board in the year ended 31 December 2010 and until the date of publication of the report*

The Annual General Meeting of Shareholders held on 9 April 2010 adopted a resolution re-appointing Mr Uri Dori as Supervisory Director of the Company. His new term will expire in April 2014.

### *Indemnity for Management Board members and Supervisory Board members*

The Articles of Association of the Company provide for an indemnification for all directors of the Company (article 42). The members of the Supervisory Board and Management Board shall be reimbursed for (i) all reasonable costs of conducting a defence against claims based on acts or failures to act in the exercise of their duties, (ii) any damages or fines payable by them as a result of an act or failure to act in the exercise of their duties, and (iii) reasonable costs of appearing in other legal proceedings in which they are involved as current or former directors of the Company. No indemnification will be given to any director if it has been determined by a judgment which is no longer subject to appeal, that the act or failure to act is characterized as wilful misconduct or gross negligence. Resolutions to award the indemnification are to be disclosed in the Annual Accounts of the Company. Adoption of the Annual Accounts will be considered to be approval of such resolutions, unless the General Meeting of Shareholders decides otherwise.

### *Overview of the results during the three months ended 31 December 2010*

The Company's net income for the three months ended 31 December 2010 was PLN 9,745 thousand and can be summarized as follows:

| **For the three months ended 31 December**<br>*In thousands of Polish Zlotys (PLN)* | **2010 (Unaudited)** | **2009 (Unaudited)** |
|---|---|---|
| Revenue | 68,318 | 38,358 |
| Cost of sales | (51,275) | (25,770) |
| **Gross profit** | **17,043** | **12,588** |
| | | |
| Changes in fair value of investment property | - | 5,602 |
| Selling and marketing expenses | (2,181) | (1,114) |
| Administrative expenses | (4,553) | (4,208) |
| Other expenses | (2,718) | (1,821) |
| Other income | 33 | 671 |
| **Result from operating activities** | **7,624** | **11,718** |
| | | |
| Finance income | 902 | 467 |
| Finance expense | (200) | (1,282) |
| **Net finance income/(expense)** | **702** | **(815)** |
| | | |
| **Profit before taxation** | **8,326** | **10,903** |
| | | |
| Income tax (benefit)/expense | 1,419 | (2,180) |
| **Profit for the period** | **9,745** | **8,723** |

# Additional information to the report (cont'd)

### *Other*

As of 31 December 2010, the Company has issued guarantees for bank loans granted to subsidiaries amounting to a total of PLN 37,193 thousand.

As of 31 December 2010, the Group has no litigation claims or liabilities that in total exceed 10% of the Group's equity.

The following net movements in the Group's main provisions took place during the year ended 31 December 2010:
- a decrease in the provision for deferred tax liabilities of PLN 1,090 thousand.
- an increase in the provision for expected costs of development of certain plots of land owned by the Group according to the conditions imposed by local authorities of PLN 3,170 thousand.

### *Aurora*

In May 2009, the Company entered into a settlement agreement with the seller of a land plot in Poznań (project Aurora), which concluded the dispute between the parties that started in September 2008. The seller has confirmed that the original agreement related to acquisition of land has expired and has committed to pay back the advance payment (PLN 12.4 million) upon satisfaction of certain conditions. While the Company decided to enter into this compromise agreement despite the fact that the Management Board was confident about the Company's ultimate success in any court proceeding. The Management Board was of the opinion that entering into a court proceeding would nonetheless be long, expensive and complicated. Based on the compromise agreement reached, the parties agreed to a reduction of the repayment to a final settlement of PLN 9.0 million (plus statutory interest accrued since 1 August 2009 on the unpaid amount) if repaid by end of April 2010. Notwithstanding the said compromise agreement, the Management of the Company has assessed chances of the Seller to arrange relevant financial resources and to finalize the settlement within agreed timeframe as unlikely and decided to not proceed with any write-off.

On 30 April 2010, the seller repaid the full PLN 9.0 million plus PLN 0.9 million of interest after which all settlements between the Company and the seller were cleared. As a result of the above described settlement, the Company recognized a write-down expense for the abandoned project to the amount of PLN 2.5 million. This write-down expense is included in the Condensed Consolidated Statement of Comprehensive Income in "Other expenses".

### *Statement relating to the system of internal control*

In line with best practice provision II.1.4 of the Dutch Code and bearing in mind the recommendations of the Monitoring Committee Corporate Governance Code, the Company issues a declaration about the effectiveness of the system of internal control of the processes on which the financial reporting is based.

In 2010, the Management Board assessed the effectiveness of the system of internal controls for financial reporting. During the investigation on which this assessment was based, no shortcomings were identified that might possibly have a material impact on the financial reporting. On the basis of the results of the above assessment and the risk analyses that were carried out at the Company within the framework of governance and compliance, the Management Board is of the opinion - after consulting with the Audit Committee and with the approval of the Supervisory Board - that the system of internal controls provides a reasonable degree of certainty that the financial reporting contains no inaccuracies of material importance. An inherent element in how people and organisations work together in a dynamic world is that systems of internal control cannot provide an absolute degree (though they can provide a reasonable degree) of certainty as regards the prevention of material inaccuracies in the financial reporting and the prevention of losses and fraud.

In our view the system of internal controls, focused on the financial reporting, functioned effectively over the past year. There are no indications that the system of internal controls will not function effectively in 2011.

# Additional information to the report (cont'd)

### *Directors Representation statement*

In conjunction with the EU Transparency Directive as incorporated in Chapter 5.3 of the Dutch Financial Markets Supervision Act (*Wet op het financieel toezicht*) the Management Board therefore confirms to the best of its knowledge that:

- the Annual Financial Statements for the year ended 31 December 2010 give a true and fair view of the assets, liabilities, financial position and profits and loss of the Company and its subsidiaries,
- the additional management information disclosed in the Annual Report gives a true and fair view of the Company and its subsidiaries as at 31 December 2010 and the state affairs during the financial year to which the report relates, and
- the annual report describes the principal risk facing the Company. These are described in detail in this Director's Report.

### *Representation concerning election of the Company's auditor*

The Management Board confirms that the Company's auditor has been elected according to applicable rules and the audit firm and its registered accountants engaged in the audit of the financial statements of Ronson Europe N.V. meet the objectives to present an objective and independent report, the agreement with the auditors was signed on the 29th of April 2010. For information about agreed-upon engagements of the Company's auditor see note 15 of the Company Financial Statements.

### *Financial risk management, objectives and policies*

For information on the financial risk management, objectives and policies see note 33 of the Consolidated Financial Statements.

**The Management Board**

| | | |
|---|---|---|
| **Shraga Weisman**<br>Chief Executive Officer | **Tomasz Łapiński**<br>Chief Financial Officer | **Andrzej Gutowski**<br>Sales and Marketing Director |
| **Amos Weltsch** | **David Katz** | **Karol Pilniewicz** |

**Rotterdam, 8 March 2011**

To: The Annual General Meeting of Shareholders of Ronson Europe N.V.

# AUDITOR'S REPORT

***Report on the financial statements***

We have audited the accompanying financial statements 2010 of Ronson Europe N.V., Rotterdam as set out on pages 36 to 98. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2010, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flow for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company statement of financial position as at 31 December 2010, the company income statement for the year then ended and the notes.

**Management's responsibility**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the director’s report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion with respect to the consolidated financial statements**

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Ronson Europe N.V. as at 31 December 2010, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

**Opinion with respect to the company financial statements**

In our opinion, the company financial statements give a true and fair view of the financial position of Ronson Europe N.V. as at 31 December 2010, its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

## Auditor's Report

***Report on other legal and regulatory requirements***

Pursuant to the legal requirement under 2:393 sub 5 part at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the director's board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the director's board report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

**Amsterdam, 8 March 2011**

**Ernst & Young Accountants LLP**

**Signed by J.H. de Prie**

# Consolidated Statement of Comprehensive Income

| **For the year ended 31 December** | | **2010** | **2009** |
|---|---|---|---|
| *In thousands of Polish Zlotys (PLN)* | ***Note*** | | |
| Revenue | *6* | 241,265 | 116,309 |
| Cost of sales | *7* | (178,544) | (76,115) |
| **Gross profit** | | **62,721** | **40,194** |
| Changes in fair value of investment property | *16* | - | 5,602 |
| Selling and marketing expenses | *8* | (7,397) | (3,331) |
| Administrative expenses | *9* | (16,129) | (14,172) |
| Other expenses | *11* | (6,683) | (2,563) |
| Other income | *12* | 610 | 2,117 |
| **Result from operating activities** | | **33,122** | **27,847** |
| Finance income | *13* | 2,411 | 851 |
| Finance expense | *13* | (428) | (2,710) |
| **Net finance income/(expense)** | | **1,983** | **(1,859)** |
| **Profit before taxation** | | **35,105** | **25,988** |
| Income tax expense | *14* | (14) | (4,954) |
| **Profit for the year** | | **35,091** | **21,034** |
| Other comprehensive income | | - | - |
| **Total comprehensive income for the year, net of tax** | | **35,091** | **21,034** |
| Weighted average number of ordinary shares (basic) | *24* | 272,360,000 | 235,672,238 |
| Weighted average number of ordinary shares (diluted) | *24* | 272,999,333 | 236,311,571 |

| **Net earnings per share** | | | |
|---|---|---|---|
| *In Polish Zlotys (PLN)* | | | |
| **basic** | *24* | **0.129** | **0.089** |
| **diluted** | *24* | **0.129** | **0.089** |

*The notes on pages 40 to 88 are an integral part of these consolidated financial statements.*

# Consolidated Statement of Financial Position

| As at 31 December | | 2010 | 2009 |
|---|---|---|---|
| *In thousands of Polish Zlotys (PLN)* | ***Note*** | | |
| **Assets** | | | |
| Property and equipment | *15* | 8,371 | 1,319 |
| Investment property | *16* | 8,740 | 8,740 |
| Loans granted to third parties | *17* | 544 | - |
| Deferred tax assets | *18* | 3,444 | 3,891 |
| **Total non-current assets** | | **21,099** | **13,950** |
| Inventory | *19* | 543,529 | 646,253 |
| Trade and other receivables and prepayments | *20* | 13,280 | 19,884 |
| Income tax receivable | | 649 | 190 |
| Short-term bank deposits - collateralized | *21* | 1,585 | 5,070 |
| Cash and cash equivalents | *22* | 94,888 | 58,044 |
| **Total current assets** | | **653,931** | **729,441** |
| **Total assets** | | **675,030** | **743,391** |
| **Equity** | | | |
| **Shareholders' equity** | | | |
| Share capital | | 20,762 | 20,762 |
| Share premium | | 282,873 | 282,873 |
| Retained earnings | | 113,742 | 78,583 |
| **Total shareholders' equity** | *23* | **417,377** | **382,218** |
| **Liabilities** | | | |
| Loans from related parties | *25* | - | 52,948 |
| Secured bank loans | *25* | 49,213 | 54,346 |
| Loans from third parties | *25* | 4,032 | - |
| Deferred tax liability | *18* | 5,331 | 6,421 |
| **Total non-current liabilities** | | **58,576** | **113,715** |
| Trade and other payables and accrued expenses | *26* | 18,953 | 27,729 |
| Loans from related parties | *25* | 53,218 | 7,381 |
| Secured bank loans | *25* | 74,701 | 134,332 |
| Loans from third parties | *25* | 1,311 | - |
| Advances received | *27* | 44,347 | 73,367 |
| Income tax payable | | 43 | 1,563 |
| Provisions | *28* | 6,504 | 3,086 |
| **Total current liabilities** | | **199,077** | **247,458** |
| **Total liabilities** | | **257,653** | **361,173** |
| **Total equity and liabilities** | | **675,030** | **743,391** |

*The notes on pages 40 to 88 are an integral part of these consolidated financial statements*

# Consolidated Statement of Changes in Equity

**For the years ended 31 December 2010 and 31 December 2009:**

| *In thousands of Polish Zlotys (PLN)* | Share capital | Share premium | Retained earnings | Total equity |
|---|---|---|---|---|
| **Balance at 1 January 2009** | **16,953** | **215,105** | **57,425** | **289,483** |
| Net profit for the year ended 31 December 2009 | - | - | 21,034 | 21,034 |
| Other comprehensive income | - | - | - | - |
| **Total comprehensive income** | - | - | 21,034 | 21,034 |
| Issue of new shares (1) | 3,809 | 67,768 | - | 71,577 |
| Share-based payments (note 23 C) | - | - | 124 | 124 |
| **Balance at 31 December 2009** | **20,762** | **282,873** | **78,583** | **382,218** |
| Net profit for the year ended 31 December 2010 | - | - | 35,091 | 35,091 |
| Other comprehensive income | - | - | - | - |
| **Total comprehensive income** | - | - | 35,091 | 35,091 |
| Share-based payments (note 23 C) | - | - | 68 | 68 |
| **Balance at 31 December 2010** | **20,762** | **282,873** | **113,742** | **417,377** |

(1) This represents the proceeds above par from the 45,393,333 new shares, issued on 22 October 2009. The net proceeds from the new shares issued on 22 October 2009 amounted to PLN 71,577 thousand, after a deduction of PLN 1,052 thousand representing the total cost directly attributable to the new shares issued.

*The notes on pages 40 to 88 are an integral part of these consolidated financial statements*

# Consolidated Statement of Cash Flows

| **For the year ended 31 December** | | **2010** | **2009** |
|---|---|---|---|
| *In thousands of Polish Zlotys (PLN)* | ***Note*** | | |
| **Cash flows from/(used in) operating activities** | | | |
| Profit for the period | | 35,091 | 21,034 |
| *Adjustments to reconcile profit for the period to net cash used in operating activities:* | | | |
| Depreciation | *9,15* | 452 | 379 |
| Increase in the value of investment property | *16* | - | (5,602) |
| Finance expense | *13* | 428 | 2,710 |
| Finance income | *13* | (2,411) | (851) |
| Profit on sale of property and equipment | *12* | (9) | (92) |
| Write-down of inventory | *19* | 2,188 | - |
| Share-based payments expense | *23* | 68 | 124 |
| Income tax benefit expense | *14* | 14 | 4,954 |
| ***Subtotal*** | | 35,821 | 22,656 |
| Decrease/(increase) in inventory | *35* | 122,086 | (52,001) |
| Decrease/(increase) in trade and other receivables and prepayments | *35* | 7,070 | 11,579 |
| Increase/(decrease) in trade and other payables and accrued expenses | *35* | (6,302) | 1,397 |
| Increase/(decrease) in provisions | *28* | 3,418 | (58) |
| Increase/(decrease) in advances received | | (29,020) | 19,033 |
| ***Subtotal*** | | 133,073 | 2,606 |
| Interest paid | | (20,644) | (16,487) |
| Interest received | | 2,483 | 954 |
| Income tax paid | | (2,577) | (2,000) |
| **Net cash from/(used in) operating activities** | | **112,335** | **(14,927)** |
| **Cash flows from/(used in) investing activities** | | | |
| Acquisition of property and equipment | *15* | (1,701) | (356) |
| Acquisition of investment property (payment for termination of finance lease contract) | | (2,500) | - |
| Short-term bank deposits – collateralized | | 3,485 | (27) |
| Investment in joint venture, net of cash acquired | *32* | (7,406) | - |
| Loans granted to third parties | | (544) | - |
| Proceeds from sale of property and equipment | | 9 | 449 |
| **Net cash from/(used in) investing activities** | | **(8,657)** | **66** |
| **Cash flows from/(used in) financing activities** | | | |
| Proceeds from new shares issued | *23* | - | 72,629 |
| Costs directly attributed to the new shares issued | *23* | - | (1,052) |
| Proceeds from bank loans, net of bank charges | | 2,942 | 22,391 |
| Repayment of bank loans | | (69,031) | (60,386) |
| Repayment of loans received from third parties | | (745) | - |
| **Net cash from/(used in) financing activities** | | **(66,834)** | **33,582** |
| **Net change in cash and cash equivalents** | | **36,844** | **18,721** |
| Cash and cash equivalents at beginning of the year | | 58,044 | 39,323 |
| **Cash and cash equivalents at end of the year** | *22* | **94,888** | **58,044** |

*The notes on pages 40 to 88 are an integral part of these consolidated financial statements*

# Notes to the Consolidated Financial Statements

## 1. Background and business of the Company

**(a)** Ronson Europe N.V. ('the Company'), a Dutch public company with its statutory seat in Rotterdam, the Netherlands, was incorporated on 18 June 2007. The registered office is located at Weena 210-212, Rotterdam, the Netherlands. The Company (together with its Polish subsidiaries 'the Group'), is active in the development and sale of units, primarily apartments, in multi-family residential real-estate projects to individual customers in Poland.

The shares of the Company are traded on the Warsaw Stock Exchange since 5 November 2007. As at 31 December 2010, 64.2% of the outstanding shares are held by I.T.R. Dori B.V. ('ITR Dori'), 15.3% of the outstanding shares are held by GE Real Estate CE Residential B.V. ('GE Real Estate') whereas the remaining 20.5% of the outstanding shares are held by other investors including Amplico Otwarty Fundusz Emerytalny and ING Otwarty Fundusz Emerytalny each holding between 5% and 10% of the outstanding shares.

A list of the companies from which the financial data are included in these Consolidated Financial Statements and the extent of ownership and control are presented in Note 1(b).

**(b)** The details of the Polish companies whose financial statements have been included in these Consolidated Financial Statements, the year of incorporation and the percentage of ownership and voting rights directly held or indirectly by the Company as at 31 December 2010 are presented below and on the following page.

