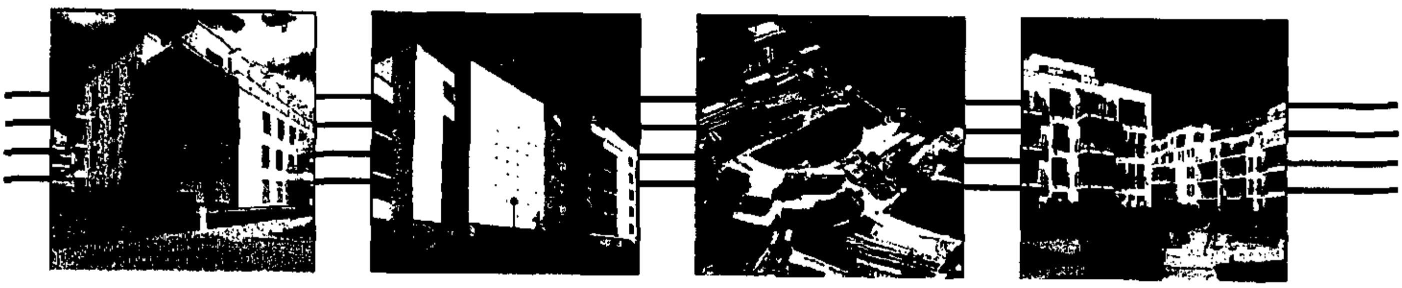
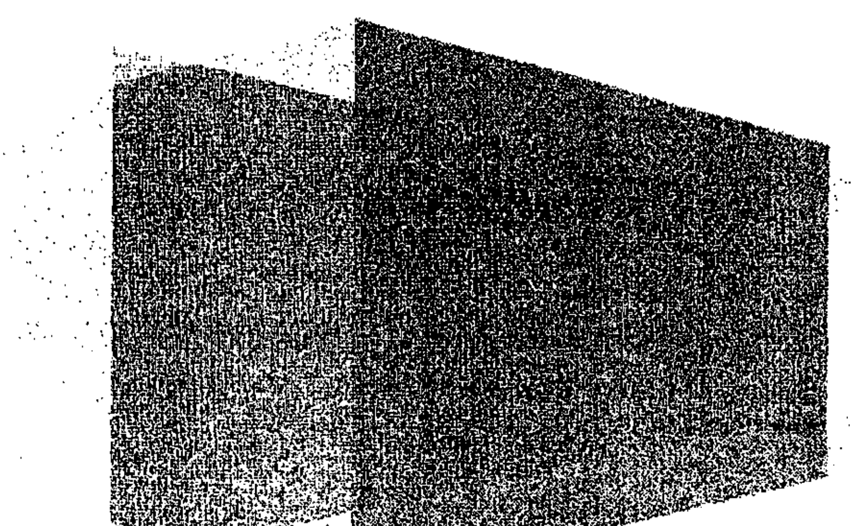
Nanette Real Estate group NV

Annual Report and Accounts

For the year 2006



1023044



ERNST & YOUNG

Ernst & Young Accountants LLP
Boogschutterstraat 1a
7324 AE APELDOORN
P.O. Box 652
7300 AR APELDOORN
Tel.: +31 (0) 55 5291 400
Fax: 31 (0) 55 5291 300
www.ey.nl

To: The Management and Shareholders of Nanette Real Estate Group N.V.

AUDITOR'S REPORT

Report on the Statutory Financial Statements

We have audited the statutory financial statements of Nanette Real Estate Group N.V. as set out on pages 21 to 94. The statutory financial statements consist of the consolidated IFRS financial statements and the company only statutory Dutch GAAP financial statements. The consolidated IFRS financial statements comprise the consolidated balance sheet as at December 31, 2006, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company only statutory Dutch GAAP financial statements comprise the company only Dutch GAAP balance sheet as at December 31, 2006, the company only Dutch GAAP income statement for the year then ended and the company only Dutch GAAP notes thereto.

Management's responsibility
Management is responsible for the preparation and fair presentation of the statutory 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 management board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the statutory financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory 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 statutory 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 statutory 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 IFRS financial statements
In our opinion, the consolidated IFRS financial statements give a true and fair view of the financial position of Nanette Real Estate Group N.V. as at December 31, 2006, 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 only statutory Dutch GAAP financial statements
In our opinion, the company only statutory Dutch GAAP financial statements give a true and fair view of the financial position of Nanette Real Estate Group N.V. as at December 31, 2006, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report is consistent with the statutory financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Apeldoorn, July 22, 2008

Ernst & Young Accountants LLP

Signed by A.J. Buisman

Contents

For identification purposes only
ERNST & YOUNG ACCOUNTANTS

PROFILE

Nanette is an international residential property development group based in The Netherlands and listed in the Alternative Investment Market of London (The "AIM").

Nanette's focused on emerging markets mostly on Central and Eastern Europe currently operating in Poland, Hungary, Romania and Croatia.

Nanette's experienced management team have over 100 years of experience in property development and proven track record of creating high level development to the customers and long term shareholder value through active management of investments in the group companies and by leveraging on its business experience, financial resources and local and international network.

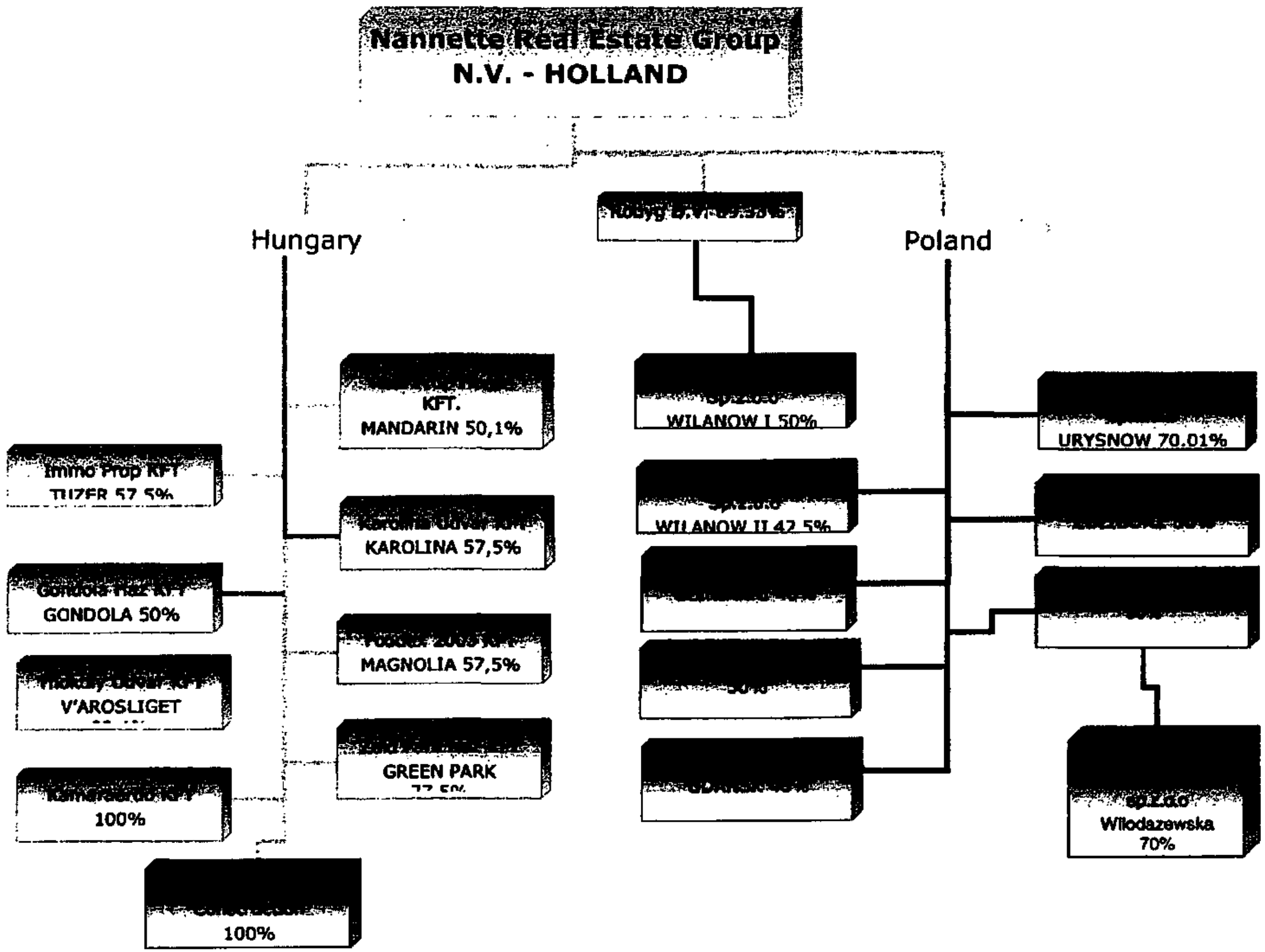
Nanette businesses develop through organic growth and acquisitions. Nanette provides capital and management resources to consolidate its businesses and accelerate the expansion of its activities. Its access to international capital markets enables it to finance this expansion. Nanette reinforces its growth by forming strategic partnerships with local and international institutions, in order to add value to the business through brand recognition, operational expertise and international reputation.

Nanette has a total of 12,453 units various stages of development approximately: 70% in Poland, 30% in Hungary, the investments in Romania and Croatia were done during early 2007.

The Nanette Group's total assets amounted to approximately Euro 138 millions and with consolidate revenues of Euro 32 millions.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

Nanette Real Estate group NV – Group Structure



Key Figures

	2006 Euro '000	2005 Euro '000	2004 Euro '000
Revenues	[redacted]	[redacted]	[redacted]
Gross Margin	6,349	1,146	-
Operational Margin	[redacted]	[redacted]	[redacted]
Net Result	8,361	(1,385)	208
Cash and Cash Equivalents	5,531	7,502	3,839
Shareholders' Equity	[redacted]	[redacted]	[redacted]
Total Assets	137,546	76,879	42,354
Per share Result	0.06	(0.01)	(*
Number of shares	[redacted]	[redacted]	[redacted]

(* - less then Euro 0.001

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

STRUCTURE

Key Financial per share	2006	2005	2004
Net Result	0.06	(0.01)	(*
Shareholders' Equity	[redacted]	[redacted]	[redacted]
Number of shares	[redacted]	[redacted]	[redacted]

(* - less then Euro 0.001

Liquidity Provider

London base- KBC Peel Hunt Plc. acts as a liquidity provider for Nanette shares listed on the AIM.

Financial Calendar

Q1 2007 results – 28 May 2007
Q2 2007 results – 28 August 2007
Q3 2007 results - 28 November 2007
Q4 2007 results - 25 March 2008
Q1 2008 results - 27 May 2008

Dividend Policy

The proposed dividend policy recommends an annual distribution of 30% of the net income. The annual dividend recommendation will take into consideration the level of net income, liquidity and capital position, future financing requirements, financial covenants of the Company and all within the limitation of the law. it should be noted that due to the nature of the Company's strategy and the structure of its earnings, dividend distribution may vary from year to year.
In addition Nanette is obliged to offer the debenture holders of series "A" (that were issued during 2005) a repayment of the bonds up to the level of the proposed dividends.

Additional Information

Additional information can be obtained from:
Nanette Real Estate Group N.V.
Rapenburgerstraat 204
1011 MN Amsterdam
Tel: 31-20-7784-141
Fax: 31-20-3305-444

Other publications and information:

www.nanettegroup.com

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

BOARD COMPOSITION

Dutch law requires that a company's management and operations are overseen by a board consisting of at least one or more executive directors. In addition, a Dutch company may have a supervisory board (consisting of non-executive directors). Alternatively, a company organized under Dutch law may have a one tier board, consisting of both executive and non-executive directors. The Company operates such a one tier governance structure in which a single board contains both executive and non-executive directors.

Dutch law requires that the composition and functioning of a board comprising both executive members who are responsible for the day-to-day running of the company and non-executive members who are not, shall be such that proper and independent supervision by the non-executive members is assured. As such, the executive Directors of the Company are authorized to represent the Company whilst the non-executive Directors are not authorized to represent the Company, unless given prior mandate by the Board.

The Company board of directors comprises of 9 members of which 2 members can be regarded as independent under the criteria laid down in the Corporate Governance Code. These are Mr. Jacoby and Mr. Keltsh. The other members are not independent under these criteria as they are related by blood or shareholders that hold more than ten percent of the shares in the Company.

The board of the Company has appointed 3 committees:

The audit committee:

Chairman E. Keltsh, and 2 members Mr. Y. Cimer and Mr. G. Jacoby

The Audit Committee is responsible for the assessment of the provision of the financial information. During the year 2006, the Audit Committee paid special attention to risk management, internal audit and specific accounting issues arising from the financial statements.

Internal auditor

The Audit Committee recommended to the board the appointment of an internal auditor, Mr. Uzi Shmoeli, who performed a preliminary audit survey and file a report finding to the board with recommendations for a 4 year audit plan, the board approved these recommendations.

Remuneration Committee:

Chairman: E. Keltsh and 2 members Mr. Y. Cimer and Mr. G. Jacoby

The Remuneration Committee is responsible for the assessment of the provision of salaries and remunerations of board members and employees of the Company. The Remuneration Committee studied the applicable standard among the different AIM listed companies and gave its recommendations to the board.

Nomination Committee:

Chairman: E. Keltsh and 2 members Mr. Y. Cimer and Mr. G. Jacoby

The Nomination Committee is responsible for the assessment of the candidates for employment in the Company, during 2006 no meeting were held by Nomination Committee.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

BOARD MEMBERS

- **Shaul Lotan – *Chairman***
  - Over 38 years' experience in the Israeli real estate market, as well as in the US, Serbia & Cyprus. leading a large and prestigious real estate listed company in Israel (Levinstein)
- **Oskar Kazanelson – *Chief Executive Officer***
  - 30 years' experience in Israel and CEE. Has spent five years working in Warsaw & Budapest Residential Development, and was a founder of Nanette. Chairman of Olimpia Group, a listed Israeli real estate company.
- **Ran Jacobs – *Finance Director***
  - A certified public accountant, with five years' experience as a CFO and comptroller, both of Nanette and Olimpia, with significant experience in the CEE residential market.
- **Gerald Parkes**
  - Gerald Parkes is a Managing Director of Lehman Brothers and a principal of Lehman Brothers Real Estate Partners responsible for the day to day management of the Fund's European activities and investments. Mr Parkes has more than 25 years experience in cross border investment for institutional funds and is a Fellow of the Royal Institute of Chartered Surveyors, a Trustee and member of the Governance Committee of the Urban Land Institute and the Chairman of the Real Estate Advisory Board for Cambridge University
- **Ferenc Karl LLb**
  - A partner in a law firm, with experience in legal aspects of Hungarian real estate companies. Has a wide range of knowledge in other legal fields, serves as a lawyer to the Hungarian Companies.
- **Eyal Keltsh**
  - B.A. (Business ad. and Economics), CPA, served as a director in GTC (quoted Eastern European property developer €2bn market cap) and its parent company Kardan, in Holland, also director in Clal (large multinational co.) in Holland.

- **Gilley Jacoby**
  - MBA, experienced real estate developer and projects manager, in the US, and Budapest. Well connected to the banking system in Budapest.
- **Josef Cimer**
  - B.A. (accounting and economics), CFO of Levinstein, 25 years of experience , until 2002 was a senior deputy manager of Gmul, a large investment group in Israel. Large experience in financial reports of public companies, and the real estate field. Served as a director in many companies.
- **Simon Katznelson**
  - Mr. Katznelson holds an MPA from Clark University in the United States and Msc. Engineering degree from Kiev Poliytech Institutes, USSR. Mr. Katznelson is experienced in the engineering field of computers and financial operations and serves as a director in many of the largest companies in Israel. He is a Director of El-Al (Israeli airline), Pelephone Communication Company (the first mobile phone company in Israel), ELTA-Electronic Airspace Industry, ADC – Ashdod Development and Real-estate Company and the Chairman of the Board of the Israel National Lottery – Mr Kazanelson resign from the board during 2007.

Chairman & CEO Review

The year has been an exciting one with the admission to AIM and subsequent fundraisings which have and will enable the Group to take advantage of the growth opportunities that exist in the Central and East European region (CEE).

Developing economies and simultaneous migration to major economic centers have created a growing urban middle class who are hungry for modern residential accommodation. Nanette was founded to take advantage of this long term demand.

The Group was admitted to AIM in June 2006 with plots secured in Warsaw, Poland and Budapest in Hungary. These locations have given the Group a solid base and will continue to offer good opportunities. The primary growth driver will come through utilizing our skills in other parts of the region for acquisition of new projects.

This strategy can be seen in our operational progress. Post the admission to AIM, the Group, through wholly owned subsidiaries, has purchased sites in Gdansk and Budapest.

To make the most of the opportunities that exist in the region the Group must be light on its feet and able to negotiate and complete deals in as short a time frame as possible. In order to enable this strategy, the Group has raised three post IPO tranches of capital: the issue of debentures listed on the Tel Aviv stock exchange; an institutional equity placing raising €16.5 m (£11 m) and finally in March 2007 we concluded a deal whereby Lehman Brothers Real Estate Partners Group (LBREP), subscribed for 15% of the enlarged share capital raising a further €33 m (£21.9 m). We now have access to significant funds to accelerate the growth of the Group.

2006

The year has seen a significant increase in activity with 604 completions (2005: 156) The completions were split with 182 in Poland and 422 in Budapest. We pride ourselves on providing a good quality product in good locations – as has been the case in both Warsaw and Budapest. Warsaw, in particular, has a strong demand for good quality housing and provides opportunities for us to make reasonable returns, although competition for sites has intensified over the last year. Budapest is a more mature market but continues to provide opportunities for us as we represent one of the major developers in the city.

At the time of the admission to AIM we had 13 plots secured, which at the yearend we had increased to 16 plots. The land-bank typically consists of sites with varying planning consents and some will be held for some months while planning is approved or amended in order to provide the Group with the best possible development.

The profit, before income taxes, for the year is €9.4 m (2005: €1.6 m loss). The Group ended the year with €5.5 m of net cash excluding €19.23 m of debentures.

Dividend

We are also pleased to confirm that the Company declared the intention to pay its maiden dividend since being admitted to AIM. This amounts to 1.75 c per share, and is payable after approval by the general assembly of the shareholders, The EGM (Extraordinary General Meeting) that was held on April 13, 2007 approved the payment of dividends.

Board

The Board of Directors was established in its current form following the admission to AIM. I would like to thank the Executive team together with their colleagues for the progress that has been made in 2006. I also appreciate the time and commitment that the Non Executive Directors have made to the Group in what has proven to be a busy period. Oskar Kazanelson continues to identify exciting opportunities and I would like to thank him especially for the growth that has been achieved.

Following LBREP subscription of equity and their ongoing operational support in Poland, the Board proposes Mr. Gerald Parkes as a non executive Director. Gerald Parkes is a Managing Director of Lehman Brothers and a principal of Lehman Brothers Real Estate Partners responsible for the day to day management of the Fund's European activities and investments. Mr Parkes has more than 25 years experience in cross border investment for institutional funds and is a Fellow of the Royal Institute of Chartered Surveyors, a Trustee and member of the Governance Committee of the Urban Land Institute and the Chairman of the Real Estate Advisory Board for Cambridge University.

In March 2007, Jon Kempster resigned as Non Executive Director. I would like to thank Jon for his help and assistance over the period since flotation.

Outlook

We believe the region will continue to provide considerable growth opportunity, due to the continued projected economic growth and further economic liberalization of the new EU members and candidates.

Whilst we will continue to develop sites in the cities in which we commenced operations - Warsaw and Budapest, our desire and appetite for growth has seen purchases in Gdansk and now Bucharest. We will maintain our light footed approach and consider both other cities and other countries in the region if the project fits our requirements and investment parameters. In addition, we may see opportunities to sell parcels of land which we will do so if the returns available are sufficient.

The funds available to the Group are significant and together with our partners in specific sites we are confident that the region provides exciting opportunities to progress the Group.

Shaul Lotan - Chairman *Oskar Kazanelson - Chief Executive Officer*

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

DIRECTORS REPORT

The directors are pleased present the annual report of Nanette Real Estate group N.V. for the year 2006, including the annual accounts drawn by the Company and approved by the board of directors. The financial statements have been audited by Ernst & Young Accountants LLP. The auditors' report is included on page 98 of this annual report.

This year Nanette achieved a significant step, it had successfully completed listing on the AIM (Alternative Investment Market) in London.

A Strategic alliance was formed with LBREP of Lehman Brothers that gives both groups the possibility to cooperate on all future investments in Poland, Hungary and Romania, this agreement was concluded after LBREP had joined us in 2 of our projects and requested more cooperation, following the increased corporation on March 2007 LBREP was issued 15% of Nanette share capital.

In July 2006 Nanette issued debentures for the total amount of Euro 9.9 million (NIS 55 million) to institutional in Israel.

During 2006 Nanette increased its apartment pipeline from 4,500 to 12,450 units at year end, Nanette expanded it Polish operations into additional cities and acquired additional land in Budapest.

During 2006 Nanette group completed and handed over to clients 604 apartments a 400% increase of 2005 results (154 apartments)

Operational Overview

With the increase we had in our operation Nanette recruited additional personal for it head-quarter and in the various subsidiaries.

The Polish activities have grown from 3,000 units to 8,750 units and a strategic entry to additional cities in Poland, land was acquired in Gdansk and negotiations for plots in other cities are ongoing. LBREP had join us in 2 of our projects and following the strategic alliance agreement that was concluded with them we expect LBREP will participate in all future activities in Poland.

In Hungary we recorded a growth from 1,500 apartments to 3,700 apartments at the end of the year in the pipeline.

Our management team is constantly engaged in searching additional plots in Poland, Hungary Romania and Croatia; Nanette investment philosophy is to find promising plots of land – rezone and improve their potential.

Financial development

Nanette had demonstrated a significant improvement in its result for the year 2006, the net profit amounted to Euro 8.4 million, compare to a loss of Euro 1.4 million last year; the total revenues increased from Euro 5.1 million in 2005 to Euro 31.9 million.