The projects managed by the companies are in various stages of development ranging from being in the process of acquiring land for development to projects which are completed or near completion.

| | **Entity name** | **Year of incorporation** | **Share of ownership & voting rights at the end of** | |
|---|---|---|---|---|
| | | | **2010** | **2009** |
| **a.** | **held directly by the Company :** | | | |
| 1. | Ronson Development Management Sp. z o.o. | 1999 | 100.0% | 100.0% |
| 2. | Ronson Development 2000 Sp. z o.o. | 2000 | 100.0% | 100.0% |
| 3. | Ronson Development Warsaw Sp. z o.o. | 2000 | 100.0% | 100.0% |
| 4. | Ronson Development Investments Sp. z o.o. | 2002 | 100.0% | 100.0% |
| 5. | Ronson Development Metropol Sp. z o.o. | 2002 | 100.0% | 100.0% |
| 6. | Ronson Development Properties Sp. z o.o. | 2002 | 100.0% | 100.0% |
| 7. | Ronson Development Apartments Sp. z o.o. | 2003 | 100.0% | 100.0% |
| 8. | Ronson Development Residential Sp. z o.o. | 2003 | 100.0% | 100.0% |
| 9. | Ronson Development Enterprise Sp. z o.o. | 2004 | 100.0% | 100.0% |
| 10. | Ronson Development Company Sp. z o.o. | 2005 | 100.0% | 100.0% |
| 11. | Ronson Development Creations Sp. z o.o. | 2005 | 100.0% | 100.0% |
| 12. | Ronson Development Buildings Sp. z o.o. | 2005 | 100.0% | 100.0% |
| 13. | Ronson Development Structure Sp. z o.o. | 2005 | 100.0% | 100.0% |
| 14. | Ronson Development Poznań Sp. z o.o. | 2005 | 100.0% | 100.0% |
| 15. | Ronson Development Innovation Sp. z o.o. | 2006 | 100.0% | 100.0% |
| 16. | Ronson Development Wrocław Sp. z o.o. | 2006 | 100.0% | 100.0% |
| 17. | Ronson Development Capital Sp. z o.o. | 2006 | 100.0% | 100.0% |
| 18. | EEE Development Sp. z o.o. | 2006 | 100.0% | 100.0% |
| 19. | Ronson Development Habitat Sp. z o.o. | 2006 | 100.0% | 100.0% |
| 20. | Ronson Development Sp. z o.o. | 2006 | 100.0% | 100.0% |
| 21. | Ronson Development Construction Sp. z o.o. | 2006 | 100.0% | 100.0% |
| 22. | Ronson Development City Sp. z o.o. (no activities at 31 December 2010) | 2006 | 100.0% | 100.0% |
| 23. | Ronson Development Village Sp. z o.o. [(1)] | 2007 | 100.0% | 100.0% |
| 24. | Ronson Development Conception Sp. z o.o. | 2007 | 100.0% | 100.0% |
| 25. | Ronson Development Architecture Sp. z o.o. | 2007 | 100.0% | 100.0% |
| 26. | Ronson Development Skyline Sp. z o.o. [(1)] | 2007 | 100.0% | 100.0% |
| 27. | Ronson Development Continental Sp. z o.o. | 2007 | 100.0% | 100.0% |

*(1) The Company has the power to govern the financial and operating policies of this entity and to obtain benefits from its activities, whereas Kancelaria Radcy Prawnego Jarosław Zubrzycki holds the legal title to the shares of this entity.*

# Notes to the Consolidated Financial Statements

## 1. Background and business of the Company (cont'd)

| Entity name | | Year of incorporation | Share of ownership & voting rights at the end of 2010 | 2009 |
|---|---|---|---|---|
| 28. | Ronson Development Universal Sp. z o.o. (1) | 2007 | 100.0% | 100.0% |
| 29. | Ronson Development Retreat Sp. z o.o. | 2007 | 100.0% | 100.0% |
| 30. | Ronson Development South Sp. z o.o. | 2007 | 100.0% | 100.0% |
| 31. | Ronson Development West Sp. z o.o. (1) | 2007 | 100.0% | 100.0% |
| 32. | Ronson Development East Sp. z o.o. (no activities at 31 December 2010) | 2007 | 100.0% | 100.0% |
| 33. | Ronson Development North Sp. z o.o. | 2007 | 100.0% | 100.0% |
| 34. | Ronson Development Providence Sp. z o.o. | 2007 | 100.0% | 100.0% |
| 35. | Ronson Development Destiny Sp. z o.o. | 2007 | 100.0% | 100.0% |
| 36. | Ronson Development Millenium Sp. z o.o. | 2007 | 100.0% | 100.0% |
| 37. | Ronson Development Finco Sp. z o.o. | 2009 | 100.0% | 100.0% |
| 38. | Ronson Development Nautica Sp. z o.o. (no activities at 31 December 2010) | 2010 | 100.0% | n.a. |
| 39. | Ronson Development Gemini Sp. z o.o. (no activities at 31 December 2010) | 2010 | 100.0% | n.a. |
| 40. | Ronson Development Apartments 2010 Sp. z o.o. | 2010 | 100.0% | n.a. |
| 41. | Ronson Development 2010 Sp. z o.o. | 2010 | 100.0% | n.a. |
| 42. | Ronson Development Retreat 2010 Sp. z o.o. | 2010 | 100.0% | n.a. |
| 43. | Ronson Development Enterprise 2010 Sp. z o.o. | 2010 | 100.0% | n.a. |
| 44. | Ronson Development Wrocław 2010 Sp. z o.o. | 2010 | 100.0% | n.a. |
| 45. | Ronson Development EEE 2010 Sp. z o.o. | 2010 | 100.0% | n.a. |
| 46. | Ronson Development Nautica 2010 Sp. z o.o. | 2010 | 100.0% | n.a. |
| 47. | Ronson Development Gemini 2010 Sp. z o.o. | 2010 | 100.0% | n.a. |
| 48. | Ronson Development Skyline 2010 Sp. z o.o. (no activities at 31 December 2010) | 2010 | 100.0% | n.a. |
| b. | **held indirectly by the Company :** | | | |
| 49. | AGRT Sp. z o.o. | 2007 | 100.0% | 100.0% |
| 50. | Ronson Development Community Sp.k. | 2007 | 100.0% | 100.0% |
| 51. | Ronson Development Estate Sp.k. | 2007 | 100.0% | 100.0% |
| 52. | Ronson Development Home Sp.k. | 2007 | 100.0% | 100.0% |
| 53. | Ronson Development Horizon Sp.k. | 2007 | 100.0% | 100.0% |
| 54. | Ronson Development Landscape Sp.k. | 2007 | 100.0% | 100.0% |
| 55. | Ronson Development Town Sp.k. (no activities at 31 December 2010) | 2007 | 100.0% | 100.0% |
| 56. | Ronson Development Eclipse Sp.k. (no activities at 31 December 2010) | 2009 | 100.0% | 100.0% |
| 57. | Ronson Development Magellan Sp.k. (no activities at 31 December 2010) | 2009 | 100.0% | 100.0% |
| 58. | Ronson Development Monet Sp.k. (no activities at 31 December 2010) | 2009 | 100.0% | 100.0% |
| 59. | Ronson Development Orion Sp.k. (no activities at 31 December 2010) | 2009 | 100.0% | 100.0% |
| 60. | Ronson Development Osiedle Hrabskie Sp.k. (no activities at 31 December 2010) | 2009 | 100.0% | 100.0% |
| 61. | Ronson Development Plejada Sp.k. (no activities at 31 December 2010) | 2009 | 100.0% | 100.0% |
| 62. | Ronson Development Renoir Sp.k. (no activities at 31 December 2010) | 2009 | 100.0% | 100.0% |
| 63. | Ronson Development Renaissance Sp.k. (no activities at 31 December 2010) | 2009 | 100.0% | 100.0% |
| 64. | Ronson Development Tamka Sp.k. (no activities at 31 December 2010) | 2009 | 100.0% | 100.0% |
| 65. | Ronson Development Copernicus Sp.k. (no activities at 31 December 2010) | 2009 | 100.0% | 100.0% |
| 66. | Landex Sp. z o.o. (2) | 2010 | 57.8% | n.a |

*(1) The Company has the power to govern the financial and operating policies of this entity and to obtain benefits from its activities, whereas Kancelaria Radcy Prawnego Jarosław Zubrzycki holds the legal title to the shares of this entity.*

*(2) On 23 December 2010, the Group acquired 57.8% of the equity in Landex Sp. z o.o. For additional information see notes 32 and 36.*

# Notes to the Consolidated Financial Statements

## 2. Basis of preparation and measurement

### (a) Basis of preparation and statement of compliance

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS'). The Company Financial Statements of the Company have been prepared in accordance with article 362.8 of the Netherlands Civil Code.

The Consolidated Financial Statements were authorised by the Boards of Directors of Ronson Europe N.V. on 8 March 2011.

These Consolidated Financial statements have been prepared on the assumption that the Group is a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the normal course of its operations.

### (b) Basis of measurement

The Consolidated Financial Statements have been prepared on the historical cost basis, except for investment property which was measured at fair value the methods used to measure fair values for disclosure purposes in the notes to the Consolidated Financial Statements are discussed further in note 29.

### (c) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency') being Polish Zloty ('PLN'). The Consolidated Financial Statements are presented in thousands of Polish Zloty which is the parent company functional and presentation currency. Although the Company is Dutch Company, it operates mainly in Poland.

### (d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reported period. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements, are described in the following notes:

Note 16 – investment property
Note 18 – utilization of tax losses
Note 19 - inventory
Note 20 – trade and other receivables and prepayments
Note 28 – provisions
Note 30 – commitments and contingencies

# Notes to the Consolidated Financial Statements

## 2. Basis of preparation and measurement (cont'd)

### (e) Basis of consolidation

Subsidiaries are entities controlled by the Company.

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

Jointly controlled entities are those enterprises over whose activities the Company has joint control, established by contractual agreements. The Consolidated Financial Statements include the Company's proportionate share of the enterprises' assets, liabilities, revenues and expenses with items of similar nature on a line-by-line basis, from the date that joint control commences until the date that joint control ceases. Intra-group balances and transactions, and any unrealized gains and losses arising from intra-group transactions, are eliminated during consolidation.

The financial statements of subsidiaries are prepared for the same period as the financial statement of parent. The Group entities keep books of accounts in accordance with accounting policies specified in the Accounting Act dated 29 September 1994 ('the Accounting Act') with subsequent amendments and the regulations issued based on that Act (all together: 'Polish Accounting Standards'). Ronson Europe N.V. keeps the books of accounts in accordance with accounting policies required by Dutch law. These consolidated financial statements include a number of adjustments not included in the books of account of the Group entities, which were made in order to bring the financial statements of those entities to conformity with IFRSs.

### (f) Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows. The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2010 insofar endorsed by the EU as of the date of approval of these financial statements:

- IFRS 2 *Share-based payment: Group Cash-settled Share-based Payment Transactions* – applicable to annual reporting periods beginning on or after 1 January 2010. The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment supersedes IFRIC 8 and IFRIC 11. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

- IFRS 3 Business Combinations (revised) and IAS 27 Consolidated and Separate Financial Statements (amended) – applicable to annual reporting periods beginning on or after 1 July 2009. IFRS 3 (revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration, and business combinations achieved in stages. The adoption of this amendment did not have any impact on the financial position or performance of the Group. IAS 27 *Consolidated and Separate Financial Statements (amended)* requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

- IAS 39 *Financial Instruments: Recognition and Measurement: Eligible Hedged Items* – applicable to annual reporting periods beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The adoption of this amendment did not have an impact on the financial position or performance of the Group.

# Notes to the Consolidated Financial Statements

## 2. Basis of preparation and measurement (cont'd)
### (f) Changes in accounting policies and disclosures (cont'd)

- IFRIC 17 Distribution of Non-cash Assets to Owners – applicable to annual reporting periods beginning on or after 1 July 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation did not have any effect on the financial position or performance of the Group.
- Improvements to IFRSs (issued May 2008) – in May 2008 the IFRS Board issued its first omnibus of amendments to its standards. The following amendments have been applied from 1 January 2010:
  - IFRS 5 Non-*current Assets Held for Sale and Discontinued Operations*: clarifies when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and did not have any impact on the financial position or performance of the Group.
- Improvements to IFRSs (issued April 2009) – in April 2009 the IFRS Board issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.
  - IFRS 8 *Operating Segments*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Company's chief operating decision maker does review segment assets and liabilities, the Company has continued to disclose this information in Note 5.
  - IAS 7 *Statement of Cash Flows*: explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow investing activities
  - IAS 17 *Leases:* The amendment clarifies that the classification of land and buildings as being held under finance or operating lease should be separately assessed with a reminder that when land is land leased, land had an indefinite economic life.
  - IAS 36 Impairment of Assets: The amendment larified that the largest unit permitted for allocation of goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment did not have any effect on the financial position or performance of the Group.
  - IAS 39 Financial Instruments: Recognition and Measurement: The amendment clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. The amendment clarifies that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquire at future date, applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken. The amendment did not have any effect on the financial position or performance of the Group.

The changes in the following standards did not have any impact on the accounting policies, the financial position or performance of the Company:

- IFRS 2 Share-based Payment
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IAS 1 Presentation of Financial Statements
- IAS 38 Intangible Assets
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation

The Group has not early adopted any other standard, interpretation or amendment that was issued but is not yet effective.

# Notes to the Consolidated Financial Statements

## 3. Significant accounting policies

The accounting policies set out below have been applied consistently in all periods presented in these Consolidated Financial Statements.

### (a) Foreign currency

#### (i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates prevailing at the dates of the transactions using:

the purchase or selling rate of the bank whose services are used by the Group – in case of foreign currency sales or purchase transactions, as well in the case as of the debt or liability payment transactions;
the average rate specified for a given currency by the National Bank of Poland as on the transaction date, unless a customs declaration or other binding document indicates another rate – in case of other transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

### (b) Revenue

Revenue from operations includes:

#### (i) Revenue from the sale of residential units

Revenues from the sale of residential units are recognized upon transfer to the buyer of the significant risks and rewards of ownership of the residential unit (i.e. upon signing of the protocol of technical acceptance and transfer of the key to the residential unit), after a valid building occupancy permit has been obtained by the Group.

Advances received related to pre-sales of residential units, which represent deferred income, are deferred when they do not meet the criteria to be recognized as revenue. When they subsequently meet these criteria, they are recognised as revenue.

#### (ii) Revenue on finance leases

Finance lease income is recognized based on the annuity method under which total finance lease interest income and the excess of scheduled lease payments over the cost of the related assets is deferred and amortized as income over the lease term by employing the effective interest rate that provides a constant periodic rate of return on the net investment in the lease.

#### (iii) Revenue on operating leases

Payments received under operating leases are recognized in the statement of comprehensive income on a straight-line basis over the term of the lease.

# Notes to the Consolidated Financial Statements

## 3. Significant accounting policies (cont'd)

### (c) Financial instruments

**Non-derivative financial instruments**

Non-derivative financial instruments of the Group comprise loans granted, trade and other receivables, cash and cash equivalents, deposits, loans and borrowings, and trade and other payables. All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

A financial instrument is recognized if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognized if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognized if the Group's obligations specified in the contract expire, or are discharged or cancelled.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Non-derivative financial instruments of the Group are classified into one of the following categories:

| Category | Statement of financial position item | Measurement |
|---|---|---|
| Held for trading | Cash and cash equivalent | Fair value- adjusted to income statements |
| Loans and receivables | Short-term deposits | Amortized costs |
| | Trade and other receivables | Amortized costs |
| Other financial liabilities | Loans from related parties | Amortized costs |
| | Trade and other payables and accrued expenses | Amortized costs |
| | Secured bank loans | Amortized costs |

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are classified as current assets, provided their maturity does not exceed 12 months after the reporting date. Loans and receivables with maturities exceeding 12 months from the reporting date are classified under non-current assets. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in the statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as, through the amortization process.

*Other financial liabilities*

Other financial liabilities are measured at amortized cost using the effective interest method and are valued at amortized cost.

# Notes to the Consolidated Financial Statements

## 3. Significant accounting policies (cont'd)

### (d) Property and equipment

#### (i) Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the statement of comprehensive income as incurred.

#### (ii) Depreciation

Depreciation is calculated on the straight-line basis over the estimated useful life of each component of an item of property and equipment.

The estimated useful life of property and equipment, depending on the class of asset, ranges from 3 to 7 years. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

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

Depreciation methods, useful lives and residual values are reassessed at the reporting date, and adjusted prospectively since the beginning of the year, if appropriate.

### (e) Leases

#### (i) Finance leases – lessee accounting

Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments.

# Notes to the Consolidated Financial Statements

## 3. Significant accounting policies (cont'd)

### (e) Leases (cont'd)

#### (ii) Operating leases – lessor accounting

The Group is the lessor of a property to a third party under a operating lease agreement. The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

### (f) Investment property

Investment properties are measured initially at cost, including transaction costs. Subsequently to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the statement of comprehensive income in the period in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of comprehensive income in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequently accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

### (g) Inventories of residential units

Inventories consist of multi-family residential real estate projects to individual customers.
Inventories are measured at the lower of cost and net realizable value. The cost of inventories includes expenditure incurred relating to the construction of a project. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.
Costs relating to the construction of a project are included in inventories of residential units as follows:

- costs incurred relating to projects or a phase of a project which are not available for sale (work in progress),
- costs incurred relating to units unsold associated with a project.