The group is recording revenues according IFRS rules and registering the revenues only when apartment is sold completed and delivered; Nanette recorded revenues of €31.9 million, €21.2 from the Hungarian activities and €10.7 from its Polish activities

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

The gross profit of the year amounted to € 6.3 million (2005 – €1.1 million) and the operating profit € 3 million (2005- loss of € 0.5 million).

The company recorded net financing income of € 2.2 million (2005 – loss of € 1.6), in addition the group recorded additional income of € 4.2 million capital gains from the entry of LBREP to the group subsidiaries in Poland and in Hungary.

The company recorded a pretax gain of € 9.4 million (2005 – loss of € 1.6), tax on income amounted to € 1 million (2005 - differed tax of € 0.2 million).

Nanette net profit amounted to € 8.4 million, € 7 million attributed to equity holders of the parent and € 1.4 million to the minority (2005 – loss of € 1.4 million, € 1 million attributed to equity holders of the parent and € 0.4 million to the minority).

Total assets as at 31 December 2006 amounted to € 138 million compared to € 77 million at the end of 2005. This 79% increase in the total assets was mainly the result of (i) the significant increase in customer deposit resulting from the increased rate of sale of apartments in Hungary and Poland. (ii) The increase in inventory of land and housing units (iii) the increase of land reserve and land for investment purposes (iv) The increase in loan provided to affiliate companies that were not consolidated.

As at 31 December 2006 the shareholders equity increased by 250% as a result of the new capital raised from share issuance and the year profits

Outlook 2007

The changes in the holding structure, the capital increase of 2006 and the fund raising during first quarter of 2007, have positioned Nanette for significant expansion. This year, Nanette intends to invest at accelerated pace in Poland with the intention of expanding to other major cities, in Hungary to continue looking for opportunities in Budapest, Nanette intend to enter into Romania and Croatia.

For events subsequent to the balance sheet date – see note 26 to the consolidated IFRS financial statements.

After reviewing the Company's performance we recommend the General Meeting of the Shareholders (GM) to adopt the annual accounts during the Annual General Meeting of Shareholders (AGM) to be held in 2008.

We are also recommending the Shareholders to adopt the dividend distribution policy and accordingly to declare dividend of Euro 0.0175 per share.

RISK MANAGEMENT

General

Nanette's board of directors is responsible for setting strategic, operational and financial objectives and designing and implementing risk management policies and systems that are in line with these objectives. The risk management activities form an integral part of it's of its day-to-day business and are aimed at ensuring effective and efficient operations, reliable financial reporting and compliance with laws and regulations.
In line with Nanette's decentralize management structure for its diversified businesses in various geographic areas; the management of the subsidiaries has responsibility to ensure that their risk management and control systems are properly implemented. Managers at all levels have the responsibility for managing risk as an integral part of their day to day operations and decisions, monitor control processes, perform risk assessment and execute action plan.

Nanette's board of directors is responsible for risk overview, supervision on financial reporting and approval of risk management objectives and strategy. The audit committee is responsible for monitoring activities and evaluating risk management performance.

Risk Management and Internal control systems

Nanette appointed this year an internal auditor, the internal auditor had perform a survey and issued a report that included a four year audit plan to review and further assess the risks in the various countries, the audit committee and the board will observe and exam if the internal control are sufficient or additional control methods are required. Nanette is currently in the process of further implementing the various elements thereof and will offer the management of its subsidiaries the support to ensure that their respective risk management and control systems are implemented in line with these elements.

Risk Profile

Since a main element of Nanette's strategy is to invest in emerging markets, taking risks is a basic aspect of its businesses. To optimize the Group's overall risk profile, the Board of Nanette is continuously focusing on proper sector allocation, geographic diversification and proactive management involvement in the Group and its subsidiaries.
Some of the Group's strategic, operational, financial reporting, and compliance risks areas are listed below. There may be other significant - risks the Company has not yet identified or have been assessed as not having a significant potential impact on the business but which in a later stage could materialize as such.

Macroeconomic conditions

Nanette is a global company and being so it is subject to the different business risks associated with macroeconomic trends and events. Nanette operates in various sectors through its subsidiaries. The diverse nature of the business and distinctive competitive position may increase the risk factors. Nanette aims to reduce these risks but a substantial portion of its activities may still experience financial risks due to economic conditions, currency exchange rate and general market conditions.

Market – Political risks

Nanette has subsidiaries in Poland, Hungary and after 31.12.2006 also in Romania and Croatia these countries are emerging markets. These subsidiaries can be exposed to changes in government regulations and potentially unfavorable political developments that may hamper the development of certain opportunities or might impair the value of local business. Emerging markets have a different risk profile than the Western European region. Political and economic changes may impact the Group's activities there as well have a significant consequence on the financial positions of the Group. The Board is closely monitoring the activities in these markets in order to limit these risks.

Human Resources

The Group aims to retain highly specialized, professional and committed staff as much as possible in respect to Board of Management, finance, legal advisors, administration, etc. Due to the strong, decentralized structure of the Group we intend to develop a highly structured Human Resource platform in order to address this issue properly. Guidelines for recruitment procedures are currently being written. The Group understands that human resources in general and strong local management in particular are critical to the future success of the Company.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

Foreign Currency risk

Nanette Group conducts business in a variety of countries; a significant part of its assets, liabilities and results is sensitive to currency movements. Subsidiaries that do not have the USD as measurement currency generally have an equity position that reflects their risk profile. Nanette's presents its financial statements in Euro though its functional currency is the USD. On the translation of the share in shareholder's equity, a translation gain or loss can arise because this position is not hedged. Regarding the other financing of these subsidiaries, the Group companies attempt to match the currency of the income with that of the costs and financing currency to minimize the foreign currency risk.

Interest rate risk

The Group's exposure to interest rate risk is due primarily to the Group's long term debt obligations. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt. Nanette aims to limit the impact of fluctuations in interest rates on the results and reduce total interest expenses as much as possible.

Liquidity risk

The generation of sustainable cash-flow is pivotal for Nanette's strategy and value creation for all its shareholders. Nanette manages and generate cash-flows through issuance of shares, debentures, sale part of properties or companies and the day to day operations of its subsidiaries in form of dividend payments and loan repayments.

Credit risk

Credit risk represents the loss that would be recognized at the reporting date if counterparties failed completely to perform their payment obligations as contracted. The Group is exposed to credit risk with regard to its trade receivables, cash and cash equivalents, derivative assets and noncurrent financial assets. The Group's policy is to trade only with recognized, creditworthy third parties. To reduce exposure to credit risk, the Group performs ongoing credit evaluations of the financial conditions of its customers and debtors, and adjusts payment terms and credit limits when appropriate.

Acquisitions

In the pursuit of further acquisitions and investments, Nanette seeks for a balance between organic and acquired growth within the limit of a conservative financial structure. In acquisitions, specifically in emerging markets, Nanette is faced with different cultures, political economic and social elements. This may affect corporate value, image and quality standards. Due to the risk factor that is present in every acquisition, a general and intensive due diligence is carried out before an acquisition is made. The main operational risks are related to the loss of ability to generate stable cash-flows, proper valuation procedure and risk associated with pipeline projects.

Financial Reporting

To ensure reliable financial reporting there are detailed accounting and reporting requirements specifying reporting time schedules and formats such as the IFRS compliance. Nanette's financial reporting, as in all its subsidiaries, supports common accounting and regular financial reporting in standard forms. External audit activities which are based as a statutory requirement are achieved and consolidated figures provide additional assurance on fair presentation of financial reporting. External auditors also report on internal control issues. The financial control process has also been translated into a standard business process with "built in" internal controls such as authorizations and segregations of duty, mandatory control reports and documented procedures.

Valuation of assets

Nanette realizes that the value of its investments may decline and cash-flow returns may not be optimized. Yield shifts in the market may have a strong effect on cash-flow generation as well. The valuation process is not an exact science but may very much depend upon in depth market expertise, professional judgment which is carried out with an extensive decision making process and the use of appropriate valuation models. In order to asses risk management in regards to pipeline projects, Nanette strives to ensure close and regular monitoring of market transactions benchmark performance internally and externally and fair value accounting in the financial statements.

Nanette Real Estate group
Amsterdam, the Netherlands

Consolidated Financial Statements

NANETTE REAL ESTATE GROUP N.V.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2006

EURO IN THOUSANDS

INDEX

- - - - - - - - - - - - -

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

CONSOLIDATED BALANCE SHEETS

Euro in thousands

	Note	December 31, 2006	December 31, 2005
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	5,511	7,502
Deposits	4	24,709	10,696
Trade and other receivables	5	8,088	7,576
Inventory of land and housing units	6	71,858	42,656
		110,166	68,430
NON-CURRENT ASSETS:			
Inventory of land and housing units	6	4,715	1,007
Investment property	7	6,749	-
Furniture and equipment	8	137	29
Goodwill	11	1,141	-
Investment in associate	9	-	7,229
Deferred tax asset	13c	223	184
Other financial assets	10	14,415	-
		27,380	8,449
Total assets		137,546	76,879

The accompanying notes are an integral part of the consolidated financial statements.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

CONSOLIDATED BALANCE SHEETS

Euro in thousands

	Note	December 31, 2006	December 31, 2005
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Interest bearing loans and borrowings	12	34,464	12,169
Trade and other payables	14	11,081	5,243
Customer advances	6	19,637	13,292
		65,182	30,704
NON-CURRENT LIABILITIES:			
Interest bearing loans and borrowings	12	35,853	31,608
Other liabilities	17	1,586	1,509
Deferred tax liability	13c	2,752	91
		40,191	33,208
Total liabilities		105,373	63,912
EQUITY:			
Equity attributable to equity holders of the parent:			
Share capital	16	2,660	2,400
Share Premium	16	20,524	8,422
Other reserves	16	3,221	3,025
Retained earnings (accumulated deficit)		3,868	(1,721)
		30,273	12,126
Minority interests		1,900	841
Total equity		32,173	12,967
Total liabilities and equity		137,546	76,879

The accompanying notes are an integral part of the consolidated financial statements.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

CONSOLIDATED INCOME STATEMENTS

Euro in thousands (except per share data)

	Note	Year ended December 31, 2006	2005
Revenues		31,869	5,122
Cost of revenues		25,520	3,976
Gross profit		6,349	1,146
Marketing, general and administrative expenses	19	3,358	1,674
Operating profit (loss)		2,991	(528)
Finance costs	20	(3,602)	(1,853)
Finance income	20	5,835	633
Share of profit of an associate		-	146
Other income	21	4,216	-
Profit (loss) before taxes on income (tax benefit)		9,440	(1,602)
Taxes on income (tax benefit)	13d	1,079	(217)
Profit (loss) for the year		8,361	(1,385)
Attributable to:			
Equity holders of the parent		7,031	(1,026)
Minority interests		1,330	(359)
		8,361	(1,385)
Earnings (loss) per share attributable to equity holders of the parent (in Euros):	22		
Basic and diluted		0.06	(0.01)

The accompanying notes are an integral part of the consolidated financial statements.