Project construction costs include:

a) land or leasehold rights for land,
b) construction costs paid to subcontractors for the construction of residential units,
c) planning and design costs,
d) perpetual usufruct fees and real estate taxes incurred during the period of construction,
e) borrowing costs to the extent they are directly attributable to the development of the project (see accounting policy (l)),
f) professional fees attributable to the development of the project,
g) construction overheads and other directly related costs.

Inventory is recognised as a cost of sales in the statement of comprehensive income when the sale of residential units is recognised.

# Notes to the Consolidated Financial Statements

## 3. Significant accounting policies (cont'd)

### (h) Trade and other receivables and prepayment

Trade and other receivables are stated at amortized cost less impairment losses.

### (i) Equity

#### (i) Share capital

Share capital includes the proceeds received from the issue of ordinary shares on the nominal value in exchange for cash.

#### (ii) Share premium

Share premium includes the excess of proceeds received from the issue of shares over the nominal value of shares.
Shares issuance costs are deducted from share premium net of any related income tax benefits.

### (j) Impairment

#### (i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

All impairment losses are recognized in the statement of comprehensive income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the statement of comprehensive income.

#### (ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

# Notes to the Consolidated Financial Statements

## 3. Significant accounting policies (cont'd)

### (k) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

### (l) Borrowing costs

Borrowing costs directly attributable to the inventory of properties which necessarily take a substantial period of time to get ready for their intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest calculated using the effective interest method that an entity incurs in connection with the borrowing of funds.

The interest capitalised is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amount capitalised equals the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalised as from the commencement of the development work until the date of completion. The capitalisation of borrowing costs is suspended if there are prolonged periods when development activity is interrupted.

### (m) Income tax expense

Income tax expense comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax expense is calculated according to tax regulations in effect in the jurisdiction in which the individual companies are domiciled.
Deferred income tax is provided, using the balance sheet method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, and for tax losses carried forward, except for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. At each reporting date deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### (n) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. The computations of the basic earnings per share are determined on the basis of the weighted average number of shares outstanding during the year. The diluted earnings per share are determined by adjusting the statement of comprehensive income and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted and rights to obtain shares by employees.

# Notes to the Consolidated Financial Statements

## 3. Significant accounting policies (cont'd)

### (o) Share options granted

The Group operates a share-based incentive plan. The fair value of share options granted to management and other employees as at the grant date is recognised as an employee expense, with a corresponding increase in equity recognised in retained earnings, over the period during which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

### (p) Cash and cash equivalents

Cash and cash equivalents in the statement of financial positions comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

### (q) Employee benefits

Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of comprehensive income as incurred.

The Company's subsidiaries in Poland are required, under applicable regulations, to pay, on a monthly basis, social security contributions for the employees' future pension benefits. These benefits, according to IAS 19 'Employee Benefits', are state plans and are characterised as defined contribution plans. Therefore, the Company's subsidiaries have no legal or constructive obligation to pay future pension benefits and their obligation is limited to payment of contributions as they fall due.

### (r) Jointly controlled entities

The Group has an interest in a joint venture which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group recognises its interest in the joint venture using the proportionate consolidation method. The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting period as the parent company. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intragroup balances, income and expenses and unrealised gains and losses on transactions between the Group and its jointly controlled entity. Losses on transactions are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

Upon loss of joint control and provided the former joint control entity does not become a subsidiary or associate, the Group measures and recognises its remaining investment at its fair value. Any difference between the carrying amount of the former joint controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognised in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

# Notes to the Consolidated Financial Statements

## 4. Standards issued but not yet effective

New standards, amendments to standards and interpretations, which are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these Consolidated Financial Statements, are listed below:

- Amendments to IAS 32 *Financial instruments: presentation: Classification of Rights Issues* – effective for financial years beginning on or after 1 February 2010,
- IAS 24 *Related Party Disclosures* (revised in November 2009) – effective for financial years beginning on or after 1 February 2010,
- IFRS 9 *Financial Instruments* – effective for financial years beginning on or after 1 January 2013 – not endorsed by EU till the date of approval of these financial statements,
- Amendments to IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: Prepayments of a Minimum Funding Requirements* – effective for financial years beginning on or after 1 January 2011,
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* – effective for financial years beginning on or after 1 July 2010,
- Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* – effective for financial years beginning on or after 1 July 2010,
- *Improvements to IFRSs* (issued in May 2010) – some improvements are effective for annual periods beginning on or after 1 July 2010, the rest is effective for annual periods beginning on or after 1 January 2011,
- Amendment to IFRS 7 *Financial Instruments – Disclosures: Transfer of Financial Assets* - effective for financial years beginning on or after 1 July 2011 – not endorsed by EU till the date of approval of these financial statements,
- Amendments to IAS 12 *Income Taxes: Deferred Tax: Recovery of Underlying Assets* – effective for financial years beginning on or after 1 January 2012 - not endorsed by EU till the date of approval of these financial statements,
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters - effective for financial years beginning on or after 1 July 2011 - not endorsed by EU till the date of approval of these financial statements.

Management is considering the impact which the introduction of the above-mentioned new standards, amendments to existing standards and interpretations will have on the accounting policies applied by the Group.

# Notes to the Consolidated Financial Statements

## 5. Segment reporting

The Group's operating segments are defined as separate entities developing particular residential projects, which for the reporting purposes were aggregated. The aggregation for reporting purpose is based on geographical locations (Warsaw, Poznań, Wrocław and Szczecin) and type of activity (development of apartments and development of houses). Moreover, for one particular entity the reporting was based on type of income: rental income from investment property.

According to the Management Board's assessment, the operating segments identified have similar economic characteristics. Aggregation based on the type of development within the geographical location has been applied since primarily the location and the type of development determine the average margin that can be realized on each project and the project's risk factors. Considering the fact that the production process for apartments is different from that for houses and considering the fact that the characteristics of customers buying apartments slightly differ from those of customers interested in buying houses, aggregation by type of development within the geographical location has been used for segment reporting and disclosure purposes.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated indirectly based on reasonable criteria. Unallocated items comprise head office expenses and income tax assets and liabilities and unallocated cash and cash equivalents.

Data presented in the table below are aggregated by type of development within the geographical location:

| *In thousands of Polish Zlotys (PLN)* | **As at 31 December 2010** | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Warsaw** | | | **Poznań** | | **Wrocław** | | **Szczecin** | | **Unallocated** | **Total** |
| | **Apartments** | **Houses** | **Rental** | **Apartments** | **Houses** | **Apartments** | **Houses** | **Apartments** | **Houses** | | |
| **Segment assets** | 278,574 | 88,339 | 8,740 | 108,577 | - | 72,657 | 2,392 | 53,457 | 7,280 | - | 620,016 |
| Unallocated assets | - | - | - | - | - | - | - | - | - | 55,014 | 55,014 |
| **Total assets** | **278,574** | **88,339** | **8,740** | **108,577** | **-** | **72,657** | **2,392** | **53,457** | **7,280** | **55,014** | **675,030** |
| **Segment liabilities** | 141,507 | 38,688 | - | 39,503 | - | 8,700 | 1 | 16,972 | 1 | - | 245,372 |
| Unallocated liabilities | - | - | - | - | - | - | - | - | - | 12,281 | 12,281 |
| **Total liabilities** | **141,507** | **38,688** | **-** | **39,503** | **-** | **8,700** | **1** | **16,972** | **1** | **12,281** | **257,653** |

| *In thousands of Polish Zlotys (PLN)* | **As at 31 December 2009** | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Warsaw** | | | **Poznań** | | **Wrocław** | | **Szczecin** | | **Unallocated** | **Total** |
| | **Apartments** | **Houses** | **Rental** | **Apartments** | **Houses** | **Apartments** | **Houses** | **Apartments** | **Houses** | | |
| **Segment assets** | 315,967 | 108,221 | 8,740 | 118,869 | 8,379 | 68,758 | 2,361 | 51,848 | 7,318 | - | 690,461 |
| Unallocated assets | - | - | - | - | - | - | - | - | | 52,930 | 52,930 |
| **Total assets** | **315,967** | **108,221** | **8,740** | **118,869** | **8,379** | **68,758** | **2,361** | **51,848** | **7,318** | **52,930** | **743,391** |
| **Segment liabilities** | 212,699 | 50,977 | 2,500 | 56,806 | 42 | 8,445 | - | 16,791 | 1 | - | 348,261 |
| Unallocated liabilities | - | - | - | - | - | - | - | - | - | 12,912 | 12,912 |
| **Total liabilities** | **212,699** | **50,977** | **2,500** | **56,806** | **42** | **8,445** | **-** | **16,791** | **1** | **12,912** | **361,173** |

# Notes to the Consolidated Financial Statements

## 5. Segment reporting (cont'd)

*In thousands of Polish Zlotys (PLN)*

| For the year ended 31 December 2010 | Warsaw | | | Poznań | | Wrocław | | Szczecin | | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Apartments | Houses | Rental | Apartments | Houses | Apartments | Houses | Apartments | Houses | | |
| **Revenue** | 197,769 | 6,371 | 351 | 36,774 | - | - | - | - | - | - | 241,265 |
| **Segment result** | 47,439 | (6,275) | 114 | 8,082 | (62) | (465) | (3) | (29) | (4) | - | 48,797 |
| Unallocated result | - | - | - | - | - | - | - | - | - | (15,675) | (15,675) |
| **Result from operating activities** | **47,439** | **(6,275)** | **114** | **8,082** | **(62)** | **(465)** | **(3)** | **(29)** | **(4)** | **(15,675)** | **33,122** |
| Net finance income | 1,629 | (8) | - | 144 | (1) | (16) | - | (4) | - | 239 | 1,983 |
| **Profit before tax** | **49,068** | **(6,283)** | **114** | **8,226** | **(63)** | **(481)** | **(3)** | **(33)** | **(4)** | **(15,436)** | **35,105** |
| Income tax benefit | | | | | | | | | | | (14) |
| **Profit for the year** | | | | | | | | | | | **35,091** |
| **Capital expenditure** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **1,701** | **1,701** |

*In thousands of Polish Zlotys (PLN)*

| For the year ended 31 December 2009 | Warsaw | | | Poznań | | Wrocław | | Szczecin | | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Apartments | Houses | Rental | Apartments | Houses | Apartments | Houses | Apartments | Houses | | |
| **Revenue** | 48,929 | - | - | 67,380 | - | - | - | - | - | - | 116,309 |
| **Segment result** | 13,565 | (653) | 5,602 | 23,124 | (11) | 228 | (3) | (43) | (9) | - | 41,800 |
| Unallocated result | - | - | | - | - | - | - | - | - | (13,953) | (13,953) |
| **Result from operating activities** | **13,565** | **(653)** | **5,602** | **23,124** | **(11)** | **228** | **(3)** | **(43)** | **(9)** | **(13,953)** | **27,847** |
| Net finance expense | (631) | 7 | - | (1,595) | - | 6 | - | (11) | - | 365 | (1,859) |
| **Profit before tax** | **12,934** | **(646)** | **5,602** | **21,529** | **(11)** | **234** | **(3)** | **(54)** | **(9)** | **(13,588)** | **25,988** |
| Income tax expense | | | | | | | | | | | (4,954) |
| **Profit for the year** | | | | | | | | | | | **21,034** |
| **Capital expenditure** | **-** | **-** | | **-** | **-** | **-** | **-** | **-** | **-** | **356** | **356** |

# Notes to the Consolidated Financial Statements

## 6. Revenue

| For the year ended 31 December<br>*In thousands of Polish Zlotys (PLN)* | 2010 | 2009 |
|---|---|---|
| Gemini | 93,423 | - |
| Nautica | 85,993 | - |
| Galileo | 36,774 | 67,380 |
| Imaginarium II | 13,286 | 38,410 |
| Constans I+II | 4,313 | - |
| Meridian | 2,964 | 5,351 |
| Gardenia | 2,058 | - |
| Imaginarium I | 1,544 | 4,177 |
| Other | 910 | 991 |
| **Total revenue** | **241,265** | **116,309** |

## 7. Cost of sales

| For the year ended 31 December<br>*In thousands of Polish Zlotys (PLN)* | 2010 | 2009 |
|---|---|---|
| Gemini | 67,718 | - |
| Nautica | 64,472 | - |
| Galileo | 25,184 | 43,215 |
| Imaginarium II | 9,276 | 25,624 |
| Constans I+II | 4,078 | - |
| Gardenia | 2,058 | - |
| Meridian | 1,799 | 3,455 |
| Imaginarium I | 1,054 | 2,742 |
| Write-down of inventory | 2,188 | - |
| Other | 717 | 1,079 |
| **Total cost of sales** | **178,544** | **76,115** |

## 8. Selling and marketing expenses

| For the year ended 31 December<br>*In thousands of Polish Zlotys (PLN)* | 2010 | 2009 |
|---|---|---|
| Advertising | 6,192 | 2,866 |
| Brokerage fees | 540 | 166 |
| Other | 665 | 299 |
| **Total selling and marketing** | **7,397** | **3,331** |

# Notes to the Consolidated Financial Statements

## 9. Administrative expenses

| For the year ended 31 December<br>*In thousands of Polish Zlotys (PLN)* | *Note* | 2010 | 2009 |
|---|---|---|---|
| Personnel expenses | *10* | 9,963 | 9,083 |
| External services | | 3,947 | 3,534 |
| Materials and energy | | 553 | 437 |
| Depreciation | | 452 | 379 |
| Taxes and charges | | 363 | 241 |
| Other | | 851 | 498 |
| **Total administrative expenses** | | **16,129** | **14,172** |

## 10. Personnel expenses

| For the year ended 31 December<br>*In thousands of Polish Zlotys (PLN)* | *Note* | 2010 | 2009 |
|---|---|---|---|
| Wages and salaries | | 9,039 | 7,990 |
| Share-based payment transactions | *23 C* | 68 | 124 |
| Social security and other benefits | | 856 | 969 |
| **Total personal expenses** | | **9,963** | **9,083** |
| | | | |
| **Average number of personnel employed** | | **49** | **41** |

## 11. Other expenses

| For the year ended 31 December<br>*In thousands of Polish Zlotys (PLN)* | 2010 | 2009 |
|---|---|---|
| Expense for abandoned projects (1) | 2,525 | 100 |
| Maintenance expense of unsold units | 1,875 | 1,496 |
| Impairment of trade receivables (2) | 1,543 | - |
| Expense for contractual penalties and compensation | 481 | 345 |
| Guaranty for construction work | 220 | - |
| Other expense | 39 | 143 |
| Civil activity taxes on contributions | - | 479 |
| **Total other expenses** | **6,683** | **2,563** |

*(1) For additional information see note 37 'Events during the financial year – Aurora'.*

*(2) For additional information see note 20.*

# Notes to the Consolidated Financial Statements

## 12. Other income

| For the year ended 31 December<br>*In thousands of Polish Zlotys (PLN)* | 2010 | 2009 |
|---|---|---|
| Revenues from contractual penalties and compensation | 205 | 1,289 |
| Rental income from inventories | 342 | 410 |
| Refund of civil activity taxes | 1 | 239 |
| Net profit on sale of Property and equipment | 9 | 92 |
| Other income | 53 | 87 |
| **Total other income** | **610** | **2,117** |

## 13. Finance income and expense

| For the year ended 31 December 2010<br>*In thousands of Polish Zlotys (PLN)* | Total amount | Amount capitalized | Recognized in the statement of comprehensive income |
|---|---|---|---|
| Interest income on bank deposits | 2,294 | 72 | 2,222 |
| Foreign exchange gain | 76 | - | 76 |
| Other finance income | 113 | - | 113 |
| **Finance income** | **2,483** | **72** | **2,411** |
| Interest expense on financial liabilities measured at amortized cost | (12,947) | (12,932) | (15) |
| Foreign exchange loss | (146) | - | (146) |
| Commissions and fees | (1,668) | (1,509) | (159) |
| Other finance expense | (108) | - | (108) |
| **Finance expense** | **(14,869)** | **(14,441)** | **(428)** |
| **Net finance income/(expense)** | **(12,386)** | **(14,369)** | **1,983** |

| For the year ended 31 December 2009<br>*In thousands of Polish Zlotys (PLN)* | Total amount | Amount capitalized | Recognized in the statement of comprehensive income |
|---|---|---|---|
| Interest income on bank deposits | 856 | 103 | 753 |
| Foreign exchange gain | 44 | - | 44 |
| Other finance income | 54 | - | 54 |
| **Finance income** | **954** | **103** | **851** |
| Interest expense on financial liabilities measured at amortized cost | (17,755) | (16,565) | (1,190) |
| Foreign exchange loss | (168) | - | (168) |
| Commissions and fees | (2,704) | (1,462) | (1,242) |
| Other finance expense | (110) | - | (110) |
| **Finance expense** | **(20,737)** | **(18,027)** | **(2,710)** |
| **Net finance expense** | **(19,783)** | **(17,924)** | **(1,859)** |

# Notes to the Consolidated Financial Statements

## 14. Income tax expense

| **For the year ended 31 December** | **2010** | **2009** |
|---|---|---|
| *In thousands of Polish Zlotys (PLN)* | | |
| **Current tax expense** | | |
| Current period | 596 | 3,664 |
| Adjustment for prior period | 2 | (62) |
| **Total current tax expense** | **598** | **3,602** |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | (5,221) | 4,287 |
| Benefit of tax losses recognized | 4,637 | (2,935) |
| **Total deferred tax (benefit)/expense** | **(584)** | **1,352** |
| **Total income tax expense** | **14** | **4,954** |

### Reconciliation of effective tax rate

| **For the year ended 31 December** | **2010** | **2009** |
|---|---|---|
| *In thousands of Polish Zlotys (PLN)* | | |
| Profit for the period | 35,091 | 21,034 |
| Total income tax expense | 14 | 4,954 |
| **Profit excluding income tax** | **35,105** | **25,988** |
| Expected income tax using the Polish tax rate (19%) | **6,670** | **4,938** |
| Tax effect on: | | |
| Effect of Netherlands tax rates | 401 | 108 |
| Change in unrecognized temporary differences over-provided in prior periods | 2 | (62) |
| Non-deductible expenses | 101 | 89 |
| Movement in unrecognized deferred tax assets | 2,572 | (586) |
| Recognition of the tax assets in connection with organizational restructuring of the Group | (10,514) | - |
| Other differences | 782 | 467 |
| **Tax charge for the period** | **14** | **4,954** |
| **Effective tax rate** | **0.04%** | **19.06%** |

# Notes to the Consolidated Financial Statements

## 15. Property and equipment

| **For the year ended 31 December 2010**<br>*In thousands of Polish Zlotys (PLN)* | **Cars** | **Equipment** | **Building** | **Total** |
|---|---|---|---|---|
| **Cost or deemed cost** | | | | |
| Balance at 1 January | 881 | 597 | 1,319 | 2,797 |
| Additions | 95 | 246 | 1,360 | 1,701 |
| Transferred from inventory (1) | - | - | 5,803 | 5,803 |
| Disposals | (44) | - | - | (44) |
| **Closing balance** | **932** | **843** | **8,482** | **10,257** |
| **Depreciation and impairment losses** | | | | |
| Balance at 1 January | 467 | 372 | 639 | 1,478 |
| Depreciation for the period | 162 | 135 | 155 | 452 |
| Disposals | (44) | - | - | (44) |
| **Closing balance** | **585** | **507** | **794** | **1,886** |
| **Carrying amounts** | | | | |
| At 1 January | 414 | 225 | 680 | 1,319 |
| **Closing balance** | **347** | **336** | **7,688** | **8,371** |

*(1) 8 units in Gemini project dedicated to the Company's headquarter in Warsaw – transferred at cost value.*

| **For the year ended 31 December 2009**<br>*In thousands of Polish Zlotys (PLN)* | **Cars** | **Equipment** | **Building** | **Total** |
|---|---|---|---|---|
| **Cost or deemed cost** | | | | |
| Balance at 1 January | 959 | 433 | 760 | 2,152 |
| Additions | - | 164 | 192 | 356 |
| Transferred from inventory (1) | - | - | 682 | 682 |
| Disposals | (78) | - | (315) | (393) |
| **Closing balance** | **881** | **597** | **1,319** | **2,797** |
| **Depreciation and impairment losses** | | | | |
| Balance at 1 January | 333 | 282 | 520 | 1,135 |
| Depreciation for the period | 168 | 90 | 121 | 379 |
| Disposals | (34) | - | (2) | (36) |
| **Closing balance** | **467** | **372** | **639** | **1,478** |
| **Carrying amounts** | | | | |
| At 1 January | 626 | 151 | 240 | 1,017 |
| **Closing balance** | **414** | **225** | **680** | **1,319** |

*(1) Two units in Galileo project dedicated to the Company's offices in Poznań. – transferred at cost value.*

### Impairment loss

In the years ended 31 December 2010 and 31 December 2009, the Group did not recognize any impairment loss with respect to Property and equipment.

# Notes to the Consolidated Financial Statements

## 16. Investment property

| **For the year ended 31 December** | **2010** | **2009** |
|---|---|---|
| *In thousands of Polish Zlotys (PLN)* | | |
| Balance at 1 January | 8,740 | - |
| Transferred from long-term finance lease receivable | - | 638 |
| Acquisitions | - | 2,500 |
| Change in fair value during the year | - | 5,602 |
| **Balance as at 31 December, including:** | **8,740** | **8,740** |
| ***Cost*** | ***3,138*** | ***3,138*** |
| ***Fair value adjustments*** | ***5,602*** | ***5,602*** |

As at 31 December 2010, the investment property included property held for long-term rental yields and capital appreciation, and were not occupied by the Group. The investment property consists of a plot of land in Warsaw (71, Gwiaździsta Street) and an office building with an aggregate usable floor space of 1,400 $m^2$ located on this plot that leased to third parties under lease agreements with an indefinite term subject to a three-month notice period for termination.

Investment property is valued at fair value determined annually by an independent appraiser, having an appropriate recognized professional qualification as well as the Management assessment, based on current prices on an active market. Investment property was valued based on the discounted cash flow approach, including the assumption as to the annual yield of 7.5%.

The continued instability in the financial markets causes volatility and uncertainty in the world's capital markets and real estate markets. There is a low liquidity level in the real estate market and transaction volumes have significantly reduced, resulting in a lack of clarity as to pricing levels and market drivers. As a result, there is less certainty with regard to valuations and market values can change rapidly due to the current market conditions.

The investment property is currently occupied.

## 17. Loans granted to third parties

The loans are granted to the joint venture. The loans mature in December 2016 and bear an interest calculated at the beginning of each quarter based on the latest interest rate as charged on the construction credit/loan granted by the banks to the Group and increased by 2%. As at 31 December 2010, the loans included PLN 542 thousand as nominal loan amount and PLN 2 thousand as accrued interest.

# Notes to the Consolidated Financial Statements

## 18. Deferred tax assets and liabilities

### Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities as at the beginning and end of the financial periods are attributable to the following:

| *In thousands of Polish Zlotys (PLN)* | **Opening balance 1 January 2010** | **Recognized in the statement of comprehensive income** | **Share in deferred tax of a joint venture** | **Closing balance 31 December 2010** |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| Tax loss carry forward | 12,908 | (4,637) | 114 | 8,385 |
| Accrued interest | 1,419 | (1,339) | - | 80 |
| Accrued expense | 80 | 306 | - | 386 |
| Other | 487 | 233 | - | 720 |
| **Total deferred tax assets** | **14,894** | **(5,437)** | **114** | **9,571** |
| | | | | |
| **Deferred tax liabilities** | | | | |
| Difference between tax base and carrying value of inventory | 16,360 | (6,021) | 55 | 10,394 |
| Fair value gain on investment property | 1,064 | - | - | 1,064 |
| **Total deferred tax liabilities** | **17,424** | **(6,021)** | **55** | **11,458** |
| | | | | |
| **Total deferred tax benefit (see Note 14)** | | **(584)** | | |
| | | | | |
| Deferred tax assets | 14,894 | | | 9,571 |
| Deferred tax liabilities | 17,424 | | | 11,458 |
| Offset of deferred tax assets and liabilities for individual companies | (11,003) | | | (6,127) |
| **Deferred tax assets reported in the statement of financial position** | **3,891** | | | **3,444** |
| **Deferred tax liabilities reported in the statement of financial position** | **6,421** | | | **5,331** |

### The tax losses carried forward expire in the following years:

| *In thousands of Polish Zlotys (PLN)* | **As at 31 December 2010** |
|---|---|
| 2011 | - |
| 2012 | 25 |
| 2013 | 3,904 |
| 2014 | 3,233 |
| 2015 | 1,223 |
| After 2015 | - |
| **Total deferred tax asset in respect of tax losses carried forward** | **8,385** |

# Notes to the Consolidated Financial Statements

## 18. Deferred tax assets and liabilities (cont'd)

| *In thousands of Polish Zlotys (PLN)* | **Opening balance 1 January 2009** | **Recognized in the statement of comprehensive income** | **Closing balance 31 December 2009** |
|---|---|---|---|
| **Deferred tax assets** | | | |
| Tax losses carried forward | 9,973 | 2,935 | 12,908 |
| Accrued interest | 995 | 424 | 1,419 |
| Accrued expense | 52 | 28 | 80 |
| Other | 174 | 313 | 487 |
| **Total deferred tax assets** | **11,194** | **3,700** | **14,894** |
| | | | |
| **Deferred tax liabilities** | | | |
| Difference between tax base and carrying value of inventory | 12,372 | 3,988 | 16,360 |
| Fair value gain on investment property | - | 1,064 | 1,064 |
| **Total deferred tax liabilities** | **12,372** | **5,052** | **17,424** |
| | | | |
| **Total deferred tax expense (see Note 14)** | | **1,352** | |
| | | | |
| Deferred tax assets | 11,194 | | 14,894 |
| Deferred tax liabilities | 12,372 | | 17,424 |
| Offset of deferred tax assets and liabilities for individual companies | (9,045) | | (11,478) |
| **Deferred tax assets reported in the statement of financial position** | **2,149** | | **3,891** |
| **Deferred tax liabilities reported in the statement of financial position** | **3,327** | | **6,421** |

### Unrecognized deferred tax liabilities

There are no unrecognized deferred tax liabilities.

### Unrecognized deferred tax assets

A deferred tax asset is recognized only to the extent that it is more likely than not that future taxable profits will be available against which the asset can be utilized. Unrecognized deferred tax assets relate primarily to tax loss carry-forwards, which are not considered probable of realization prior to their expiration.

# Notes to the Consolidated Financial Statements

## 18. Deferred tax assets and liabilities (cont'd)

### Realization of deferred tax assets

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. In order to fully realize the deferred tax asset (before offsetting against deferred tax liability), the Group will need to generate future taxable income of approximately PLN 50,374 thousand. Taxable profit realized by the Group companies amounted to PLN 15,337 thousand for the year ended 31 December 2010. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Group will realize the benefits of these deductible differences. The amount of the deferred tax asset which is considered realizable, could however be reduced in the near term if estimates of future taxable income during the tax loss carry-forward period are reduced.

Tax losses in Poland are required to be utilized within 5 years following the period in which they originated, subject to the limitation that a maximum of 50% of the loss carry-forward can be used in one year. Tax losses in the Netherlands are required to be utilized within 9 years following the period in which they originated.

### Movement in unrecognized deferred tax assets

*Unrecognized deferred tax assets in Poland*

| *In thousands of Polish Zlotys (PLN)* | Balance 01 January 2009 | Tax losses expired | Additions/ (Realizations) | Balance 31 December 2009 | Tax losses expired | Additions/ (Realizations) | Balance 31 December 2010 |
|---|---|---|---|---|---|---|---|
| Tax losses | 553 | (298) | (164) | 91 | (128) | 4,144 | 4,107 |
| **Total** | **553** | **(298)** | **(164)** | **91** | **(128)** | **4,144** | **4,107** |

*Unrecognized deferred tax assets in the Netherlands*

| | Balance 01 January 2009 | | Realizations | | Balance 31 December 2009 | | Realizations | | Balance 31 December 2010 | |
|---|---|---|---|---|---|---|---|---|---|---|
| *In thousands of Polish Zlotys* | PLN | EUR | PLN | EUR | PLN | EUR | PLN | EUR | PLN | EUR |
| Tax losses | 4,014 | 962 | (422) | (88) | 3,592 | 874 | (1,572) | (364) | 2,020 | 510 |
| **Total** | **4,014** | **962** | **(422)** | **(88)** | **3,592** | **874** | **(1,572)** | **(364)** | **2,020** | **510** |

*Tax losses carried forward in Poland*

| As at 31 December | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| *In thousands of Polish Zlotys (PLN)* | Recognized tax losses | Unrecognized tax losses | Total tax losses | Recognized tax losses | Unrecognize d tax losses | Total tax losses |
| Tax loss 2005 carried forward | - | - | - | 566 | - | 566 |
| Tax loss 2006 carried forward | - | 2,888 | 2,888 | 5,377 | 44 | 5,421 |
| Tax loss 2007 carried forward | 129 | 7,413 | 7,542 | 11,602 | 234 | 11,836 |
| Tax loss 2008 carried forward | 9,979 | 10,271 | 20,250 | 27,033 | 121 | 27,154 |
| Tax loss 2009 carried forward | 21,150 | 936 | 22,086 | 23,360 | 80 | 23,440 |
| Tax loss 2010 carried forward | 12,877 | 106 | 12,983 | - | - | - |
| **Total tax losses carried forward** | **44,135** | **21,614** | **65,749** | **67,938** | **479** | **68,417** |

# Notes to the Consolidated Financial Statements

## 18. Deferred tax assets and liabilities (cont'd)

### Tax losses carry forward

*Tax losses carried forward in the Netherlands*

| As at 31 December | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| *In thousands of EUR* | Recognized tax losses | Unrecognized tax losses | Total tax losses | Recognized tax losses | Unrecognized tax losses | Total tax losses |
| Tax loss 2007 carried forward | - | 1,313 | 1,313 | - | 2,741 | 2,741 |
| Tax loss 2008 carried forward | - | 688 | 688 | - | 688 | 688 |
| **Total tax losses carried forward** | **-** | **2,001** | **2,001** | **-** | **3,429** | **3,429** |

| As at 31 December | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| *In thousands of Polish Zlotys (PLN)* | Recognized tax losses | Unrecognized tax losses | Total tax losses | Recognized tax losses | Unrecognized tax losses | Total tax losses |
| Tax loss 2007 carried forward | - | 5,198 | 5,198 | - | 11,261 | 11,261 |
| Tax loss 2008 carried forward | - | 2,725 | 2,725 | - | 2,826 | 2,826 |
| **Total tax losses carried forward** | **-** | **7,923** | **7,923** | **-** | **14,087** | **14,087** |

## 19. Inventory

### For the year ended 31 December 2010:

| *In thousands of Polish Zlotys (PLN)* | Opening balance 01 January 2010 | Transferred to property and equipment[(1)] | Share in work in progress of a joint venture | Transferred to finished goods | Additions | Closing balance 31 December 2010 |
|---|---|---|---|---|---|---|
| Land and related expense | 389,730 | (554) | 12,402 | (29,403) | 8,082 | 380,257 |
| Construction costs | 138,448 | (4,877) | - | (151,708) | 41,206 | 23,069 |
| Planning and permits | 18,984 | (120) | 117 | (4,959) | 3,823 | 17,845 |
| Borrowing costs [(2)] | 40,997 | (198) | 289 | (8,038) | 14,369 | 47,419 |
| Other | 4,331 | (54) | 174 | (2,191) | (44) | 2,216 |
| ***Work in progress*** | **592,490** | **(5,803)** | **12,982** | **(196,299)** | **67,436** | **470,806** |

| *In thousands of Polish Zlotys (PLN)* | Opening balance 01 January 2010 | Transferred from work in progress | Recognized in the statement of comprehensive income | Closing balance 31 December 2010 |
|---|---|---|---|---|
| ***Finished goods*** | **53,763** | **196,299** | **(175,452)** | **74,610** |

| *In thousands of Polish Zlotys (PLN)* | Opening balance 01 January 2010 | Revaluation write down recognized in statement of comprehensive income: Increase | Revaluation write down recognized in statement of comprehensive income: Release | Closing balance 31 December 2010 |
|---|---|---|---|---|
| ***Write-down*** | **-** | **(2,188)** | **301** | **(1,887)** |

| | | |
|---|---|---|
| **Total inventories at the lower of cost or net realizable value** | **646,253** | **543,529** |

*(1) For additional information see note 15.*

*(2) Borrowing costs are capitalized to the value of inventory with 6.9% average effective capitalization interest rate.*

# Notes to the Consolidated Financial Statements

## 19. Inventory (cont'd)

### For the year ended 31 December 2009:

| *In thousands of Polish Zlotys (PLN)* | Opening balance 01 January 2009 | Transferred to property and equipment [1] | Transferred to finished goods | Additions | Closing balance 31 December 2009 |
|---|---|---|---|---|---|
| Land and related expenses | 408,098 | (108) | (23,729) | 5,469 | 389,730 |
| Construction costs | 107,595 | (510) | (83,128) | 114,491 | 138,448 |
| Planning and permits | 13,627 | (12) | (2,028) | 7,397 | 18,984 |
| Borrowing costs [2] | 29,243 | (39) | (6,131) | 17,924 | 40,997 |
| Other | 7,579 | (13) | (2,970) | (265) | 4,331 |
| ***Work in progress*** | **566,142** | **(682)** | **(117,986)** | **145,016** | **592,490** |

| *In thousands of Polish Zlotys (PLN)* | Opening balance 01 January 2009 | Transferred from work in progress | Recognized in the statement of comprehensive income | Closing balance 31 December 2009 |
|---|---|---|---|---|
| ***Finished goods*** | **10,868** | **117,986** | **(75,091)** | **53,763** |

| *In thousands of Polish Zlotys (PLN)* | Opening balance 01 January 2009 | Revaluation write down recognized in statement of comprehensive income | | Closing balance 31 December 2009 |
|---|---|---|---|---|
| | | Increase | Release | |
| ***Write-down*** | **-** | **(127)** | **127** | **-** |
| **Total inventories at the lower of cost or net realizable value** | **577,010** | | | **646,253** |

*(1) For additional information see note 15.*

*(2) Borrowing costs are capitalized to the value of inventory with 7.5% average effective capitalization interest rate.*

### Write-down revaluating the inventory:

In view of the market situation in the property market in which the Group operates, during the year ended 31 December 2010 and 2009 the Group took a particularly rigorous approach to the inventory review with regard to its valuation to net realisable value. As a result, the Group made a write-down adjustment in the total amount of PLN 2,188 thousand and PLN 127 thousand, respectively which amount is included as part of cost of sales in the Consolidated Statement of Comprehensive Income.

### The valuation of Inventory is as follows:

| **As at 31 December**<br>*In thousands of Polish Zlotys (PLN)* | **2010** | **2009** |
|---|---|---|
| Valued at cost | 530,624 | 646,253 |
| Valued at net realizable value | 12,905 | - |
| **Total inventory** | **543,529** | **646,253** |

# Notes to the Consolidated Financial Statements

## 19. Inventory (cont'd)

### Balance sheet value of inventory used to secure loans received from banks (mortgage):

| **As at 31 December**<br>*In thousands of Polish Zlotys (PLN)* | **2010** | **2009** |
|---|---|---|
| **Balance sheet value of inventory** | **314,374** | **442,331** |
| **Amount of secured bank loans** | **123,914** | **188,678** |

For information about future commitments to the general contractor for construction services related to inventory construction, see Note 30.