For identification purposes only
ERNST & YOUNG ACCOUNTANTS

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Euro in thousands

	Attributable to equity holders of the parent									
	Share capital	Share premium	Inventory Revaluation	Currency translation adjustments	Acquisition of minority interest	Investment in associates	Retained earnings (accumulated deficit)	Total	Minority interests	Total equity
Balance at January 1, 2005	44	4,215	48	10	-	284	(452)	4,149	339	4,488
Currency translation differences	-	-	-	680	-	-	-	680	(19)	661
Loss for the year	-	-	-	-	-	-	(1,026)	(1,026)	(359)	(1,385)
Total recognised profit for 2005	-	-	-	680	-	-	(1,026)	(346)	(378)	(724)
Revaluation arising on business combinations	-	-	1,718	-	-	-	-	1,718	-	1,718
Depreciation transfer, inventory	-	-	(23)	-	-	-	-	(23)	-	(23)
Issue of share capital	2,356	4,000	-	-	-	-	-	6,356	-	6,356
Conversion of loan from shareholder into share capital	-	207	-	-	-	-	-	207	-	207
Dividend to minority interest	-	-	-	-	-	-	-	-	(605)	(605)
Acquisition of minority interest	-	-	-	-	65	-	-	65	(141)	(76)
Minority interest arising on business combination	-	-	-	-	-	-	-	-	1,626	1,626
Reclassification according to station requirements(*)	-	-	-	-	-	243	(243)	-	-	-
	2,356	4,207	1,695	-	65	243	(243)	8,323	880	9,203
Balance at December 31, 2005	2,400	8,422	1,743	690	65	527	(1,721)	12,126	841	12,967
Currency translation differences	-	-	-	(1,246)	-	-	-	(1,246)	73	(1,173)
Profit for the year	-	-	-	-	-	-	7,031	7,031	1,330	8,361
Total recognised profit for 2006	-	-	-	(1,246)	-	-	7,031	5,785	1,403	7,188
Share-based compensation	-	275	-	-	-	-	-	275	-	275
Transfer of revaluation reserve upon disposal of inventory	-	-	(493)	-	-	-	493	-	-	-
Issue of share capital (see Note 16a6)	260	11,827	-	-	-	-	-	12,087	-	12,087
Dividend to minority interest	-	-	-	-	-	-	-	-	(12)	(12)
Disposal of subsidiary	-	-	-	-	-	-	-	-	32	32
Acquisition of subsidiary	-	-	-	-	-	-	-	-	4	4
Acquisition of minority interest	-	-	-	-	-	-	-	-	(368)	(368)
Reclassification according to station requirements(*)	-	-	-	-	-	1,935	(1,935)	-	-	-
	260	12,102	(493)	-	-	1,935	(1,442)	12,362	(344)	12,018
Balance at December 31, 2006	2,660	20,524	1,250	(556)	65	2,462	3,868	30,273	1,900	32,173

(*) In accordance with the Dutch law, part of the retained earnings for distribution, following the regulation to maintain a legal reserve, is recognized in a legal reserve. Reference is made to note 10 of the company only statutory Dutch GAAP financial statements for the legal reserve.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOWS STATEMENTS

Euro in thousands

	Year ended December 31, 2006	2005
Cash flows from operating activities:		
Profit (loss) for the year	8,361	(1,385)
Adjustments for:		
Non-cash:		
Depreciation	44	5
Depreciation transfer, inventory	-	(23)
Finance costs	3,602	1,853
Finance income	(5,835)	(633)
Share-based compensation	275	-
Taxes on income (tax benefit)	1,079	(217)
Gain on sale of interest in joint ventures and subsidiaries	(4,183)	-
Share of profit of an associate	-	(146)
	(5,018)	839
Working capital adjustments:		
Increase in trade and other receivables	(3,009)	(484)
Increase in inventory of land and housing units	(20,768)	(18,930)
Increase in trade and other payables	12,934	3,498
Increase (decrease) in customer advances	(183)	2,825
	(11,026)	(13,091)
Interest paid	(2,121)	(981)
Interest received	242	501
Income tax paid	(725)	(139)
	(2,604)	(619)
Net cash used in operating activities	(10,287)	(14,256)
Cash flows from investing activities:		
Acquisition of subsidiaries, net of cash acquired (a)	(1,091)	(448)
Proceeds from disposal of proportionately consolidated company (c)	-	2,427
Proceeds from disposal of interest in subsidiary	11	-
Reduction in cash upon sale of jointly controlled entity	(1)	-
Acquisition of additional interest in proportionately consolidated company	(2,072)	-
Company proportionately consolidated for the first time (formerly an associate)	(2,654)	-
Proceeds from disposal of interest in Subsidiaries (still proportionally consolidated entities) (b)	2,739	-
Acquisition of minority interest in subsidiaries	(2,306)	(34)
Loans granted	(2,627)	(1,874)
Short-term loan repayment received from related parties	-	928
Loan repayments received from related parties	-	176
Restricted bank deposits, net	(13,492)	(4,967)
Purchase of land held as investment property	(12,474)	-
Purchases of furniture and equipment	(62)	(24)
Net cash used in investing activities	(34,029)	(3,816)

The accompanying notes are an integral part of the consolidated financial statements.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

CONSOLIDATED CASH FLOWS STATEMENTS

Euro in thousands

	Year ended December 31,	
	2006	**2005**
Cash flows from financing activities:		
Short-term loans, net	(726)	(813)
Issue of share capital, net of issue costs	12,087	-
Dividends paid to minority interest	-	(381)
Issue of debentures, net of issue costs	9,809	9,403
Receipt of long-term loans	33,216	16,726
Repayments of long-term loans	(12,072)	(3,335)
Net cash provided by financing activities	42,314	21,600
Effect of exchange rate changes on cash and cash equivalents	11	135
Increase (decrease) in cash and cash equivalents	(1,991)	3,663
Cash and cash equivalents at beginning of year	7,502	3,839
Cash and cash equivalents at end of year	5,511	7,502

Supplementary information on investing and financing activities not involving cash flows:

1. In 2005, the Company repaid long-term loans that it had received by transfer of long-term loans granted to a related party in the amount of € 1,141.
2. In 2005, the Company issued share capital in the amount of € 627, in return for an investment of € 478 (see also Note 16a(2)), for the repayment of loans received from related parties amounting to € 14 and for a loan granted to a related party amounting to € 136, which was repaid in June 2005.
3. In 2005, the Company repaid a long-term loan in the amount of € 186 that it had granted to a related party, by reducing its repaid liabilities to a related party.
4. In 2005, a long-term loan in the amount of € 207, from a related party was converted into capital (see also Note 16a).
5. In December 2005, the Company issued share capital. The proceeds from the issue amounting to € 5,729 were deposited with a trustee and were included among other receivables in the balance sheet. In January 2006, the issue proceeds were received in cash.
6. As of December 31, 2006, subsidiaries had current liabilities of € 11, in respect of a dividend, which had been declared but had not yet been paid to the minority interests (2005 - € 224).

The accompanying notes are an integral part of the consolidated financial statements.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

CONSOLIDATED CASH FLOWS STATEMENTS

Euro in thousands

	Year ended December 31, 2006	2005
(a) Acquisition of subsidiaries, net of cash acquired		
Assets and liabilities at date of acquisition:		
Working capital (excluding cash and cash equivalents)	(1,080)	(14,247)
Fixed assets	-	(7)
Land	(1,202)	-
Long-term liabilities	161	10,228
Long-term receivables	1,034	(131)
Minority interests	(4)	1,626
Previous investment in associate	-	365
Inventory revaluation reserve	-	1,718
	(1,091)	(448)
(b) Proceeds from disposal of interest in Subsidiaries (still proportionally consolidated entities)		
Assets and liabilities at date of sale:		
Working capital (excluding cash and cash equivalents)	12,601	-
Investment properties	6,503	-
Long-term receivables	(11,014)	-
Fixed assets	5	-
Goodwill	70	-
Long-term liabilities	(9,501)	-
Minority interest	32	-
Investment in associate	947	-
Gain on disposal	3,096	-
	2,739	-
(c) Proceeds from disposal of interest in proportionally consolidated entities		
Assets and liabilities at date of sale:		
Working capital (excluding cash and cash equivalents)	-	18,452
Long-term receivables	-	(150)
Fixed assets	-	1
Long-term liabilities	-	(8,473)
Investment in associate	-	(7,403)
	-	2,427

The accompanying notes are an integral part of the consolidated financial statements.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

NOTE 1:- GENERAL

Nanette Real Estate Group N.V. ("the Company) was incorporated in the Netherlands on September 6, 2000.

The Company is a limited liability company incorporated and domiciled in the Netherlands. The address of its registered office is Rapenburgerstraat 204, 1011 Mn Amsterdam, The Netherlands. The Company's shares are publicly traded on AIM in London. In addition, the Company has debentures outstanding which are registered for trading on the Tel-Aviv Stock Exchange.

The Company and its investee companies ("the Group") are engaged in the development, construction and sale of real estate housing projects in Hungary and Poland (see Note 25, for information on the Group's geographical segments). In 2007, the Company commenced to operate in Romania through a local subsidiary.

The Company's activities are carried out through unaffiliated management companies in Hungary and Poland that provide management and operating services to the Company. Those companies have entered into agreements with subcontractors for the execution and management of the projects and for supervision of execution. Additionally, affiliated companies (see Note 23a) provide management and inspection services to the Group. At the end of 2006, the Company set up a Hungarian subsidiary, which, as of the balance sheet date, is to provide construction services for two investee companies.

These financial statements are the first statutory financial statements of the Company that have been audited by a Dutch auditor. 2006 is the first year that the Company complies with 2 BW title 9 article 393.

The statutory financial statements which comprise these consolidated IFRS financial statements and the company-only Dutch GAAP financial statements were authorized for issuance by the Board of Directors on July 22, 2008.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, on the historical cost basis, except for investment properties and derivative financial instruments that have been measured at fair value.

b. Significant accounting judgments, estimates and assumptions:

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 18.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Functional currency:

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's functional currency is the U.S. dollar.

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

d. Presentation currency:

The consolidated financial statements are presented in Euro. The Group chose the Euro as its presentation currency since it provides investors with more relevant information.

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

1. Assets and liabilities for each balance sheet presented are translated at the closing rate at that balance sheet date;

2. Income and expenses for each income statement are translated at weighted average exchange rates; and

3. All resulting exchange differences are recognised as a separate component of equity.

When an entity is disposed of, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

e. Basis of consolidation:

1. The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December each year. The financial statements of subsidiaries, jointly controlled entities and associates are prepared for the same reporting year as the parent company, using consistent accounting policies.

2. Subsidiaries are entities over which the Company has control. Subsidiaries are fully consolidated from the date on which control is transferred to the Group (see also p. below) and they continue to be consolidated until the date that control ceases.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date irrespective of the extent of any minority interest.

In a business combination achieved in stages, the increase in the fair value of the identifiable net assets relating to the interest held prior to the business combination is recognized as an asset revaluation surplus in equity.

Significant intercompany balances and transactions between Group companies included in the consolidated financial statements have been eliminated.

3. Acquisitions of subsidiaries from controlling shareholders are included in consolidation, with retrospective effect, as from the date control was originally acquired by the controlling shareholder, based on the carrying values of such subsidiaries in the controlling shareholders' books. Any difference between the acquisition cost paid by the Company, and the carrying amount of the investment in the controlling shareholders' books, is carried directly to equity.