## 20. Trade and other receivables and prepayments

| **As at 31 December**<br>*In thousands of Polish Zlotys (PLN)* | **2010** | **2009** |
|---|---|---|
| Value added tax (VAT) receivables | 4,968 | 5,303 |
| Trade and other receivables | 1,761 | 1,636 |
| Prepayments | 505 | 545 |
| Receivables from notary deposit | 6,046 | - |
| Claims receivable (1) | - | 12,400 |
| **Total** | **13,280** | **19,884** |

*(1) For addition information see note 37 'Events during the financial year – Aurora'.*

As at 31 December 2010 and 31 December 2009, the Group had no allowance for doubtful debts.
During the year ended 31 December 2010, the Group wrote-down an amount of PLN 1,543 thousand as a irrecoverable bad debt included in Trade and other receivables.

## 21. Short-term bank deposits - collateralized

| **As at 31 December**<br>*In thousands of Polish Zlotys (PLN)* | **2010** | **2009** |
|---|---|---|
| Deposits collateral for securing the repayment of interest related to the credit facilities provided to the Group | 1,585 | 3,421 |
| Deposits collateral for construction loans | - | 1,649 |
| **Total** | **1,585** | **5,070** |

The interest rates earned on these deposits vary from 2% to 3% on an annual basis.

For information about the fair value of short-term bank deposits - collateralized see Note 29.

For information about the pledge over short term bank deposits see Note 25.

# Notes to the Consolidated Financial Statements

## 22. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits freely available for the Group. Cash at bank comprises of overnight deposits, the short-term deposits have an original maturity varying from one day to three months.

| **As at 31 December** <br> *In thousands of Polish Zlotys (PLN)* | **2010** | **2009** |
|---|---|---|
| Cash at bank and in hand | 66,159 | 5,854 |
| Short-term deposit | 28,729 | 52,190 |
| **Cash and cash equivalents** | **94,888** | **58,044** |

Cash at bank earns interest at floating rates based on daily bank deposit rates. As at 31 December 2010 and 31 December 2009, the Group held deposits amounting to PLN 61,668 thousand and PLN 4,114 thousand, respectively, in overnight deposits and in saving accounts that earn interest rates varying between 2% - 4%. Short-term deposits have a duration varying between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates varying between 3% - 4%.

For information about the fair value of cash and cash equivalents see Note 29.

For information about the pledge over cash and cash equivalents see Note 25.

## 23. Shareholders' equity

### A. Share capital

The authorized share capital of the Company consists of 800,000,000 shares of EUR 0.02 par value each. The number of issued and outstanding ordinary shares as at 31 December 2010 amounted to 272,360,000 (as at 31 December 2009: 272,360,000 shares).

On 22 October 2009, the Company issued 45,393,333 new shares, including 22,696,667 new shares issued as a result of the conversion of the same number of warrants convertible to shares issued on the same day. The warrants were offered free of charge in a form of a private placement to selected investors who on 22 October 2009 subscribed for the Warrants and exercised their rights to subscribe for new shares. The gross proceeds from the new shares issued on 22 October 2009 amounted to PLN 72,629 thousand, whereas the costs attributable to the issue of new shares assumed by the Company amounted to PLN 1,052 thousand. As a result, the net proceeds from the new shares issued amounted to PLN 71,577 thousand.

### B. Share premium

| **For the year ended 31 December** <br> *In thousands of Polish Zlotys (PLN)* | **2010** | **2009** |
|---|---|---|
| **Balance at the beginning of the year** | **282,873** | **215,105** |
| Net proceeds of new shares issued in excess of par value (1) | - | 67,768 |
| **Balance at the end of the year** | **282,873** | **282,873** |

*(1) This represents the proceeds above par from the 45,393,333 new shares, issued on 22 October 2009. The net proceeds from the new shares issued on 22 October 2009 amounted to PLN 71,577 thousand, whereas the par value of the 45,393,333 shares amounted to PLN 3,809 thousand.*

# Notes to the Consolidated Financial Statements

## 23. Shareholders' equity (cont'd)

### C. Share-based payments

During the fourth quarter of 2007, a long-term incentive plan (the 'Plan') was implemented. The persons eligible for participation in the Plan are the employees of the Group, including the members of the Management Board. Under the Plan, share options are granted to members of the Management Board and selected employees. The exercise price of the granted options is determined by the Supervisory Board on the date of granting the share options and shall not be less than the fair market value at the time of the grant of the options. Options are conditional on the employee being employed or Board members at the time the options are exercisable (vesting period) and can only be settled in shares. Options granted shall vest over three and five years, one third and one fifth in each year after one year from the date of grant, respectively.

On 5 November 2007, a total of 1,900,000 options with an exercise price of PLN 5.75 per share were granted to selected employees of the Company. Of the above total, 700,000 options will vest over a three year period and the remaining 1,200,000 options will vest over five years, while having an optional term of five and seven years, respectively. The latter options were granted to Mr Dror Kerem, the former President of the Management Board and the former Chief Executive Officer of the Company.

During the year ended 31 December 2010, the selected employees that joined the option programme (granted in 2007) had not exercised any of their options. Following the resignation of key management employees during 2008 and 2009, a total of 1,260,667 options ceased to exist. The details regarding the number of the options outstanding as of 31 December 2010 are provided below:

| | Number of options | | | |
|---|---|---|---|---|
| **Vesting dates** | **Granted** | **Exercised** | **Cancelled** | **Outstanding** |
| 5 November 2008 | 473,333 | - | (50,000) | 423,333 |
| 5 November 2009 | 473,333 | - | (317,333) | 156,000 |
| 5 November 2010 | 473,334 | - | (413,334) | 60,000 |
| 5 November 2011 | 240,000 | - | (240,000) | - |
| 5 November 2012 | 240,000 | - | (240,000) | - |
| **Total** | **1,900,000** | **-** | **(1,260,667)** | **639,333** |

The weighted average fair value of options granted in 2007 using the Black-Scholes valuation model was approximately PLN 2.75 per option. The significant inputs into the model were a weighted average share price of PLN 5.75 at the grant date, the exercise price mentioned above, volatility of 50%, dividend yield of 0%, an option life of five years and seven years, an annual risk free rate of 6% and estimation that 70% from the employed will implement the options.

The cost impact of the share-based payment on the financial statements of the Company was an expense of PLN 68 thousand for the year ended 31 December 2010 (year ended 31 December 2009: PLN 124 thousand) recognized in the statement of comprehensive income with a corresponding increase in equity.

# Notes to the Consolidated Financial Statements

## 24. Net earnings per share

### Basic and diluted earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share amounts are calculated by dividing the net profit for the year by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive instruments into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

#### Weighted average number of ordinary shares (basic):

| For the year ended 31 December | 2010 | 2009 |
|---|---|---|
| Net profit (PLN thousands) | 35,091 | 21,034 |
| Balance at beginning of the period | 272,360,000 | 226,966,667 |
| Effect of new shares issued during the period | - | 8,705,571 |
| **Weighted average number of ordinary shares (basic)** | **272,360,000** | **235,672,238** |
| **Basic earnings per share** | **0.129** | **0.089** |

#### Weighted average number of ordinary shares (diluted):

| For the year ended 31 December | 2010 | 2009 |
|---|---|---|
| Net profit (PLN thousands) | 35,091 | 21,034 |
| Weighted average number of ordinary shares (basic) | 272,360,000 | 235,672,238 |
| Effect of shares options on issue | 639,333 | 639,333 |
| **Weighted average number of ordinary shares (diluted)** | **272,999,333** | **236,311,571** |
| **Diluted earnings per share** | **0.129** | **0.089** |

There have been no other transactions involving ordinary shares between the reporting date and the date of completion of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

## 25. Loans and borrowings

Information about the contractual terms of the Group's interest-bearing loans and borrowings is presented in the table below. For more information about the Group's exposure to interest rate and foreign currency risk, see Note 33.

| **As at 31 December** | **2010** | **2009** |
|---|---|---|
| *In thousands of Polish Zlotys (PLN)* | | |
| **Non-current loans and borrowings** | | |
| Loans from related parties | - | 52,948 |
| Secured bank loans | 49,213 | 54,346 |
| Loans from third parties | 4,032 | - |
| **Total non-current loans and borrowings** | **53,245** | **107,294** |
| **Current loans and borrowings** | | |
| Loans from related parties | 53,218 | 7,381 |
| Secured bank loans | 74,701 | 134,332 |
| Loans from third parties | 1,311 | - |
| **Total current loans and borrowings** | **129,230** | **141,713** |
| **Total loans and borrowings** | **182,475** | **249,007** |

### Covenants on secured bank loans:

As at 31 December 2010 and 2009, the Company has not breached any loan covenant, which would expose the Company for risk of obligatory and immediate repayment of any loan and has been able to extend all expiring loan facilities

# Notes to the Consolidated Financial Statements

## 25. Loans and borrowings (cont'd)

### Terms and debt repayment schedule

Terms and conditions of outstanding loans are as follows:

**Loans as at 31 December 2010:**

| *In thousands of Polish Zlotys (PLN)* | Currency | Nominal interest rate | Year of maturity | Capital | Accrued interest | Bank Charges | Carrying value |
|---|---|---|---|---|---|---|---|
| I.T.R. Dori B.V. | PLN | 6% | 2011 | 42,610 | 217 | - | 42,827 |
| Gator Investments Sp. z o.o. | PLN | 6% | 2011 | 10,338 | 53 | - | 10,391 |
| **Subtotal (related parties)** | | | | **52,948** | **270** | **-** | **53,218** |
| Bank Loans | PLN | Wibor 1M + Bank's margin | 2011 | 17,150 | 88 | - | 17,238 |
| Bank Loans | PLN | Wibor 3M + Bank's margin | 2011 | 57,407 | 63 | (7) | 57,463 |
| Bank Loans | PLN | Wibor 1M + Bank's margin | 2012 | 29,361 | - | (92) | 29,269 |
| Bank Loans | PLN | Wibor 3M + Bank's margin | 2013 | 20,043 | - | (99) | 19,944 |
| **Subtotal (bank )** | | | | **123,961** | **151** | **(198)** | **123,914** |
| Loans from partner in jointly controlled entity (Landex) | PLN | 8% | 2011 | 1,102 | 209 | - | 1,311 |
| Loans from partner in jointly controlled entity (Landex) (2) | PLN | 8.5% (1) | 2016 | 4,025 | 7 | - | 4,032 |
| **Subtotal (third parties)** | | | | **5,127** | **216** | **-** | **5,343** |
| **Total** | | | | **182,036** | **637** | **(198)** | **182,475** |

(1) *Interest based on the latest interest rate as charged on the construction credit/loan granted by the banks to the Group and increased by 2%, and updated at the beginning of each quarter.*
(2) *For additional information see note 36.*

# Notes to the Consolidated Financial Statements

## 25. Loans and borrowings (cont'd)

### Loans as at 31 December 2009:

| *In thousands of Polish Zlotys (PLN)* | Currency | Nominal interest rate | Year of maturity | Capital | Accrued interest | Bank charges | Carrying value |
|---|---|---|---|---|---|---|---|
| I.T.R. Dori B.V. (1) | PLN | | 2011 | - | 5,901 | - | 5,901 |
| Gator Investments Sp. z o.o. | PLN | | 2011 | - | 1,480 | - | 1,480 |
| I.T.R. Dori B.V. (1) | PLN | 6% | 2011 | 42,610 | - | - | 42,610 |
| Gator Investments Sp. z o.o. | PLN | 6% | 2011 | 10,338 | - | - | 10,338 |
| **Subtotal (related parties)** | | | | **52,948** | **7,381** | **-** | **60,329** |
| Bank Loans | PLN | WIBOR 1M + Bank's margin | 2011 | 50,550 | - | (535) | 50,015 |
| Bank Loans | PLN | WIBOR 3M + Bank's margin | 2011 | 84,288 | 73 | (44) | 84,317 |
| Bank Loans | PLN | WIBOR 1M + Bank's margin | 2011 | 34,924 | 87 | (509) | 34,502 |
| Bank Loans | PLN | WIBOR 3M + Bank's margin | 2011 | 20,043 | 4 | (203) | 19,844 |
| **Subtotal (bank )** | | | | **189,805** | **164** | **(1,291)** | **188,678** |
| **Total** | | | | **242,753** | **7,545** | **(1,291)** | **249,007** |

(1) *Until 24 December 2009, this related party loan was due to Jeruzalem Finance Company B.V., a Dutch limited liability company owned by the same parties which are the shareholders of the Company's parent company, I.T.R. Dori B.V. Following a transfer of the 100% ownership in Jeruzalem Finance Company B.V. to I.T.R. Dori B.V. and subsequently, a legal merger between I.T.R. Dori B.V. and Jeruzalem Finance Company B.V. on 24 December 2009, whereby Jeruzalem Finance Company B.V. ceased to exist, the loan was assumed by I.T.R. Dori B.V.*

**For the bank loans the following collateral was given:**

- Ordinary and floating mortgages on Inventory (of real estate units), see Note 19.
- Pledge over bank accounts which are presented in the Consolidated Statement of Financial Position as Cash and cash equivalents up to the amounts/instalments due amounting to PLN 1,115 thousand and PLN 4,510 thousand as at 31 December 2010 and 31 December 2009, respectively.
- Deposits guarantee for interests on credits, see Note 21.
- Assignment of receivables arising from insurance agreement and from the agreements concluded with clients.
- Subordination agreement on loans from related parties.
- Blank promissory note drawn by particular subsidiary companies with a promissory note declaration up to the amount of the loan plus interest.
- Advance payments of dividends until full repayment of loans are not allowed.

## 26. Trade and other payables and accrued expenses

| **As at 31 December**<br>*In thousands of Polish Zlotys (PLN)* | **2010** | **2009** |
|---|---|---|
| Trade payables | 9,952 | 13,006 |
| Guarantees for construction work | 3,044 | 6,987 |
| Accrues expenses | 3,900 | 6,123 |
| Value added tax (VAT) and other tax payables | 929 | 1,009 |
| Non-trade payables | 1,128 | 604 |
| **Total** | **18,953** | **27,729** |

Trade and non-trade payables are non-interest bearing and are normally settled on 30-day terms.

# Notes to the Consolidated Financial Statements

## 27. Advances received

Advances received consist of customer advances for construction work in progress (deferred revenue) and comprise customer advances for the following projects:

| **As at 31 December** | **2010** | **2009** |
|---|---|---|
| *In thousands of Polish Zlotys (PLN)* | | |
| Imaginarium III | 12,290 | - |
| Constans I+II | 6,910 | 3,977 |
| Nautica | 6,598 | 31,237 |
| Gardenia | 6,497 | - |
| Gemini I | 4,071 | 22,568 |
| Galileo | 3,082 | 5,799 |
| Imaginarium II | 2,036 | 7,699 |
| Sakura I | 1,247 | - |
| Imaginarium I | 612 | 546 |
| Verdis I | 471 | - |
| Naturalis | 374 | |
| Impressio I | 69 | - |
| Meridian | - | 1,459 |
| Other | 90 | 82 |
| **Total** | **44,347** | **73,367** |

For information about contingent receivables from signed contacts with clients, see Note 30.

## 28. Provisions

| **For the year ended 31 December** | **2010** | **2009** |
|---|---|---|
| *In thousands of Polish Zlotys (PLN)* | | |
| **Balance at the beginning of the year** | **3,086** | **3,144** |
| Increase/(decrease) | 3,418 | (58) |
| **Balance at the end of the year** | **6,504** | **3,086** |

As at 31 December 2010, the provision includes:

- expected costs of development of certain plots of land owned by the Group according to the conditions imposed by local authorities amounting to PLN 5,650 thousand;
- expected necessary costs of guarantees for construction works amounting to PLN 220 thousand;
- expected corporate tax expenses in relation to a dispute between one of the Company's subsidiaries and the local tax authorities in Poland amounting to PLN 634 thousand.

As at 31 December 2009, the provision included:

- expected costs of development of certain plots of land owned by the Group according to the conditions imposed by local authorities amounting to PLN 2,480 thousand;
- expected corporate tax expenses in relation to a dispute between one of the Company's subsidiaries and the local tax authorities in Poland amounting to PLN 606 thousand.

# Notes to the Consolidated Financial Statements

## 29. Fair value estimation

The fair values of financial assets and liabilities, together with the carrying amounts shown in the Consolidated Statement of Financial Position, are as follows:

| *In thousands of Polish Zlotys (PLN)* | *Category* | *Note* | As at 31 December 2010 Carrying amount | Fair value |
|---|---|---|---|---|
| **Assets:** | | | | |
| Trade and other receivables and notary deposits | *Loans and receivables* | *20* | 7,807 | 7,807 |
| Short-term bank deposits – collateralized | *Loans and receivables* | *21* | 1,585 | 1,575 |
| Loans granted to third parties | *Loans and receivables* | *17* | 544 | 584 |
| Cash and cash equivalents | *Held for trading* | *22* | 94,888 | 94,888 |
| **Liabilities:** | | | | |
| Secured bank loans | *Other financial liabilities* | *25* | 123,914 | 124,109 |
| Loans from related parties | *Other financial liabilities* | *25* | 53,218 | 52,776 |
| Loans from third parties | *Other financial liabilities* | *25* | 5,343 | 5,632 |
| Trade and other payables and accrued expenses | *Other financial liabilities* | *26* | 18,024 | 18,024 |
| **Unrecognized gain** | | | | **(12)** |

| *In thousands of Polish Zlotys (PLN)* | *Category* | *Note* | As at 31 December 2009 Carrying amount | Fair value |
|---|---|---|---|---|
| **Assets:** | | | | |
| Trade and other receivables | *Loans and receivables* | *20* | 14,036 | 14,036 |
| Short-term bank deposits – collateralized | *Loans and receivables* | *21* | 5,070 | 5,040 |
| Cash and cash equivalents | *Held for trading* | *22* | 58,044 | 58,044 |
| **Liabilities:** | | | | |
| Secured bank loans | *Other financial liabilities* | *25* | 188,678 | 188,764 |
| Loan from related parties | *Other financial liabilities* | *25* | 60,329 | 59,935 |
| Trade and other payables and accrued expenses | *Other financial liabilities* | *26* | 26,720 | 26,720 |
| **Unrecognized gain** | | | | **278** |

### Estimation of fair values

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- trade and other receivables, cash and cash equivalents and trade and other payables: the carrying amounts approximate fair value because of the short maturity of these instruments;
- short-term bank deposit - collateralized: the fair value is estimated by discounting the future cash flows of each instrument at rates currently offered to the Group for similar instruments of comparable maturities by the Group's bankers;
- loans and borrowings: the fair value is estimated by discounting the future cash flows of each instrument at rates currently offered to the Group for similar instruments of comparable maturities by the Group's bankers.

### Interest rates used for determining fair value

The interest rates used to discount estimated cash flows (PLN denominated), where applicable, are based on WIBOR plus/minus margin as at 31 December 2010 and 31 December 2009 and are as follows:

| **As at 31 December** | **2010** | **2009** |
|---|---|---|
| Loans and borrowings | 6.86% | 7.27% |
| Short-term bank deposits – collateralized | 4.00% | 4.00% |

# Notes to the Consolidated Financial Statements

## 30. Commitments and contingencies

### Investment commitments:

The amounts in the table below present uncharged investment commitments of the Group in respect of construction services to be rendered by the general contractors:

| **For the year ended 31 December**<br>*In thousands of Polish Zlotys (PLN)* | **2010** | **2009** |
|---|---|---|
| Sakura | 25,286 | - |
| Imaginarium III | 8,224 | - |
| Naturalis I | 8,107 | - |
| Naturalis II | 11,149 | - |
| Nautica II | 1,359 | - |
| Impressio I | 14,939 | - |
| Verdis | 35,177 | - |
| Essentia | 15,946 | - |
| Constans | 702 | 1,934 |
| Nautica | - | 7,410 |
| Gemini | - | 11,211 |
| **Total** | **120,889** | **20,555** |

The increase in the investment commitments related to the increase in the number of new projects commenced during 2010 in comparison to the number of projects commenced in 2009.

### Other commitments:

According to the conditions of the termination agreement concluded with Mr Kerem on 3 September 2008, the consulting agreement between him and the Company and its subsidiary expired as of end of March 2009 (‘Expiration Date’). As at the Expiration Date of the consulting agreement, Mr Kerem is entitled to a bonus equal to 0.5% of the pre-tax profits generated by projects that were owned by the Company as of the expiration date. This concerns however only those projects which are based on the plots of land with validated zoning conditions or with the valid master plans. Moreover, Mr Kerem is entitled to an additional bonus equal to 2.5% of the pre-tax profit generated by the projects that were in construction or were completed as of the Expiration Date

### Contingent liabilities:

As at 31 December 2010, the Group did not have any contingents liabilities.

# Notes to the Consolidated Financial Statements

## 30. Commitments and contingencies (cont'd)

### Contingent receivables - contracted sales not yet recognized:

The table below presents amounts to be received from the customers having bought apartments from Ronson subsidiary companies and which are based on the value of the sale and purchase agreements signed with the clients until 31 December 2010 after deduction of payments received at reporting date (such payments being presented in the Consolidated Statement of Financial Position as Advances received):

| **For the year ended 31 December**<br>*In thousands of Polish Zlotys (PLN)* | **2010** | **2009** |
|---|---|---|
| Imaginarium III | 13,417 | - |
| Galileo | 6,697 | 9,043 |
| Sakura I | 5,435 | - |
| Verdis I | 3,139 | - |
| Gardenia | 2,996 | - |
| Constans | 2,711 | 336 |
| Naturalis I | 2,124 | - |
| Nautica | 703 | 31,067 |
| Impressio I | 632 | - |
| Gemini | 415 | 32,003 |
| Imaginarium II | 124 | 4,772 |
| Meridian | - | 7 |
| **Total** | **38,393** | **77,228** |

## 31. Related parties

### Parent company

The Company enters into various transactions with its shareholders, subsidiaries and with its directors and executive officers. The Company's immediate shareholders are I.T.R. Dori B.V. ('ITR Dori') and GE Real Estate CE Residential B.V, with an interest in shares in the Company's capital of 64.2% and 15.3%, respectively, as at 31 December 2010. For a list of subsidiaries reference is made to Note 1(b).
The main related parties' transactions arise on:

- loans received,
- transactions with key management personnel,
- shares and share options.

### Loans received

During the year ended 31 December 2010, the Group repaid loans from related parties amounting to PLN 10,288 thousand, comprising only accrued interest, and did not receive any loans from related parties in this period. During the year ended 31 December 2009, the Group repaid loans from related parties amounting to PLN 467 thousand, comprising only accrued interest, and did not receive any loans from related parties in this period. For further information see Note 25.

### Transactions with key management personnel

As at 31 December 2010, key management personnel of the Company include:

**Shraga Weisman** - President of the Management Board, Chief Executive Officer
**Tomasz Łapiński -** Member of the Management Board, Chief Financial Officer
**Andrzej Gutowski -** Member of the Management Board, Sales and Marketing Director
**David Katz** - Member of the Management Board
**Karol Pilniewicz** - Member of the Management Board
**Amos Weltsch** - Member of the Management Board

# Notes to the Consolidated Financial Statements

## 31. Related parties (cont'd)

### Loans to directors

As at 31 December 2010 and 31 December 2009, there were no loans granted to directors.

### Key management personnel compensation

Apart from the compensation listed below, there were no further benefits, including share based payments granted to key management personnel in the periods ended 31 December 2010 and 31 December 2009. Key management personnel compensation can be presented as follows:

| **As at 31 December** | **2010** | **2009** |
|---|---|---|
| *In thousands of Polish Zlotys (PLN)* | | |
| *Mr. Shraga Weisman, Chief Executive Officer* | | |
| Salary and other short term employee benefits | 1,466 | 1,109 |
| Management bonus | 1,157 | 1,547 |
| ***Subtotal - Mr. Shraga Weisman*** | **2,623** | **2,656** |
| *Mr. Tomasz Łapiński, Chief Financial Officer* | | |
| Salary and other short term employee benefits | 488 | 454 |
| Management bonus | 353 | 280 |
| ***Subtotal - Mr. Tomasz Łapiński*** | **841** | **734** |
| *Mr. Andrzej Gutowski, Sales and Marketing Director* | | |
| Salary and other short term employee benefits | 249 | 248 |
| Management bonus | 112 | 175 |
| ***Subtotal - Mr. Andrzej Gutowski*** | **361** | **423** |
| *Mr. Dror Kerem, former Chief Executive Officer* | | |
| Salary and other short term employee benefits | - | 334 |
| Management bonus | - | 110 |
| Compensation for termination of employment contract | 520 | 464 |
| ***Subtotal - Mr. Dror Kerem*** | **520** | **908** |
| **Total** | **4,345** | **4,721** |

### Supervisory Board remuneration

The Supervisory Board of the Company consists of 6 members; the supervisory directors are entitled to an annual fee of EUR 8,500 plus an amount of EUR 1,500 per board meeting (EUR 750 if attendance is by telephone). Two Supervisory Board members including the Chairman of the Supervisory Board have waived their remuneration and thus did not receive any payment from the Company. The total amount due in respect of Supervisory Board fees during 2010 is PLN 179 thousand (EUR 45 thousand; 2009: PLN 259 thousand (EUR 60 thousand)).

### Residential units purchased by key management

During the year ended 31 December 2010, the Group has sold residential 3 units including parking places and storages ("Units") to Mr. Andrzej Gutowski and, Mr. Tomasz Łapiński and Mr. Karol Pilniewicz for a total net amount (excluding VAT) PLN 424 thousand, PLN 467 thousand and PLN 429 thousand, respectively. These transactions were executed at arm's length and were in adherence to the Group's policy in respect of related-party transactions.

# Notes to the Consolidated Financial Statements

## 31. Related parties (cont'd)

### Shares and share options

#### Shares

On 22 October 2009, the Company, in the form of a private placement, issued 45,393,333 new shares, including 22,696,667 new shares issued as a result of the conversion of the same number of warrants convertible to shares issued on the same day. This transaction included 6,454,931 shares issued directly to the Company's major shareholder, ITR Dori at an issue price of PLN 1.60 per share, and 22,696,667 warrants offered free of charge also to ITR Dori which warrants entitled ITR Dori to subscribe for 22,696,667 new ordinary shares at an exercise price of PLN 1.60 per share. ITR Dori subscribed for the warrants, exercised its rights to subscribe for new shares and paid for the new shares.

#### Share options

During the years ended 31 December 2010 and 31 December 2009, the members of the Management Board did not receive rights to shares or options on shares.

## 32. Acquisition of shares in joint venture

On 23 December 2010, the Group acquired 57.8% of the equity in Landex Sp. z o.o. for a total amount of PLN 7,534 thousand. In addition the Group paid an amount of PLN 1,289 thousand for transfer of right to loan granted by former Landex shareholder.

#### The assets and liabilities transferred and paid as part of the transaction are as follows:

| **As at 23 December**<br>*In thousands of Polish Zlotys (PLN)* | **2010** |
|---|---|
| Cash and cash equivalents in joint venture entity acquired | 127 |
| Inventory | 12,984 |
| Other current assets | 466 |
| Non-current assets | 61 |
| Current liabilities | (6,105) |
| **Total net identifiable assets** | **7,533** |
| Cash and cash equivalents in joint venture entity acquired | (127) |
| **Total net cash outflow** | **7,406** |

# Notes to the Consolidated Financial Statements

## 33. Financial risk management, objectives and policies

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Board of Managing Directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group also monitors the market price risk arising from all financial instruments.

The Group does not use derivative financial instruments to hedge currency or interest rate risks arising from the Group's operations and its sources of finance. It is, and has been throughout the year ended 31 December 2010 and 2009, the Group's policy that no trading in (derivative) financial instruments shall be undertaken.

The Group's principal financial instruments comprise cash balances, bank loans and loans from related parties. The main purpose of these financial instruments is to manage the Group's liquidity and to raise finance for the Group's operations. The Group has various other financial instruments such as financial lease receivables, trade debtors and trade creditors, which arise directly from its operations.

### Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counter party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and cash equivalents and receivables.

The Group is making significant cash payments as security for preliminary land purchase agreements. The Group minimizes its credit risk arising from such payments by registering advance repayment obligations in the mortgage register of the respective property. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Group does not expect any counter parties to fail in meeting their obligations. The carrying amount of the financial assets represent the maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was as follows:

| *In thousands of Polish Zloty (PLN)* | **As at 31 December 2010** | **As at 31 December 2009** |
|---|---|---|
| Trade and other receivables | 8,312 | 14,581 |
| Short-term bank deposits - collateralized | 1,585 | 5,070 |
| Cash and cash equivalents | 94,888 | 58,044 |
| **Total** | **104,785** | **77,695** |

The Group places its cash and cash equivalents in financial institutions with high credit ratings. Management does not expect any counterparty to fail to meet its obligations. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Group's customer base. The credit quality of cash at banks and short-term bank deposits can be assessed by reference to external credit ratings:

| *In thousands of Polish Zloty (PLN)*<br>**Rating** | **As at 31 December 2010** | **As at 31 December 2009** |
|---|---|---|
| AAA | 18 | 20 |
| AA | 21,995 | 1,280 |
| A | 72,432 | 56,562 |
| BBB | 443 | 182 |
| **Total cash at hand, at banks and short-term bank deposits** | **94,888** | **58,044** |

# Notes to the Consolidated Financial Statements

## 33. Financial risk management, objectives and policies (cont'd)

### Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments, such as bank loans, loans from related parties, cash and cash equivalents and short-term bank deposits. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return.

*(i) Foreign currency risk*

The Group is exposed to foreign currency risk on receivables and payables denominated in a currency other than PLN to a limited extent only. As at 31 December 2010 and 2009, trade receivables denominated in foreign currencies were insignificant.

*(ii) Price risk*

The Group's exposure to marketable and non-marketable securities price risk does not exists because the Group has not invested in securities as at 31 December 2010 and 2009.

*(iii) Interest rate risk*

The Group's fixed-rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The Group's variable-rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Short-term receivables and payables are not exposed to interest rate risk.

In respect of income-earning financial assets and interest-bearing financial liabilities, the following tables indicate their average effective interest rates at the reporting date and the periods in which they mature or, if earlier, re-price.

| | | | As at 31 December 2010 | | | | | |
|---|---|---|---|---|---|---|---|---|
| *In thousands of Polish Zlotys (PLN)* | **Note** | **Average effective interest rate** | **Total** | **6 months or less** | **6-12 months** | **1-2 years** | **2-5 years** | **More than 5 years** |
| **Fixed rate instruments** | | | | | | | | |
| Loans from related parties | *25* | 6.00% | **53,218** | 270 | 52,948 | - | - | - |
| Loans from others | | 8.00% | **1,311** | 1,311 | - | - | - | - |
| Cash and cash equivalents | *22* | 0.05%-0.5% | **4,492** | 4,492 | - | - | - | - |
| Short-term bank deposits – collateralized | *21* | 2%-3% | **1,585** | 1,585 | - | - | - | - |
| **Variable rate instruments** | | | | | | | | |
| Secured bank loans | *25* | WIBOR + bank's margin | **123,914** | 74,701 | - | 29,257 | 19,956 | - |
| Loans from others | *25* | 8.5%(1) | **4,032** | - | - | - | - | 4,032 |
| Loans granted to third parties | *17* | 8.5%(1) | **544** | - | - | - | - | 544 |
| Cash and cash equivalents | *22* | WIBOR - 1%-2% | **90,396** | 90,396 | - | - | - | - |

(1) *The interest rate is calculated based on the latest interest rate calculated on the construction credit/loan granted by bank to the Group increased by 2%, and updated at the beginning of every quarter.*

| | | | As at 31 December 2009 | | | | | |
|---|---|---|---|---|---|---|---|---|
| *In thousands of Polish Zlotys (PLN)* | **Note** | **Average effective interest rate** | **Total** | **6 months or less** | **6-12 months** | **1-2 years** | **2-5 years** | **More than 5 years** |
| **Fixed rate instruments** | | | | | | | | |
| Loans from related parties | *25* | 6.00% | **60,329** | 5,000 | 2,381 | 52,948 | - | - |
| Cash and cash equivalents | *22* | 0.05%-0.15% | **1,740** | 1,740 | - | - | - | - |
| Short-term bank deposits – collateralized | *21* | 2%-3% | **5,070** | 5,070 | - | - | - | - |
| **Variable rate instruments** | | | | | | | | |
| Secured bank loans | *25* | WIBOR + bank's margin | **188,678** | 134,332 | - | 54,346 | - | - |
| Cash and cash equivalents | *22* | WIBOR – 0.1% - 1% | **56,304** | 56,304 | - | - | - | - |

# Notes to the Consolidated Financial Statements

## 33. Financial risk management, objectives and policies (cont'd)

It is estimated that a general increase of one percentage point in interest rates at the reporting date would increase (decrease) the net assets and the statement of comprehensive income by the amounts listed in the table below. The analysis prepared for 12-month periods assumes that all other variables remain unchanged.

| | As at 31 December 2010 | | As at 31 December 2009 | |
|---|---|---|---|---|
| *In thousands of Polish Zlotys (PLN)* | **Increase by 1%** | **Decrease by 1%** | **Increase by 1%** | **Decrease by 1%** |
| **Statement of comprehensive income** | | | | |
| Variable interest rate assets | 301 | (301) | 188 | (188) |
| Variable interest rate liabilities * | (425) | 425 | (633) | 633 |
| **Total** | **(123)** | **123** | **(445)** | **445** |
| **Net assets** | | | | |
| Variable interest rate assets | 301 | (301) | 188 | (188) |
| Variable interest rate liabilities * | (425) | 425 | (633) | 633 |
| **Total** | **(123)** | **123** | **(445)** | **445** |

* The financial costs which are related to loans and borrowing are capitalized by the Group to work-in-progress. Such costs are gradually recognized in the statement of comprehensive income based on the proportion of residential units sold. It has been assumed in the above analysis that one third of the financial costs calculated and capitalized in a given period is disclosed in the statement of comprehensive income based on the proportion of residential units sold of a given period and the remaining part of the costs remains in the inventories and will be disclosed in the statement of comprehensive income in the following accounting periods.