4. Commencing in 2006, transactions with minority interests are treated in the same manner as transactions with external parties. Sales to minority interests result in a gain or loss that is recognised in the income statement. Acquisition of minority shares at a cost which exceeds the carrying amount of the acquired net assets results in goodwill. In prior years, the Group applied a policy of treating transactions with minority interests as capital transactions. Accordingly, any difference from disposals of, or purchases from, minority interests, which were not at carrying value of the investment, was attributed directly to equity. The effect of applying this accounting policy on prior years would have been immaterial.

5. Associates are those entities over which the Group has significant influence and which are neither subsidiaries nor joint ventures. Investments in associates are accounted for using the equity method of accounting.

   The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. Profits and losses resulting from transactions between the Group and associates are eliminated to the extent of the interest in the associate.

   The Group ceases to use the equity method of accounting on the date from which it no longer has significant influence or on which the associates become a joint venture or subsidiary.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

6. The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

f. Adoption of new interpretations and disclosures:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial statements of the Group.

- IAS 19 Amendment - Employee Benefits
- IAS 21 Amendment -The Effects of Changes in Foreign Exchange Rates
- IAS 39 Amendments -Financial Instruments: Recognition and Measurement
- IFRIC 4 Determining whether an Arrangement contains a Lease

The principal effects of these changes are as follows:

IAS 19 Employee Benefits

The standard requires additional disclosures that provide information about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. This change has resulted in additional disclosures being included for the years ending 31 December 2006 and 31 December 2005 but has not had a recognition or measurement impact, as the Group chose not to apply the new option offered to recognise actuarial gains and losses outside of the income statement.

IAS 21 The Effects of Changes in Foreign Exchange Rates

According to this standard all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements regardless of the currency in which the monetary item is denominated. This change has had no significant impact as at 31 December 2006 or 31 December 2005.

IAS 39 Financial Instruments: Recognition and Measurement

Amendment for financial guarantee contracts (issued August 2005) - amended the scope of IAS 39 to require financial guarantee contracts that are not considered to be insurance contracts to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue. This amendment did not have an effect on the financial statements.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Amendment for hedges of forecast intragroup transactions (issued April 2005)

Amended IAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment did not have an effect on the financial statements.

Amendment for the fair value option (issued June 2005)

Amended IAS 39 to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, hence the amendment did not have an effect on the financial statements.

IFRIC 4 Determining Whether an Arrangement contains a Lease

Interpretation 4 provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has not had a significant impact on the Group as at 31 December 2006 or 31 December 2005.

IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

Interpretation 5 establishes the accounting treatment for funds established to help finance decommissioning for companies assets. As the entity does not currently operate in a country where such funds exist, this interpretation has had no impact on the financial statements of the Group as of 31 December 2006 or 31 December 2005.

IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

Interpretation 6 established the recognition date for liabilities arising from the EU Directive relating to the disposal of Waste Electrical and Electronic Equipment. There was no impact on the financial position as at 31 December 2006 and 31 December 2006.

g. Furniture and equipment:

Furniture and equipment are stated at cost, less accumulated depreciation and impairment. These assets are depreciated by the straight-line method over their estimated useful life (mainly three years).

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Impairment of non-financial assets:

The Group assesses at each reporting date whether events or changes in circumstances indicate that an asset may be impaired. An impairment loss is recognised if the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted using a pre-tax discount rate that reflects current market assessments specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

i. Goodwill:

Goodwill acquired in a business combination is measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost, less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at December 31.

j. Inventories:

Inventories of housing units under construction are stated at the lower of cost and net realisable value.

Costs relating to the construction of inventory of housing units are including the following:

(i) Costs incurred relating to phases of the project not available for sale; and

(ii) Costs incurred relating to units unsold associated with a phase of the project that is available for sale.

Such costs include:

(i) Leasehold rights for land, construction costs paid to subcontractors for the construction of housing units; and

(ii) Capitalized costs which include borrowing costs, planning and design costs, construction overhead and other related costs.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Investment properties:

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year 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. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

For a transfer from investment property to owner occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an 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. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement. When the Group completes the construction or development of a self constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement.

l. Interest-bearing loans and borrowings:

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

m. Capitalization of borrowing costs:

Borrowing costs are accrued and expensed in the period in which they are incurred except to the extent they are directly attributed to construction. In such a case, borrowing costs are capitalized as part of the cost of the asset.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Borrowing costs include interest and foreign exchange differences to the extent that they are regarded as an adjustment to interest cost.

The Company capitalized interest costs to the investment of qualified assets.

Capitalization of borrowing costs starts on commencement of development and finishes when construction is substantially complete.

Debt issuance expenses are deducted from the amount of debt originally recognized. These costs are amortized through the income statement over the estimated duration of the loan, except to the extent that they are directly attributable to construction. Debt issuance expenses represent an adjustment to effective interest rates.

n. Cash equivalents:

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

o. Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost less any allowance for impairment. An allowance for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of loans and receivables.

Impairment of financial assets

The Group assesses to each balance sheet date whether a financial asset or group of financial assets is impaired

p. Derecognition of financial assets

A financial asset (or a part of financial asset from a group of similar financial assets, if relevant) is derecognized when:

- The rights to receive cash flows from the asset have expired.
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pat them in full without material delay to a third party under a pass through arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either:

  1. has transferred substantially all the risks and rewards of the asset, or
  2. has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Where the Group has transferred its rights to receive cash flows from the asset and has neither transferred nor retained substantially all the risks and rewards of the asset, the asset is recognized to the extent of Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

q. Income tax:

Deferred income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor taxable profit, it is not accounted for.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

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

Deferred income tax on temporary differences arising on investments in subsidiaries and associates are not provided, since:

1. The Company's policy is not to cause distribution of dividends by subsidiaries that would involve an additional tax liability to the Group in the foreseeable future.

2. No additional tax liability is expected to be incurred at the time of distribution of profits by associated companies.

Deferred tax assets and deferred tax liabilities are offset only if they relate to the same taxable entity and that entity has a legally enforceable right to offset those assets against the liabilities.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Revenue recognition:

1. Sale of housing units:

Revenue from sales of housing units is recognised when the legal title has been transferred and significant risks and rewards of ownership have been passed to the buyer, it is probable that the economic benefits associated with the transaction will flow to the Company and provided that the Company has no further substantial remaining obligations under the contract.

2. Interest income:

Interest income is recognised as interest accrues using the effective interest method.

s. Share-based payment transactions:

The Company applies the provisions of IFRS 2, "Share-Based Payment". IFRS 2 requires an expense to be recognised where the Company buys goods or services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares of rights over shares ("cash-settled transactions"). The main impact of IFRS 2 on the Company is the expensing of employees' and directors' share options (equity-settled transactions).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using the Black-Scholes option-pricing model taking into account the terms and conditions upon which the instruments were granted. The fair values of Ordinary shares for the purpose of calculating the fair values of options and warrants were determined by management based on a number of factors, including external valuations.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Derivative financial instruments:

The Group uses derivative financial instruments such as interest rate swaps. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to profit or loss.

The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract, which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract. Embedded derivatives are recognized at fair value when any change in fair value is taken directly to profit or loss.

u. Critical accounting estimates:

1. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

2. Deferred tax asset:

   The Group recognised deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The Group regularly reviews its deferred tax assets for recoverability, based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and the implementation of tax planning strategies. If the Group is unable to generate sufficient future taxable income in certain tax jurisdictions, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, the Group could be required to eliminate a portion of the deferred tax asset resulting in an increase in its effective tax rate and an adverse impact on operating results.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

3. Impairment of goodwill:

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value in use" of the cash-generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was € 1,141 (see Note 11).

v. Future changes in accounting policies:

The Group did not yet adopted the following new standards and Interpretations. Adoption of these standards and Interpretations is not expected to have a material effect on the financial position and results of operations of the Group in the period of initial application.

- IFRS 7 Financial Instruments: Disclosures

  This standard requires disclosures that enable users to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

- IAS 1 Presentation of Financial Statements

  This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

- IFRS 3 (Revised) Business Combinations and IAS 27 (Revised) Consolidated and Separate Financial Statements

  IFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on 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 changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interests.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- IFRS 2 (Revised) Share-based Payment

  The amendment to IFRS 2 Share-based Payments was published in January 2008 and becomes effective for financial years beginning on or after 1 January 2009. The Standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation.

- IFRS 8 Operating Segments

  This standard requires disclosure of information about the Group's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group.

- IFRIC 8 Scope of IFRS 2

  This interpretation requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.

- IFRIC 11 IFRS 2 Group and Treasury Share Transactions

  This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed.

- IFRIC 9 Reassessment of Embedded Derivatives

  IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modified in cash flows.

- IFRIC 10 Interim Financial Reporting and Impairment

  This interpretation requires that an entity must not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

Euro in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- IFRIC 13 Customer Loyalty Programmes

  This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled.

- IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

  This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employee Benefits..

NOTE 3:- CASH AND CASH EQUIVALENTS

	December 31,	
	2006	**2005**
Cash at bank and in hand	3,103	3,863
Short-term deposits	2,408	3,639
	5,511	7,502

NOTE 4:- DEPOSITS

	December 31,	
	2006	**2005**
In Polish Zloty (1)	3,903	-
In Euro (2)	245	278
In Hungarian Forint (3)	19,284	10,418
In US Dollars (4)	1,277	-
	24,709	10,696

The deposits are daily callable, and are pledged to secure banking facilities granted to the Group and construction cost financing of the Group.

(1) Interest in respect of these deposits for the year ended December 31, 2006 are fixed at 0.05%.

(2) Interest in respect of these deposits for the year ended December 31, 2006 is based on EONIA with a margin of 0.4%. The rate of the EONIA as of December 31, 2006 is 3.6%.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

Euro in thousands, except share and per share data

NOTE 4:- DEPOSITS (Cont.)

(3) Interest in respect of these deposits for the year ended December 31, 2006 are partly fixed at 7% and partly based on BUBOR per month with a margin of 0.65%-1%. The rate of the BUBOR as of December 31, 2006 is 8.1%.

(4) Interest in respect of these deposits for the year ended December 31, 2006 is based on USD Libor with a margin of 0.7%. The rate of the USD Libor as of December 31, 2006 is 5.28%.

NOTE 5:- TRADE AND OTHER RECEIVABLES

	December 31, 2006	December 31, 2005
Trade receivables	2,734	-
Prepaid expenses	416	-
Related parties (Note 23b)	550	219
Government authorities	2,718	1,223
Payment on account of purchase of land	1,308	-
Advances to suppliers	133	353
Escrow deposit (see Note 16a(3))	-	5,728
Other	229	53
	8,088	7,576

NOTE 6:- INVENTORY OF LAND AND HOUSING UNITS

	December 31, 2006	December 31, 2005
a. Composition:		
Land and construction costs	72,410	41,249
Capitalised borrowing costs	4,163	2,414
	76,573	43,663
b. Presentation:		
Current	67,396	42,656
Non-current (land)	9,177	1,007
	76,573	43,663

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

Euro in thousands, except share and per share data

NOTE 6:- INVENTORY OF LAND AND HOUSING UNITS (Con.)

c. The movement during the year:

	December 31, 2006	December 31, 2005
Opening balance at January 1,	43,663	28,346
Additional costs capitalized during the year	46,780	22,906
Disposal of subsidiaries	(16,290)	(24,130)
Acquisition of subsidiaries	27,965	17,917
Increase in jointly controlled entity	3,118	2,863
Credited to the income (loss) statement	(25,520)	(3,976)
Currency translation differences	(3,143)	(263)
Closing balance at December 31,	76,573	43,663

- As for pledges, see Note 15b.