### Liquidity risk

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

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and shareholders loans.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period from reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

# Notes to the Consolidated Financial Statements

## 33. Financial risk management, objectives and policies (cont'd)

| | As at 31 December 2010 | | | |
|---|---|---|---|---|
| *In thousands of Polish Zlotys (PLN)* | **Less than 1 year** | **Between 1 and 2 years** | **Between 2 and 5 years** | **Over 5 years** |
| Loans and borrowings | 133,292 | 32,746 | 24,188 | 5,259 |
| Trade and other payables | 18,024 | - | - | - |
| **Total** | **151,316** | **32,746** | **24,188** | **5,259** |

| | As at 31 December 2009 | | | |
|---|---|---|---|---|
| *In thousands of Polish Zlotys (PLN)* | **Less than 1 year** | **Between 1 and 2 years** | **Between 2 and 5 years** | **Over 5 years** |
| Loans and borrowings | 144,823 | 118,954 | - | - |
| Trade and other payables | 26,720 | - | - | - |
| **Total** | **171,543** | **118,954** | **-** | **-** |

### Real-estate risk

Management believes that the residential market as a whole in Poland is less saturated than in any other country within the European Union, including also the developing countries in Central and Eastern Europe, which in general provides for many opportunities for residential developers. However, due to the fact that the Polish economy is still experiencing many dynamic changes, it may be sensitive to potential up and down-turns. These market conditions form an important and significant risk factor for the Company and for other residential developers, as the development process (including stages such as the purchase of land, the preparation of land for construction works, the construction process itself and, finally, also the sale of apartments) may take several years from start until completion. It is important to understand that decisions taken by the Company must assume a relatively long-term time horizon for each project as well as a significant volatility of land prices, construction cost levels and sales prices of apartments during the duration of projects which may have a material impact on the Company's profitability and financing needs.

Another specific risk is associated with the rapid development of many Polish cities, which very often involves a lack of stability of development plans which could substantially impact the likelihood that projects on particular sites are realised as initially desired or planned. Quite often, residential developers are interested in buying land parcels without zoning conditions or without a valid master plan for the area, which would allow for a better assessment of the ultimate value of the plot. Pursuing such market opportunities may result in relatively low prices of the land parcels. However, this strategy may result in increasing operational and financial risks for the developer. Moreover, changing development plans of the cities could also impact the planned development and realisation of utility infrastructure (including water, gas, sewage and electricity connections), which is critical factor for the Company and other developers. However, for a vast majority of land parcels, the Company has already obtained zoning approvals, which reduces this risk to the Company significantly.

Another operating risk lies within the construction process itself. The Company does not operate a construction business, but, instead, it hires third party general contractors, who are responsible for running the construction and for the finalisation of the project including obtaining all permits necessary for safe use of the apartments. Important selection criteria when hiring a general contractor include experience, professionalism and financial strength of the contractor as well as the quality of the insurance policy covering all risks associated with the construction process.

# Notes to the Consolidated Financial Statements

## 33. Financial risk management, objectives and policies (cont'd)

Recent turbulence in the financial markets has resulted in a lack of stability in the manner in which financing institutions (banks) have approached both real estate companies and individual customers when applying for a mortgage loan. As the real estate business is very capital consuming, the role of the banking sector and its lending abilities are crucial for the Company leveraging not only when land parcels are acquired but also during the later stages of development, especially during the construction phase. Moreover, the availability of external financing is a crucial element driving the demand for apartments, as the vast majority of our customers are using mortgage secured loans to finance the purchase of apartments.

## 34. Capital management

When managing capital, it is the Group's objective 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 profit appropriation, 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 and leverage.

The gearing ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated Statement of Financial Position) less cash and cash equivalents. Leverage is calculated as net debt divided by total capital employed. Total capital employed is calculated as 'equity' as shown in the Consolidated Statement of Financial Position plus net debt financing assets in operation.

The gearing ratios and leverage at 31 December 2010 and 31 December 2009 were as follows:

| **As at 31 December** | **2010** | **2009** |
|---|---|---|
| *In thousands of Polish Zlotys (PLN)* | | |
| Loan and borrowings, including current portion | 182,475 | 249,007 |
| Less: cash and cash equivalents | (94,888) | (58,044) |
| **Net debt** | **87,587** | **190,963** |
| Total equity | 417,377 | 382,218 |
| **Total capital employed** | **504,964** | **573,181** |
| **Gearing ratio** | **21.0%** | **50.0%** |
| **Leverage** | **17.3%** | **33.3%** |

Neither the Company nor its subsidiaries are subject to externally imposed capital requirements. There were no changes in the Groups approach to capital management during the year.

# Notes to the Consolidated Financial Statements

## 35. Cash flow reconciliation

### Inventory

| For the year ended 31 December<br>*In thousands of Polish Zlotys (PLN)* | 2010 | 2009 |
|---|---|---|
| Balance sheet change in inventory | 102,724 | (69,243) |
| Finance expense, net capitalized into inventories | 14,369 | 17,924 |
| Investment in joint venture | 12,984 | - |
| Write-down of inventory | (2,188) | - |
| Inventory transferred into fixed assets | (5,803) | (682) |
| **Change in inventory in the consolidated statement of cash flows** | **122,086** | **(52,001)** |

### Trade and other receivables and prepayments

| For the year ended 31 December<br>*In thousands of Polish Zlotys (PLN)* | 2010 | 2009 |
|---|---|---|
| Balance sheet change in trade and other receivables and prepayments | 6,604 | 11,579 |
| Investment in joint venture | 466 | - |
| **Change in trade and other receivables and prepayments in the consolidated statement of cash flows** | **7,070** | **11,579** |

### Trade and other payables and accrued expenses

| For the year ended 31 December<br>*In thousands of Polish Zlotys (PLN)* | 2010 | 2009 |
|---|---|---|
| Balance sheet change in trade and other payables and accrued expenses | (8,776) | 3,897 |
| Investment in joint venture | (26) | - |
| Acquisitions of investment property | 2,500 | (2,500) |
| **Change in trade and other payables and accrued expenses in the consolidated statement of cash flows** | **(6,302)** | **1,397** |

# Notes to the Consolidated Financial Statements

## 36. Interest in joint ventures

As at 31 December 2010, the Group has a 57.8% interest in Landex Sp. z o.o. (acquired on 23 December 2010; see also Note 32). Taking into account the fact that all the Landex management board decisions require unanimous consent and the management board consists of two members - one nominated by the Group and another nominated by other venture - where each member vote is equal, Group Management believes that the agreement meets the definition of a joint venture agreement. Consequently, the Group accounts for the investment in Landex as for an investment in a jointly controlled entity in accordance with IAS 31.

The following amounts represent the Group's share of the assets and liabilities, and sales and results of the joint venture consolidated at proportionate share of 57.8%. They are included in the consolidated statement of financial position and consolidated statement of comprehensive income:

| **As at 31 December** | **2010** |
|---|---|
| *In thousands of Polish Zlotys (PLN)* | |
| Non-current assets | 61 |
| Current assets | 13,577 |
| **Total assets** | **13,638** |
| | |
| Non-current liabilities | 4,032 |
| Current liabilities | 1,337 |
| **Total liabilities** | **5,369** |
| **Net assets** | **8,269** |

| **For the year ended 31 December** | **2010** |
|---|---|
| *In thousands of Polish Zlotys (PLN)* | |
| Revenues | - |
| Expenses | (9) |
| **Profit before taxation** | **(9)** |
| Income tax expense | - |
| **Profit for the year** | **(9)** |

As at the day of acquiring shares, Landex is the owner of a plot of land with an area of 8,953 $m^2$ located in Warsaw, Wola District, at Jana Kazimierza Street ("Land 1") and Landex is considered as a single asset entity. In addition, Landex is the buying party to a preliminary sale and purchase agreement of a plot of land with an area of 7,239 $m^2$ ("Land 2") located nearby Land 1. The Group is planning to build on Land 1 and Land 2 multifamily buildings that will comprise 639 units with an aggregate floor space of 35,000 $m^2$.

In case of building permit for properties on Land 1 and Land 2 not being obtained or such permits not being valid on 31 December 2011, the Group shall be entitled (but not obliged to) to call upon other venture to purchase back 50% shares from the Group for the amount of the purchase price.

Additionally, after 30 June 2011 former venture will have a right to repurchase 39 shares (7.8% jointly) with the rights and receivables towards Landex sold to the Group if final sale and purchase agreement of Land 2 by Landex is not concluded before 30 June 2011. The price for repurchase of the 39 shares (7.8%) shall be equal to the price paid by the Group. The Group shall be obliged to resell shares to former venture in such situation. During January 2011 Landex signed the final sale and purchase agreement of Land 2, for additional information see note 38 of the Consolidated Financial Statements.

The value of the options would refer principally to the difference between exercise price, being the price for which the Group acquired the shares and the fair value of shares at the reporting date (determined by the value of land owned by Landex). In Management's assessment, the fair value of shares has not changed as at 31 December 2010 compared to 23 December 2010 when the acquisition of share in Landex was realized, therefore the value of options was assessed to be immaterial.

# Notes to the Consolidated Financial Statements

## 37. Events during the financial year

### Bank loans

The Company has signed an annex extending the maturity of a loan facility (PLN 14.7 million) which was used for refinancing of the land purchase in respect of the Verdis project (previously named Orion). The final repayment date has been postponed until November 2012. The Company entered also into a construction loan facility for this project for an amount up to PLN 24.5 million.

The Company has also secured financing for construction costs in respect of the Impressio project (previously named Goya) in Wrocław, by entering into a loan facility agreement for an amount up to PLN 9.3 million.

The Company has signed an annex extending the maturity of a loan facility (PLN 14.7 million) which was used for the refinancing of the land purchase in respect of the Magellan project. The final repayment date has been postponed until December 2012.

Moreover, the Company has entered into the new loan agreement with Pekao S.A. envisaged to finance construction costs of the first stage of Sakura project at Kłobucka Street in Warsaw (up to PLN 32.9 million) as well as extended repayment date of loan supporting purchase of land in this project (PLN 20.0 million) until 2013.

The Company has also entered with Polbank into construction loan facility agreement supporting construction of project Naturalis for up to (PLN 21.8 million).

The Company repaid the loans used for the Constans, Imaginarium, Galileo, Copernicus and Gemini projects thereby reducing its banking debt by PLN 69.0 million in total.

### Projects completed

In June 2010, the Company completed the construction of the Gemini project comprising 164 units with a total area of 13,126 m$^2$. From this completed project, 8 units with a total area of 869 m$^2$ were transferred to property and equipment.

In June 2010, the Company completed the construction of the Nautica project comprising 149 units with a total area of 10,648 m$^2$.

In July 2010 and in November 2010, the Company completed the construction of the first phase and the second phase of the Constans housing project that comprising 8 semi-detached units (total 16 units) with an aggregate floor space of 4,471 m$^2$ and 5 semi-detached units (total 10 units) with an aggregate floor space of 2,808 m$^2$.

In December 2010, the Company completed the construction of the Gardenia project comprising 22 units with a total area of 3,683 m$^2$.

### Commencements of new projects

In May 2010, the Company commenced the construction of the Imaginarium III project (the sales process commenced earlier) comprising 45 units with an aggregate usable floor space of 3,800 m$^2$.

In June 2010, the Company commenced the construction of the Nautica II project (the sales process commenced earlier) comprising one semi-detached unit and one house (in total 3 units) with an aggregate floor space of 600 m$^2$.

In September 2010, the Company commenced the construction of the Naturalis I project (the sales process commenced earlier) comprising 52 units with an aggregate floor space of 2,900 m$^2$.

In September 2010, the Company commenced the construction of the Sakura I project (the sales process commenced earlier) comprising 120 units with an aggregate floor space of 8,100 m$^2$.

In October 2010, the Company commenced the construction of the Impressio I project (the sales process commenced earlier) comprising 70 units with an aggregate floor space of 4,400 m$^2$.

# Notes to the Consolidated Financial Statements

## 37. Events during the financial year (cont'd)

### Commencements of new projects (cont'd)

In November 2010, the Company commenced the construction of the Verdis I project (the sales process commenced earlier) comprising 139 units with an aggregate floor space of 9,400 $m^2$.

In November 2010, the Company commenced the construction of the Essentia I project (the sales process commenced earlier) comprising 82 units with an aggregate floor space of 5,200 $m^2$.

In December 2010, the Company commenced the construction of the Naturalis II project (the sales process commenced earlier) comprising 60 units with an aggregate floor space of 3,400 $m^2$.

### Aurora

In May 2009, the Company entered into a settlement agreement with the seller of a land plot in Poznań (project Aurora), which concluded the dispute between parties that started in September 2008. The seller has confirmed that the original agreement related to acquisition of land has expired and has committed to pay back the advance payment (PLN 12.4 million) upon satisfaction of certain conditions. While the Company decided to enter into this compromise agreement despite the fact that the Management Board was confident about the Company's ultimate success in any court proceeding. The Management Board was of the opinion that a court proceeding would nonetheless be long, expensive and complicated. Based on the compromise agreement reached, the parties agreed to a reduction of the repayment to a final settlement of PLN 9.0 million (plus statutory interest accrued since 1 August 2009 on the unpaid amount) if repaid by the end of April 2010. Notwithstanding the said compromise agreement, the Management of the Company has assessed chances of the Seller to arrange relevant financial resources and to finalize the settlement within agreed timeframe as unlikely and decided to not proceed with any write-off.

At 30 April 2010, the seller repaid the full PLN 9.0 million plus PLN 0.9 million of interest, after which all settlements between the Company and the seller were cleared. As a result of the settlement, the Company recognized a write-down expense for the abandoned project amounting to PLN 2.5 million which is included in the Consolidated Statement of Comprehensive Income under "Other expenses" (see Note 11).

### Land purchase

On 23 December 2010, the Group acquired 57.8% of the equity in Landex Sp. z o.o. ("Landex") for a total amount of PLN 7.5 million (for addition information see note 32 and 36 of the Consolidated Financial Statements). In connection with and in addition to this acquisition, the Group has committed financing through granting loans to Landex for the purchase of a plot of land for which Landex had signed a preliminary sale and purchase agreement (Land 2 as described below). The amount of loans committed by Ronson with respect to this transaction, including also financing required by Landex to complete land acquisition amounted to PLN 9.5 million.

As the day of purchasing Landex was the owner of a plot of land with an area of 8,953 $m^2$ located in Warsaw, Wola District, at Jana Kazimierza Street ("Land 1"). In addition, Landex was a party to a preliminary sale and purchase agreement of another plot of land with an area of 7,239 $m^2$ ("Land 2") located nearby Land 1.

In total Land 1 and Land 2 shall allow the Group to build multifamily buildings that will comprise 639 units with an aggregate floor space of 35,000 $m^2$.

# Notes to the Consolidated Financial Statements

## 38. Subsequent events

### Land purchase

In January 2011, Landex Sp. z o.o. has executed preliminary sale purchase agreement by finalising acquisition of the land with an area of 7,239 $m^2$ located in Warsaw, Wola District, at Jana Kazimierza Street.

### Bank loans

In March 2011, the Company entered into annexes to loan facilities with BZWBK S.A. for financing land acquisitions for a total amount of PLN 57.4 million. Based on the signed annexes, the repayment dates of these loans have been extended from 31 March 2011 to 1 July 2012. The loan agreements executed with BZWBK S.A. envisage also entering into a new agreement supporting construction of project Essentia in Szczecin for amount of (PLN 14 million).

### Related parties loans

In March 2011, the Company repaid 50% of the loans received from related parties amounting to PLN 26.5 million. The repayment related to principal amount only.

# Company Financial Statements for the year ended 31 December 2010

## Company Income Statement

| For the year ended 31 December<br>*In thousands of Polish Zlotys (PLN)* | *Note* | 2010 | 2009 |
|---|---|---|---|
| Revenues from consulting services | | 5,434 | 2,999 |
| General and administrative expense | *3* | (4,831) | (5,334) |
| **Operating profit/(loss)** | | **603** | **(2,335)** |
| Finance income | *5* | 5,534 | 3,810 |
| Finance expense | *5* | (961) | (901) |
| **Net finance income** | | **4,573** | **2,909** |
| **Profit before taxation** | | **5,176** | **574** |
| Income tax | *6* | - | - |
| **Profit before result from subsidiaries** | | **5,176** | **574** |
| Result from subsidiaries after taxation | *8* | **29,915** | **20,460** |
| **Profit for the year** | | **35,091** | **21,034** |

*The notes on pages 93 to 98 are an integral part of these Company financial statements.*

# Company Statement of Financial Position

**After profit appropriation**

| **As at 31 December**<br>*In thousands of Polish Zlotys (PLN)* | ***Note*** | **2010** | **2009** |
|---|---|---|---|
| **Assets** | | | |
| Investment in subsidiaries | *8* | 382,887 | 276,945 |
| Loan granted to subsidiaries | *9* | 18,769 | 75,087 |
| **Total non-current assets** | | **401,656** | **352,032** |
| | | | |
| Trade and other receivables and prepayments | | 69 | 111 |
| Receivable from subsidiaries | | 4,259 | 1,658 |
| Cash and cash equivalents | | 29,332 | 45,477 |
| **Total current assets** | | **33,660** | **47,246** |
| **Total assets** | | **435,316** | **399,278** |
| | | | |
| **Equity** | | | |
| **Shareholders' equity** | *10* | | |
| Share capital | | 20,762 | 20,762 |
| Share premium reserve | | 282,873 | 282,873 |
| Revaluation reserve | | 4,173 | 4,173 |
| Retained earnings | | 109,569 | 74,410 |
| **Total shareholders' equity** | | **417,377** | **382,218** |
| | | | |
| **Liabilities** | | | |
| **Long-term liabilities** | | | |
| Loans from subsidiaries | *11* | - | 16,028 |
| **Total long-term liabilities** | | **-** | **16,028** |
| | | | |
| **Current liabilities** | | | |
| Loans from subsidiaries | *11* | 16,864 | - |
| Trade and other payables and accrued expenses | | 1,075 | 1,032 |
| **Total current liabilities** | | **17,939** | **1,032** |
| **Total liabilities** | | **17,939** | **17,060** |
| **Total shareholders' equity and liabilities** | | **435,316** | **399,278** |

*The notes on pages 93 to 98 are an integral part of these Company financial statements.*

# Company Statement of Changes in Equity

**For the years ended 31 December 2010 and 31 December 2009:**

| *In thousands of Polish Zlotys (PLN)* | Share capital | Share premium | Revaluation reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **Balance at 1 January 2009** | **16,953** | **215,105** | **-** | **57,425** | **289,483** |
| Net profit for the year ended 31 December 2009 | - | - | 4,173 | 16,861 | 21,034 |
| Issue of new shares [1)] | 3,809 | 67,768 | - | - | 71,577 |
| Share-based payments [2)] | - | - | - | 124 | 124 |
| **Balance at 31 December 2009** | **20,762** | **282,873** | **4,173** | **74,410** | **382,218** |
| Net profit for the year ended 31 December 2010 | - | - | - | 35,091 | 35,091 |
| Share-based payments [2)] | - | - | - | 68 | 68 |
| **Balance at 31 December 2010** | **20,762** | **282,873** | **4,173** | **109,569** | **417,377** |

1) This represents the proceeds above par from the 45,393,333 new shares, issued on 22 October 2009. The net proceeds from the new shares issued on 22 October 2009 amounted to PLN 71,577 thousand, after a deduction of PLN 1,052 thousand representing the total cost directly attributable to the new shares issued.