- The main projects included in the inventories are as follows:

Country	Project	Costs	Details
Poland	Willanow	23,379	Residential project in Warsaw
Poland	Wlodazewska	10,288	Residential project in Warsaw
Hungary	Karolina	7,356	Residential project in Budapest
Hungary	Mandarin	4,740	Residential project in Budapest
Hungary	Thokoly	4,560	Residential project in Budapest
Poland	Zoliborz	4,026	Residential project in Warsaw

As of December 2006 advances from customers amounted to € 19,637 thousands (2005 - € 13,292 thousands). The advances are presented as short term since they will offset during the Company's operational circle.

NOTE 7:- INVESTMENT PROPERTY

	December 31, 2006	December 31, 2005
Opening balance at January 1,	-	-
Addition:		
Land cost (a)	11,722	-
Additional costs	752	-
Currency translation differences	778	-
Disposal (b)	(6,503)	-
Closing balance at December 31,	6,749	-

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

Euro in thousands, except share and per share data

NOTE 7:- INVESTMENT PROPERTY (Cont.)

a. The balance as of December 31, 2006 represents land in Budapest, Hungary, which was purchased by Gondola Haz kft., a company jointly controlled by LB and the Company (see Note 15b(9)). According to the purchase agreement, the seller of the land has leased a plant on the land until December 31, 2010, as described in Note 15b(10). According to accounting policies the land is stated at fair value as of December 31, 2006.

b. In October 2006, the Company sold to Lehman Brothers Real Estate Partners L.P. (Hereafter - LB) 50% of its interest in Gondola for a consideration equivalent to 50% of the cost of land (see Note 15b(10)).

NOTE 8:- FURNITURE AND EQUIPMENT

	Total
Cost:	
Balance as of January 1, 2005	17
Acquisitions during the year	24
Sale of interest in subsidiary	(6)
Balance as of December 31, 2005	35
Acquisitions during the year	62
Company proportionately consolidated for the first time (formerly, an associate)	94
Sale of interest in subsidiary	(5)
Currency translation differences	1
Balance as of December 31, 2006	187
Accumulated depreciation:	
Balance as of January 1, 2005	5
Provision during the year	5
Sale of interest in subsidiary	(4)
Balance as of December 31, 2005	6
Provision during the year	44
Balance as of December 31, 2006	50
Depreciated cost as of December 31, 2006	137
Depreciated cost as of December 31, 2005	29

Euro in thousands, except share and per share data

NOTE 9:- INVESTMENT IN ASSOCIATE AND PROPORTIONATELY CONSOLIDATED ENTITIES

a. Associate:

1. As of December 31, 2005, the Group has 40% interest in Robyg Development Sp.z.o.o. In October 2006, the Group increased its share in Robyg Development to 50%, and commenced proportionate consolidation of the financial statements of Robyg Development. (See Note 21b for additional information.)

2. Summarised financial information of the Group's investment in Robyg Development as of December 31, 2005:

Share of the associates balance sheet:

	December 31, 2005
Current assets	22,931
Non-current assets	122
Current liabilities	(8,954)
Non-current liabilities	(5,078)
Deferred gain	(1,792)
	7,229
Share of the associates' revenues and profits:	
Revenues	306
Share in Profit	146

b. Proportionately consolidated entities :

The share of the assets, liabilities, income and expenses of the proportionately consolidated entities at December 31, 2006 and 2005 and for the years then ended, which are included in the consolidated financial statements are as follows.

	December 31,	
	2006	2005
Balance sheet:		
Current assets	59,990	-
Non-current assets	9,192	-
	69,182	-
Current liabilities	(35,075)	-
Non-current liabilities	(14,140)	-
	19,967	-

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

Euro in thousands, except share and per share data

NOTE 9:- INVESTMENT IN ASSOCIATE AND PROPORTIONATELY CONSOLIDATED ENTITIES (Cont.)

	Year ended December 31,	
	2006	2005
Income statement:		
Revenues	8,216	481
Cost of revenues	(6,002)	(319)
Marketing, general and administrative expenses	(288)	(72)
Finance costs	(634)	(131)
Finance income	753	3
Taxes on income (tax benefit)	(607)	14
Net profit (loss)	1,438	(24)

NOTE 10:- OTHER FINANCIAL ASSETS (NON-CURRENT)

	Year ended December 31,	
	2006	2005
Loans to related parties (1)	11,619	-
Other (2)	2,799	-
	14,415	-

(1) For terms and conditions relating to loans to related parties, see Note 23.

(2) On August 29, 2006, a loan in amount of € 2,036 was granted to a shareholder in a jointly controlled company. The loan bears interest at the rate of Euribor (three month) with a margin of 2% and is payable together with principal repayments on December 31, 2015. The rate of the Euribor as of December 31, 2006 is 3.73%.

For Identification purposes only
ERNST & YOUNG
ACCOUNTANTS

Euro in thousands, except share and per share data

NOTE 11:- GOODWILL

a. Cost:

	2006	2005
At January 1, 2006	-	-
Acquisition of minority interests (Note 24b)	1,211	-
Disposal of interest in subsidiary, (Note 21a)	(70)	-
At December 31, 2006	1,141	-

b. Impairment testing of goodwill:

Goodwill acquired through the acquisition of minority interest has been allocated to individual cash-generating units, for impairment testing, as follows:

Carrying amount of goodwill allocated to each of the cash-generating units:

	Carrying amount of goodwill	
	2006	2005
ROBYG Development Sp.Z.o.o.	452	-
ROBYG Park Sp.Z.o.o.	243	-
Immo Prop. Kft.	-	-
Thokoly Udvar Kft.	271	-
Foodex 2003 Kft.	-	-
Real Prop House Kft.	175	-
	1,141	-

The recoverable amount of the cash-generating units has been determined based on a value in use calculation using cash flow projections from budgets approved by senior management. The budgets are based on past experience and cover periods of up to four years. The pre-tax discount rates applied to cash flow projections range from 12%-15%.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

Euro in thousands, except share and per share data

NOTE 12:- INTEREST-BEARING LOANS AND BORROWINGS

Current:

	Note	December 31, 2006	2005
Current maturities of long-term loans from:			
Banks	b	24,922	9,648
Global Europe Investment ("the Fund")	a(1)	1,281	-
Others	b	5,515	2,521
Debentures	a(2)	2,746	-
		34,464	12,169

Non-current:

a. Composed as follows:

	Note	December 31, 2006	2005
Banks	b	35,935	18,929
Global Europe Investment ("the Fund")	(1)	3,949	4,333
Others	b	11,211	10,924
Debentures	(2)	19,222	9,591
		70,317	43,777
Less - current maturities		34,464	12,169
		35,853	31,608

(1) The loans from the Fund are denominated in U.S. dollars and are payable no later than 60 months from date they were received. The loans bear interest at rate of 8% per annum. In addition, the Fund is entitled to participate in the profits from projects, at rates that progress from 10%-20% of the after-tax income according to the level of profits. The right to participate in the projects' profits is accounted for as a derivative and recognised in the financial statements at fair value. The fair value was calculated discounted cash flow ("DCF") projections.

The DCF projections take into account estimated net future cash flows, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. As of December 31, 2006, the discount rate used was 15%.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

NOTE 12:- INTEREST-BEARING LOANS AND BORROWINGS (Cont.)

(2) (a) In July 2005, the Company issued on the Tel Aviv Stock Exchange, debentures (series A) with a par value in New Israeli Shekels (NIS) equivalent in amount to $ 12,042,917 (€ 10,045 on the date of issuance). The debentures are linked (principal and interest) to the exchange rate of the U.S. dollar (the minimum base rate is NIS 4.567 per 1 U.S. dollar) and bear dollar-linked interest at the annual rate of 8%. The debentures mature in 7 equal semi-annual installments commencing on June 30, 2007 until June 30, 2010.

The interest on the debentures is payable every three months, starting from September 30, 2005. The debenture issue expenses of € 642 are off-set against the debentures and are amortised over the term of the debentures.

(b) On August 15, 2006, the Company issued to institutional investors debentures (series A) with a par value in NIS equivalent in amount to $ 12,478,997 (€ 9,846 in the date of issuance). This issuance is an extension of series A which the Company issued in July 2005 as described in (a) above and have the same conditions as the original issuance. The debentures were issued at a discount of € 98.

(c) The Company has made various undertakings to the trustee of the debentures ("the trustee"), including a commitment to comply with the following covenants:

1) In the event of the delisting of the debentures, in accordance with the Stock Exchange's capital maintenance rules, the holders of the debentures shall be entitled to early redemption at the par value of the debentures with the addition of linkage differences and interest on the principal.

2) In the event of a dividend distribution, the Company shall be obligated to make a purchase offer for the redemption of the outstanding debentures, up to an amount equal to the amount of the dividend distribution, such that the value of the remaining outstanding debentures at such date shall not be less than NIS 3.2 million (€ 588).

3) The trustee shall be entitled to call for the immediate redemption of all the unpaid balance of the debentures in the event that the Company's equity falls below € 4.8 million according to the most recent audited or reviewed financial statements of the Company, unless the Company and/or the shareholders supplement or exceed said amount within 60 days of the trustee's notification of his intention to call for the immediate redemption of the debentures.

Euro in thousands, except share and per share data

NOTE 12:- INTEREST-BEARING LOANS AND BORROWINGS (Cont.)

b. The long-term borrowings, excluding debentures, may be classified by currency of repayment, linkage terms and interest rates, as follows:

	Weighted average effective interest	December 31,	
	2006	2006	2005
	%		
Banks:			
Hungarian Forint (2)	5.41	20,598	13,152
Euro (3)	5.49	4,324	5,777
Polish Zloty (4)	5.98	11,013	-
		35,935	18,929
Others:			
US Dollars(1)	2.70	9,785	9,439
Hungarian Forint (2)	-	-	221
Euro (3)	6.67	1,165	1,264
Polish Zloty (4)	7.20	261	-
		11,211	10,924
Global Europe Investment:			
US Dollars(1)	8.00	3,949	4,333
		51,095	34,186

(1) Interest in respect of these loans is based on LIBOR with a margin of 3% -3.5%. The rate of LIBOR as of December 31, 2006 is 3.73%% (2005 - 4.7%). The contractual repricing date is up to six months.

(2) Interest in respect of these loans for the year ended December 31, 2006 is either fixed at 4.5% or linked to the 3-months average yields of the government bonds with a margin of 1.65% - 1.8% (2005 - BUBOR with a margin of 2%). The rate of the BUBOR as of December 31, 2006 is 8.5% (2005 - 6.1%). The contractual repricing date is up to six months.

(3) Interest in respect of these loans for the year ended December 31, 2006 is based on EURIBOR with a margin of 1.5% - 3.5% (2005 - EURIBOR with a margin of 1.5% - 3%). The rate of the EURIBOR as of December 31, 2006 is 3.73% (2005 - 1%). The contractual repricing date is up on six months.

(4) Interest in respect of these loans for the year ended December 31, 2006, is based on WIBOR with a margin of 1,5% - 2.3%.
The rate of the WIBOR as of December 31, 2006 is 4.12%.

or identification purposes only
ERNST & YOUNG
ACCOUNTANTS

Euro in thousands, except share and per share data

NOTE 12:- INTEREST-BEARING LOANS AND BORROWINGS (Cont.)

c. The loans (net of current maturities) mature in the following years after balance sheet dates:

	December 31, 2006	December 31, 2005
Second year	10,058	12,846
Third year	13,815	2,740
Fourth year	7,449	6,787
Fifth year	1,022	3,218
Sixth year and thereafter	3,509	6,017
	35,853	31,608

d. Collateral - see Note 15b.

NOTE 13:- TAXES ON INCOME

a. Tax rates applicable to income:

The Company and its subsidiary in the Netherlands are assessed for tax purposes under Dutch tax laws and are liable to corporate income tax at the rate of 29.6% (2005 - 31.5%, 2004 - 34.5%).

Subsidiaries that are incorporated outside the Netherlands are assessed for tax purposes under the tax laws in their countries of residence. The principal tax rates applicable to subsidiaries outside the Netherlands are as follows:

Poland - corporate income tax rate of 19% (2005 and 2004 – 19%)

Hungary - corporate income tax rate of 16% (2005 and 2004 – 16%). In 2006, the law in Hungary was changed such that from September 1, 2006, companies are subject to a special tax at the rate of 4% of the profit for financial reporting purposes, adjusted for dividends received and contributions made. Commencing in 2007, capital gains can be tax exempt income provided that certain criteria are fulfilled.

b. Losses for tax purposes carried forward to future years:

Carry forward tax losses amounted to € 3,830 at December 31, 2006 (2005 - € 1,273, 2004 - €351).

Deferred income tax assets are recognised for carry forward tax losses to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of € 260 (2005 - € 20) in respect of losses and other temporary differences amounting to € 880 (2005 - € 62) that can be carried forward against future taxable income. Losses amounting to € 1,941 can be carried forward indefinitely. The remaining tax losses expire in 2010.

Euro in thousands, except share and per share data

NOTE 13:- TAXES ON INCOME (Cont.)

c. Deferred income tax:

1. Composition:

	December 31, 2006	December 31, 2005
Deferred tax liability:	(2,752)	(91)
Deferred tax assets:	223	184
	(2,529)	93

2. The movement in deferred tax assets and liabilities during the year is as follows:

	Investments in land and housing units	Foreign exchange differences on loans	Tax losses	Other	Total
Balance at January 1, 2005	(116)	(233)	62	52	(235)
Credited (charged) to the income (loss) statement	(102)	104	138	77	217
Disposal of subsidiaries	498	-	-	-	498
Acquisition of subsidiary	(408)	30	-	-	(378)
Exchange differences	(9)	-	-	-	(9)
Balance at December 31, 2005	(137)	(99)	200	129	93
Credited (charged) to the income (loss) statement	(789)	(219)	81	(29)	(956)
Disposal of subsidiaries	-	103	(64)	(73)	(34)
Increase due to first time proportional consolidation of jointly controlled entity	(1,289)	(9)	-	(193)	(1,491)
Acquisition of subsidiary (Note 24)	(116)	-	-	-	(116)
Exchange differences	38	28	(56)	(35)	(25)
Balance at December 31, 2006	(2,293)	(196)	161	(201)	(2,529)

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

Euro in thousands, except share and per share data

NOTE 13:- TAXES ON INCOME (Cont.)

d. Taxes on income included in the income statement:

	Year ended December 31, 2006	2005
Current	123	-
Deferred	956	(217)
	1,079	(217)

Theoretical tax reconciliation:

Following is a reconciliation of the theoretical tax expense, assuming all income is taxed at the regular tax rates applicable to all companies (see a. above) and the actual tax expense:

	Year ended December 31, 2006	2005
Profit (loss) before income taxes	9,440	(1,602)
Theoretical tax expense (tax benefit) in respect of the profit or loss - at 29.6% (2005 – 31.5%, 2004 - 34.5%)	2,794	(505)
Increase (decrease) in taxes resulting from:		
Share of profit of associates taxed at the associates level	-	(46)
Prior year tax losses utilised during the year for which no deferred taxes were recorded	-	(63)
Current year tax losses for which no deferred tax asset was recognized	210	16
Different tax rates applicable to foreign subsidiaries	(595)	119
Non-deductible expenses	43	197
Non-taxable income	(1,327)	-
Other	(46)	65
Income tax expense (benefit)	1,079	(217)

e. Tax assessments:

The Company and its subsidiaries have not been assessed for tax purposes since incorporation.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

Euro in thousands, except share and per share data

NOTE 14:- TRADE AND OTHER PAYABLES

	December 31,	
	2006	2005
Trade	7,511	2,900
Interest payable	909	1,073
Government authorities	1,026	-
Related parties	7	467
Accrued expenses	1,093	217
Interest rate SWAP derivative *)	393	-
Dividend payable to minority shareholders	11	224
Other	131	362
	11,081	5,243

*) A proportionately consolidated company entered into interest rates swap in which the Company agrees to exchange at specified intervals, the difference between interest rates amounts calculated by reference to:

1. Interest rates of BBS3M (3.77% at December 31, 2006) and agreed upon notional principal amount of US$ 10,100 thousand.

2. Interest rate of 3MWIBOR + 0.13% (4.73% at December 31, 2006) and agreed upon notional amount of Polish Zloty 34,280 thousand.

NOTE 15:- COMMITMENTS, CONTINGENT LIABILITIES AND PLEDGES

a. As of December 31, 2006, the Group has purchase commitments in respect of Group companies and construction projects amounting to approximately € 38,109.

b. Contingent liabilities, guarantees and pledges:

1. Pledges

As security to loans amounting to €35.9 million as of December 31, 2006 (December 31, 2005 - € 18.9 million), the Company and the subsidiaries have registered fixed charges on lands and on share capital as well as floating charges on assets in favor of banks.

As security to a loan granted by Global Europe Investment amounting to € 4 million as of December 31, 2006 (December 31, 2005 - € 5.5 million) the Company and 4 subsidiaries have registered fixed charges (second degree) on their share capital.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

NOTE 15:- COMMITMENTS, CONTINGENT LIABILITIES AND PLEDGES (Cont.)

2. Guarantees

As of 31 December 2006, the Company gave guarantee to banks in relation to secure loans granted to polish subsidiaries. The guarantees granted amounted to € 2.7 million and € 0.8 million, accordingly.

3. The Group companies have made an undertaking to the banks not to repay shareholders' loans until the loans to the banks have been repaid and not to distribute dividends without the banks approval.

4. The registration of the transfer of ownership in certain lands has yet to be completed.

5. In May 2005, the Company received a copy of a petition filed with a Polish court from an unrelated third party that participated in a tender, which was won by one of the Company's investee companies, for the acquisition of land rights. The third party's bid was not accepted and its application to the court includes a request for the cancellation of the transaction for the acquisition of the land. Based on the opinion of its legal advisors, the Company's management believes that there is no justification for the claims raised in the aforesaid application to the court, as the tender was conducted in the proper manner and in accordance with the law. Therefore, the Company has not included any provision in its financial statements in respect of this claim. Subsequent to balance sheet date the claim was resolved on favor of the Company.

6. In January 2006, the receiver of Bick S.A., one of the shareholders in Syrius Groupa Inwestycyjna, which holds 30% in a Polish investee company, filed a claim against the investee company, alleging that the cancellation of the lien placed on the real estate property that had been acquired by the investee company to secure a debt of 3.6 million Polish Zloty, was unlawfully executed by Bick S.A. and should be reverted, as it was a malicious act against Bick S.A.'s creditors, of which the investee company was aware.

   In the opinion of the Company's management, which is based on the opinion of its legal counsel, the prospects of the claim to prevail accepted are low. Accordingly, no provision has been included in the financial statements. Subsequent to balance sheet date the claim was resolved on favor of the Company.

7. A government authority in Poland decided to increase the annual lease fees paid by certain subsidiaries of the Company, to approximately 5 million Polish zloty (€ 1,300). The subsidiaries filed appeals against the authority's decision. In the opinion of the Company, the prospects of the appeal to prevail are good. Accordingly, no provision was included in the financial statements in respect of this appeal.

8. In 2007, a subcontractor of the Hungarian subsidiary's chief subcontractor filed a claim against the subsidiary, alleging that the payment for commodities supplied was not received. The estimated payout is € 260 thousand, should the claim be successful.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

NOTE 15:- COMMITMENTS, CONTINGENT LIABILITIES AND PLEDGES

The Company has been advised by its legal counsel that it is possible, but not probable, that the action will succeed and, accordingly, no provision for any liability has been made in these financial statements. Subsequent to balance sheet date the claim was resolved on favor of the Company.

9. As of December 31, 2006 and 2005, subsidiaries have short-term deposits in banks of € 24,709 and € 10,696, respectively, which are restricted solely for the repayment of loans to the bank or the advancement of construction projects.

10. Collaboration agreements with Lehman Brothers Real Estate Partners ("LB"):

In October 2006, a collaboration agreement was signed with LB which is based on a memorandum signed at the end of 2005.

The agreement provides for the right of LB to participate in any of the Company's projects in Poland, Hungary and Romania and includes a mechanism for distribution of earnings, according to which the Company is entitled to receive earnings exceeding its interest in the projects if the yield on the investment in the project exceeds an internal rate of return of 20%.

As of the date of the approval of the financial statements, LB participates with the Company in four subsidiaries in Poland (Robyg Development S.p.z.o.o, Robyg Wilanow II S.p.z.o.o, O.K. Investments S.p.z.o.o and Robyg Palacowa S.p.z.o.o) and Gondola in Hungary.

11. The Group owns 50% of the rights to a land in Budapest, Hungary, on which an industrial plant is situated. The plant is leased to a tenant for a period of four years, ending in 2010.

12. In November 2006, the Company acquired a subsidiary which holds 50% of a company established jointly with a local municipality in Budapest ("the Municipality") for a consideration of up to 840 million Hungarian Forint (approximately € 3.23 million).

According to the agreement between the subsidiary and the Municipality, the Municipality shall transfer to the jointly owned company land with a total area of about 154 thousand sq.m., and the subsidiary is to pay the above consideration as the land is transferred.