2) See Note 23C tot the Consolidated Financial Statements

*The notes on pages 93 to 98 are an integral part of these Company financial statements.*

# Company Statement of Cash Flows

| For the year ended 31 December | | 2010 | 2009 |
|---|---|---|---|
| *In thousands of Polish Zlotys (PLN)* | ***Note*** | | |
| **Cash flows from operating activities** | | | |
| Profit for the year | | 35,091 | 21,034 |
| *Adjustments to reconcile profit for the period to net cash (used in)/from operating activities:* | | | |
| Net finance income, net | *5* | (4,573) | (2,909) |
| Net results subsidiaries during the year | *8* | (29,915) | (20,460) |
| Share based payment | | 68 | 124 |
| ***Subtotal*** | | 671 | (2,211) |
| Decrease/(increase) in trade and other receivables and prepayments | | 42 | 35 |
| Decrease/(increase) in receivable from subsidiaries | | (2,601) | 893 |
| Increase/(decrease) in trade and other payable and accrued expense | | 43 | (21) |
| Increase/(decrease) in creditors from subsidiaries | | - | - |
| ***Subtotal*** | | (1,845) | (1,304) |
| Interest received | | 955 | 536 |
| **Net cash used in operating activities** | | **(890)** | **(768)** |
| **Cash flows from investing activities** | | | |
| Loan granted to subsidiaries | *9* | (14,250) | (21,600) |
| Repayment of Loan granted to subsidiaries | *9* | 3,800 | 2,790 |
| Investment in subsidiaries | *8* | (4,805) | (7,225) |
| **Net cash used in investing activities** | | **(15,255)** | **(26,035)** |
| **Cash flows from financing activities** | | | |
| Proceeds from new shares issued | | - | 72,629 |
| Costs directly attributed to the new shares issued | | - | (1,052) |
| **Net cash from financing activities** | | **-** | **71,577** |
| **Net change in cash and cash equivalents** | | **(16,145)** | **44,774** |
| Cash and cash equivalents at 1 January | | 45,477 | 703 |
| **Cash and cash equivalents at 31 December** | | **29,332** | **45,477** |

*The notes on pages 92 to 98 are an integral part of these Company financial statements.*

# Notes to the Company Financial Statements

## 1. General

Ronson Europe N.V. ('the Company'), is a Netherlands limited liability company with its statutory seat in Rotterdam, the Netherlands, and was incorporated on 18 June 2007.
The shares of the Company are traded on the Warsaw Stock Exchange since 5 November 2007. As at 31 December 2010, 64.2% of the outstanding shares are held by I.T.R. Dori B.V. ('ITR Dori'), 18.4% of the outstanding shares are held by GE Real Estate CE Residential B.V. ('GE Real Estate') and the remaining 15.3% of the outstanding shares are held by the public.
The Company holds and owns (directly and indirectly) 66 Polish company's. These companies are active in the development and sale of units, primarily apartments, in multi-family residential real-estate projects to individual customers in Poland and lease real estate to third parties.

## 2. Accounting principles

The Company's financial statements have been prepared under the option of clause 362.8 of Part 9 of Book 2 of the Netherlands Civil Code, meaning that the accounting principles and measurement basis of the Company's financial statements are similar to those applied with respect to the Consolidated Financial Statements (see Notes 2 and 3 to the Consolidated Financial Statements), except for the valuation of subsidiaries which are valued using the net asset value method. The Company Financial Statements have been prepared in conformity with generally accepted accounting principles in the Netherlands ('Dutch GAAP'), whereas the Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU as described in Note 3 to the Consolidated Financial Statements.

Revenue from the consulting services are fees charged from holding to subsidiaries and is it eliminated upon consolidation.

## 3. General and administrative expense

| **For the year ended 31 December**<br>*In thousands of Polish Zlotys (PLN)* | **2010** | **2009** |
|---|---|---|
| External services | 1,156 | 1,269 |
| Share-based payment | 68 | 124 |
| Remuneration fees (see Note 4) | 3,434 | 3,730 |
| Other | 173 | 211 |
| **Total** | **4,831** | **5,334** |

# Notes to the Company Financial Statements

## 4. Directors' remuneration

### Key management personnel compensation

Apart from the compensation listed below, there were no further benefits, including share based payments granted to key management personnel in the periods ended 31 December 2010 and 31 December 2009. Key management personnel compensation can be presented as follows:

| **As at 31 December** | **2010** | **2009** |
|---|---|---|
| *In thousands of Polish Zlotys (PLN)* | | |
| *Mr. Shraga Weisman, Chief Executive Officer* | | |
| Salary and other short term employee benefits | 1,466 | 1,109 |
| Management bonus | 1,157 | 1,547 |
| ***Subtotal - Mr. Shraga Weisman*** | **2,623** | **2,656** |
| *Mr. Tomasz Łapiński, Chief Financial Officer* | | |
| Salary and other short term employee benefits | 488 | 454 |
| Management bonus | 353 | 280 |
| ***Subtotal - Mr. Tomasz Łapiński*** | **841** | **734** |
| *Mr. Andrzej Gutowski, Sales and Marketing Director* | | |
| Salary and other short term employee benefits | 249 | 248 |
| Management bonus | 112 | 175 |
| ***Subtotal - Mr. Andrzej Gutowski*** | **361** | **423** |
| *Mr. Dror Kerem, former Chief Executive Officer* | | |
| Salary and other short term employee benefits | - | 334 |
| Management bonus | - | 110 |
| Compensation for termination of employment contract | 520 | 464 |
| ***Subtotal - Mr. Dror Kerem*** | **520** | **908** |
| **Total** | **4,345** | **4,721** |

### Supervisory Board remuneration

The Supervisory Board of the Company consists of 6 members; the supervisory directors are entitled to an annual fee of EUR 8,500 plus an amount of EUR 1,500 per board meeting (EUR 750 if attendance is by telephone). Two Supervisory Board members including the Chairman of the Supervisory Board have waived their remuneration and thus did not receive any payment from the Company. The total amount due in respect of Supervisory Board fees during 2010 is PLN 179 thousand (EUR 45 thousand; 2009: PLN 259 thousand (EUR 60 thousand)).

### Share and options on shares

On 5 November 2007, the Company issued 1,900,000 options with an exercise price of PLN 5.75 each and right to obtain 300,000 shares. Following the resignation of key management employees in 2008 and 2009, a total of 1,260,667 options were cancelled, whereas the right to obtain 300,000 shares was exercised during 2008. During the year ended 31 December 2010, the other selected employees that joined the option program had not exercised any of their options.

During the years ended 31 December 2010 and 31 December 2009, the members of the Management Board and the members of the Supervisory Board did not receive rights to shares or options on shares. As at 31 December 2010 the rights to shares that were granted to individual members of the Management Board and Supervisory Board are as follows:

# Notes to the Company Financial Statements

## 4. Directors' remuneration (cont'd)

- Mr Andrzej Gutowski: a right to subscribe to a total number of 150,000 shares in the capital of the Company with a nominal value of EUR 0.02 each, for an issue price per share equal to PLN 5.75, one third per year on the anniversary date of the date of 5 November 2007 for three successive years, the optional exercising term expire on the 5 November 2012.

## 5. Net finance income and expense

| **For the year ended 31 December**<br>*In thousands of Polish Zlotys (PLN)* | **2010** | **2009** |
|---|---|---|
| Interests on granted loans to subsidiaries | 4,454 | 3,209 |
| Interest income on bank deposits | 1,032 | 384 |
| Foreign exchange gain | 48 | 217 |
| **Finance income** | **5,534** | **3,810** |
| Interests on loans received from subsidiaries | (836) | (836) |
| Foreign exchange loss | (109) | (50) |
| Commissions and fees | (16) | (15) |
| **Finance expense** | **(961)** | **(901)** |
| **Net finance income** | **4,573** | **2,909** |

## 6. Income tax

No Dutch income taxes have been recorded, primarily because of the tax loss for the financial period ended 31 December 2010, which will be carried forward. Realisation of this deferred income tax asset is dependent upon generating sufficient taxable income in the period that the deferred income tax asset is realised. Based on all available information, it is not probable that the deferred income tax asset is realisable and therefore the deferred tax asset is valued at nil.

The accumulated tax losses available for carry forward as per 31 December 2010 are estimated to be EUR 2,001 thousand (2009: EUR 3,429 thousand) and expire as follows:

| *In thousands of Euros (EUR)* | **As at 31 December 2010** |
|---|---|
| 2011 | - |
| 2012 | - |
| 2013 | - |
| 2014 | - |
| 2015 | - |
| After 2015 | 2,001 |
| **Total tax losses carry forward** | **2,001** |

## 7. Personnel

The Company did not employ any personnel during the financial years ended 31 December 2010 and 31 December 2009.

# Notes to the Company Financial Statements

## 8. Investment in subsidiaries

The subsidiaries of the Company are valued at their net asset value.

The movements in subsidiaries are as follows:

| **For the year ended 31 December**<br>*In thousands of Polish Zlotys (PLN)* | **2010** | **2009** |
|---|---|---|
| Balance at beginning of the year | 276,945 | 249,260 |
| Investments in subsidiaries | 4,805 | 7,225 |
| Net result subsidiaries during the year | 29,915 | 20,460 |
| Loans converted into equity (1) | 71,222 | - |
| **Balance at end of the year** | **382,887** | **276,945** |

*(1) The conversion of loans into equity was done to optimize the finance structure in the Group.*

## 9. Loan granted to subsidiaries

| **For the year ended 31 December**<br>*In thousands of Polish Zlotys (PLN)* | **2010** | **2009** |
|---|---|---|
| Balance at beginning of the year | 75,087 | 53,068 |
| Loans granted during the year | 14,250 | 21,600 |
| Loans repayment during the year | (3,800) | (2,790) |
| Loans converted into equity (1) | (71,222) | |
| Interests accrued | 4,454 | 3,209 |
| **Balance at end of the year** | **18,769** | **75,087** |

*(1) The conversion of loans into equity was done to optimize the finance structure in the Group.*

The loans are due after five years from the granting date and bear an interest rate of 6%, the principal and accrued interest are payable at the date of maturity of the loan. The borrower may redeem the loan at any time starting one year from the loan agreement date.

## 10. Shareholders' equity

The authorized share capital of the Company consists of 800,000,000 shares of EUR 0.02 par value each. The number of issued and outstanding ordinary shares as at 31 December 2010 amounted to 272,360,000 (as at 31 December 2009: 272,360,000 shares). For details on shares issued during 2010 and 2009, reference is made to Note 21 of the consolidated financial statements.

According to Dutch Law the Company has an amount (net of tax) of PLN 4,173 thousand (2009: PLN 4,173 thousand) as legal reserve relating to unrealised results of changes in fair value of investment properties

# Notes to the Company Financial Statements

## 11. Loans from subsidiaries

| **For the year ended 31 December** *In thousands of Polish Zlotys (PLN)* | **2010** | **2009** |
|---|---|---|
| Balance at beginning of the year | 16,028 | 15,192 |
| Interests accrued | 836 | 836 |
| **Balance at end of the year** | **16,864** | **16,028** |

The loans mature on 31 October 2011 and bear an interest rate of 6%, the principal and accrued interest are payable at the date of maturity of the loan. The borrower may redeem the loan at any time starting one year from the loan agreement date.

## 12. Commitments and contingencies

As at 31 December 2010, the Company had no commitments and contingencies other than the contingent commitment in relation to the termination agreement with its former Managing Director, Mr Kerem, as disclosed in note 30 to the Consolidated Financial Statements.

## 13. Related party transactions

During the financial years ended 31 December 2010 and 31 December 2009, respectively, there were no transactions between the Company on the one hand, and its shareholders, their affiliates and other related parties which would qualify as not being at arm's length.

## 14. Financial risk management, objectives and policies

For a description of the Company's financial risk management, objectives and policies reference is made to note 33 of the Consolidated Financial Statements.

## 15. Information about agreed-upon engagements of the Company's auditor

Information about the agreements and the values from those agreements is disclosed below:

| **For the year ended 31 December** *In thousands of Polish Zlotys (PLN)* | **2010** | **2009** |
|---|---|---|
| Audit remuneration [1] | 603 | 617 |
| Exchanging rate differences on prior year settlements | - | 110 |
| **Total remuneration** | **603** | **727** |

(1) Audit remuneration includes the amounts paid and due to the Company's auditors worldwide for professional services related to the audit and review of unconsolidated and consolidated financial statements of the Company and its subsidiaries for the relevant year (excluding fees for tax advisory services). Part of audit fee related to Dutch auditor and amounted to PLN 178 thousand being equivalent of EUR 44.6 thousands for 2010 and PLN 178 thousands is equivalent of EUR 44.6 thousands for 2009.

# Notes to the Company Financial Statements

## 16. Subsequent events

For a description of the Company's subsequent events reference is made to note 38 of the Consolidated Financial Statements.

**Rotterdam,**
**8 March 2011**

### The Management Board

| | | |
|---|---|---|
| **Shraga Weisman**<br>Chief Executive Officer | **Tomasz Łapiński**<br>Chief Financial Officer | **Andrzej Gutowski**<br>Sales and Marketing Director |
| **Amos Weltsch** | **David Katz** | **Karol Pilniewicz** |

### The Supervisory Board

| | | |
|---|---|---|
| **Uri Dori** | **Frank Roseen** | **Mark Segall** |
| **Yair Shilhav** | **Reuven Sharoni** | |

## Articles of Association rules regarding profit appropriation

In accordance with Article 30 of the Articles of Association,

1) the Board of Managing Directors, with prior approval of the Supervisory Board, shall determine which portion of the profits – the positive balance of the income statement – shall be reserved. The profit remaining shall be at the disposal of the general meeting;
2) profit distributions may only be made to the extent the equity exceeds the paid and called up part of the capital increased with the reserves which must be maintained pursuant to the law;
3) Dividends shall be paid after the adoption of the Annual Accounts evidencing that the payment of dividends is lawful. The General Meeting shall, upon a proposal of the Board of Managing Directors, which proposal must be approved by the Board of Supervisory Directors, at least determine (i) the method of payment in case payments are made in cash (ii) the date and (iii) the address or addresses on which the dividends shall be payable;
4) the Board of Managing Directors, with prior approval of the Supervisory Board, may resolve to pay an interim dividend provided the requirement of the second paragraph has been complied with as shown by interim accounts drawn up in accordance with the provision of the law;
5) the General meeting may, subject to due observance of the provision of paragraph 2 and upon a proposal by the Board of Managing Directors, which proposal has been approved by the Supervisory Board, resolve to make distributions out of a reserve which need not to be maintained by virtue of the law;
6) cash payments in relation to shares if and in as far as the distributions are payable outside the Netherlands, shall be made in the currency of the country where the shares are listed and in accordance with the applicable rules of the country in which the shares of the Company have been admitted to an official listing on a regulated stock exchange. If such currency is not the same as the legal tender in the Netherlands the amount shall be calculated against the exchange rate determined by the Board of Managing Directors at the end of the day prior to the day on which the General meeting shall resolve to make the distributions in accordance with paragraph.1 above. If and in as far as the Company on the first day on which the distribution is payable, pursuant to governmental measures or other extraordinary circumstances beyond its control, is not able to pay on the place outside the Netherlands or in the relevant foreign currency, the Board of Managing Directors is authorised to determine to that extent that the payments shall be made in euros and on one or more places in the Netherlands. In such case the provisions of the first sentence of this paragraph shall not apply.
7) the General meeting may, upon a proposal by the Managing Directors, which proposal was approved by the Supervisory Board, resolve to pay dividends, or make distributions out of a reserve which need not to be maintained by virtue of the law, wholly or partially in the form of shares in the capital of the Company;
8) a claim of a shareholder to receive a distribution expires after 5 years;
9) for the calculation of the amount of profit distribution, the shares held by the Company shall be excluded.

### Proposed profit appropriation

For the year ended 31 December 2010, Management proposes to allocate the net profit for the year 2010 amounting to PLN 35,091 thousand to retained earnings. This proposal has been reflected in the Company's Statement of Financial Position per 31 December 2010.

### Subsequent events – other information

Refer to note 38 of the consolidated financial statements (page 88).

### Auditor's report

The auditor's report is set up on pages 34 and 35.