The subsidiary has undertaken to provide financing in the amount of approximately 1,323 Hungarian Forint (approximately € 5 million) for the development of a residential building project. The financing will be made available as soon as the land is transferred to the jointly owned company. As of the balance sheet date, the Municipality had transferred to the jointly owned company land comprising about 28 thousand sq.m., and the Company had provided financing of approximately € 1.6 million for development of the land.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

Euro in thousands, except share and per share data

NOTE 16:- SHARE CAPITAL

The Ordinary shares are as follows:

	Number of shares	Amount	Share premium	Total
Balance at January 1, 2005	441	44	4,215	4,259
Proceeds from shares issued	132	13	-	13
Split of shares (1)	285,927	-	-	-
Proceeds from shares issued (2)	7,500	2	612	614
Allotment of bonus shares	9,702,000	1,940	(1,940)	-
Conversion of loan into share capital	-	-	207	207
Proceeds from shares issued	4,000	1	-	1
Proceeds from shares issued (3)	2,000,000	400	5,328	5,728
Balance at December 31, 2005	12,000,000	2,400	8,422	10,822
Split of shares (4)	108,000,000	-	-	-
Share-based compensation (5)	-	-	275	275
Proceeds from shares issued (6)	12,987,013	260	11,827	12,087
Balance at December 31, 2006	132,987,013	2,660	20,524	23,184

(1) The Company's share capital of 573 Ordinary shares of $ 100 par value each was split into 286,500 Ordinary shares of € 0.2 par value each.

(2) On May 23, 2005, the Company issued 7,500 Ordinary shares of € 0.2 par value each to the partner in consideration for an investment of € 478 in investee and for a loan of € 136, which was granted to an interested party. The loan was repaid by the Company in June 2005.

(3) On December 28, 2005 2,000,000 Ordinary shares of € 0.2 par value each were allotted to several investors for a consideration of € 5,728, that was deposited with a trustee and received in cash in January 2006.

(4) On May 30, 2006, the issued share capital which was composed of 12,000,000 Ordinary shares of € 0.2 par value each was split into 120,000,000 Ordinary shares of € 0.02 par value each. All share and per share amounts in these financial statements have been restated to reflect this split.

(5) During 2006, 2,500,000 options were granted to senior employees and directors of the Company and of related companies. Each option may be exercised to purchase one Ordinary share of the Company at an exercise price of $ 0.192.

The options vest in six equal portions over an eighteen-month period, commencing three months after the date of grant. Any options not exercised within nine years from date of grant will expire, unless extended by the Board of Directors.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

Euro in thousands, except share and per share data

NOTE 16:- SHARE CAPITAL (Cont.)

The fair value of the options granted determined using the Black-Scholes option valuation model was approximately $ 427 (€ 352). The significant inputs in the model were share price - $ 0.34, exercise price - $ 0.192, standard volatility - 61%, expected option life - two years, annual risk-free interest rate - 4.5%, and expected dividend yield - zero.

The Company recorded in the financial statements an expense in general and administrative expenses amounting to approximately € 275 and a corresponding increase in shareholders' equity.

(6) On June 27, 2006, the Company issued 12,987,013 Ordinary shares on the AIM in London in consideration of € 14,493 (£ 10 million). The issuance expenses amounted to € 2,406 and the net proceeds after issuance expenses amounted to € 12,087. The shareholders of the Company that held shares prior to this issuance acquired 1,143,000 Ordinary shares as part of the issuance for a total consideration of € 1,275 (£ 880 thousand).

As of June 28, 2006, the Company's shares are quoted on the AIM in London.

(7) As for issuance of 13,000,000 Ordinary shares to institutional investors in AIM in London, subsequent to the balance sheet date, see Note 26b.

(8) As for agreement with LB, according to the Company commitment to issue 25,762,414 Ordinary shares subsequent to the balance sheet date, see Note 26a.

NOTE 17:- OTHER LIABILITIES

	December 31,	
	2006	**2005**
Derivative (1)	1,546	1,194
Other	40	315
	1,586	1,509

(1) See Note 12(1).

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

NOTE 18:- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise bank loans and overdrafts, debentures, trade payables and loans granted. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables, cash and cash equivalents and short-term deposits, which arise directly from its operations.

The Group's policy is not to enter into derivative transactions, primarily interest rate swaps and forward currency contracts in order to manage the interest rate and currency risks arising from the Group's operations and its sources of finance although there are some exceptions that are approved by the board.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk and credit risk. The Board of Directors reviews and agrees on policies for managing each of these risks which are recognised below.

1. Foreign exchange risk:

   The Group operates mainly in Hungary and Poland and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hungarian Forint and Polish Zloty. However, most of the receivables and the payables of each entity in the Group are denominated in the entity's functional currency.

   Foreign exchange risk also arises from recognised assets and liabilities and net investments in foreign operations.

   The Company is also exposed to foreign exchange risk in respect of its borrowings in a currency other than the functional currency of the entity.

NOTE 18:- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont.)

2. Interest rate risk:

The Group's exposure to the risk of changes in market interest rates relates primarily to the Groups long-term debt obligations with floating interest rates. Loans obtained at variable rates expose the Group to cash flow interest risk, which could have adverse effects on the Group's net income or financial position. Changes in interest rates cause variations in interest income and expenses on interest-bearing assets and liabilities.

Borrowings issued at fixed rates expose the Group to fair value interest risk.

3. Credit risk:

The Group trades only with recognized third parties. In addition, receivables are monitored on an ongoing basis, with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, and deposits, the Group exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

4. Market Risk:

The Group operates in real estate in emerging markets. It is vulnerable to the dangers which exist in developing countries, mostly of political nature, and involving local economies .The group is exposed to fluctuations of supply and demand in the real estate markets in which it operates. These in turn can have a detrimental effect on the sale potential to customers.

The home mortgage market in the countries of operation is not yet sufficiently developed. Difficulty in obtaining loans on easy terms for purchasing apartments, may affect the demand for home units in the projects undertaken by the company. The Management of the Group believes that the following factors contribute significantly to its operating success and dealing with risk mentioned above.

(1) Skilled management team with real estate experience and a constant local presence in the countries of operation.

(2) Close working relations with international financing institutions.

(3) Focus on selection of major projects which are developed in stages, according to demand.

(4) Strict due diligence before embarking on a project, and adherence to project completion dates committed to.

Due to the above factors the management believes the market risk is reasonable.

Euro in thousands, except share and per share data

NOTE 19:- MARKETING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,	
	2006	2005
Professional fees	605	626
Management fees	295	177
Rent and office maintenance	313	81
Marketing	490	634
Director's fees (1)	621	23
External hirers	286	-
Share-based compensation	275	-
Other	473	133
	3,358	1,674

(1) Director's fees

	Year ended December 31,	
	2006	2005
Director's fees (*)	545	23
Directors insurance	22	-
Bonuses	54	-
	621	23

(*) The executive director's fees are as follows:

	Year ended December 31,	
	2006	2005
Director and Chief Executive Officer	241	-
Chairman of the Board of Directors	135	-
Finance Director and Chief Financial Officer (including bonuses)	107	-
	483	-

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

Euro in thousands, except share and per share data

NOTE 20:- FINANCE INCOME (COSTS)

	Year ended December 31, 2006	2005
a. Finance costs:		
Interest expenses	(3,217)	(2,206)
Exchange differences	(1,940)	(2,125)
Bank charges and other, net	(498)	(63)
	(5,655)	(4,394)
Less - borrowing costs capitalised	2,053	2,541
	(3,602)	(1,853)
b. Finance income:		
Interest receivable	915	-
Exchange differences	4,920	633
	5,835	633

NOTE 21:- OTHER INCOME

	Year ended December 31, 2006	2005
Gain on sale of interests in subsidiaries and joint ventures	4,183	-
Commission fees	33	-
	4,216	-

(a) Real Prop Kft.:

In November 2006, the Company signed an agreement for the sale of 49.9% of the Company's holdings in Real Prop Kft. to the Investment Bank of Edmund De Rothschild for a consideration of € 1.975 million. Accordingly, the Company recorded a gain of approximately € 1 million in the last quarter of 2006.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

NOTE 21:- OTHER INCOME (Cont.)

(b) In December 2005, Lehman Brothers Real Estate Partners L.P. ("Lehman") acquired 40% of Robyg Development Sp.z.o.o - 10% was acquired from Robyg B.V. (a subsidiary of the Company) and the remaining 30% was acquired from the other shareholder. In conjunction with the sale, the shareholders of Robyg Development entered into an agreement determining preference in the distribution of cash by Robyg Development. According to the agreement, Lehman had preference in the distribution of the first € 10 million. Robyg B.V. had been entitled to 80% of the remaining € 12.5 million. After reaching a total distribution of € 25 million, all shareholders are entitled to their formal share in equity (40% for Robyg B.V.). Robyg B.V.'s consideration for the described transaction amounted to € 2.9 million in cash (net of selling expenses of € 165). Taking into account the preference arrangement, a gain of approximately € 1 million was deferred with respect to the sale of the 10% shareholding.

On December 31, 2005, following the above transaction, the proportionate consolidation of Robyg Development was discontinued and the investment in Robyg Development was accounted for, as of that date, using the equity method based on the share in profits described above.

In October 2006, Lehman and Robyg B.V. purchased the interest of the other shareholder such that after the purchase each holds a 50% interest in Robyg Development. Since that date, Robyg Development has been proportionally consolidated in the financial statements of the Group.

At the end of October 2006, an addendum to the agreement of December 2005 between Robyg B.V., Lehman and Robyg Development Sp.z.o.o. was signed. The addendum cancels the arrangement for distribution of funds set forth in the agreement of December 2005. Accordingly, distributions from Robyg Development are to be based on the holdings of the shareholders. Accordingly, the gain of approximately € 1 million, that was deferred in 2005 was recognised and is presented in other income.

(c) On December 13, 2005, a term sheet was signed, according to which Lehman Brothers ("LB") will acquire from the Company and other shareholders 19% and 17% respectively, of their respective holdings in a 55% owned subsidiary, OK Investments SP.z o.o. ("OK") for a consideration of € 4.1 million. The Company's share in the consideration is approximately € 2.2 million.

The term sheet stipulated that consummation of the sale of shares was subject to the fulfillment of certain conditions, which mainly included approval for the urban planning scheme and completion of the due diligence procedures by LB.

On July 21, 2006, upon fulfillment of the above described conditions, an agreement for the sale of 36% of the holdings in OK to LB was signed. As a result of the sale, the Company's holdings in OK decreased from 55% to 36% and the Company recorded a net gain of approximately € 2 million.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

Euro in thousands, except share and per share data

NOTE 21:- OTHER INCOME (Cont.)

According to the above agreement, the selling shareholders undertook to indemnify LB up to a maximum amount of approximately € 1.5 million (Company's share is € 0.8 million) should a claim filed against OK in connection with its rights to the land be successful (see Note 15b4) to the annual financial statements). The investee believes, based on the opinion of its legal counsel, that the prospects of the claim to prevail are low. In October 2006, LB waived the above indemnification.

The Company has an agreement with the other shareholders for the joint control of OK. Accordingly the accounts of OK are proportionately consolidated.

As for the increase in the Company's holdings in OK, see Note 24(b).

NOTE 22:- NET EARNINGS (LOSS) PER SHARE

Earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue after giving effect to the split, and the bonus share allotments.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent (after deducting interest on the convertible preference shares) 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 the conversion of all the dilutive potential ordinary shares into ordinary shares.

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

	Year ended December 31,	
	2006	2005
Profit (loss) attributable to equity holders of the parent	7,031	(1,026)
Weighted average number of ordinary shares for basic earnings per share	126,495	98,938
Effect of dilution:		
Share options	1,621	-
Adjusted weighted average number of ordinary shares for diluted earnings per share	128,116	98,938
Profit (loss) per share (basic and diluted) (€ per share)	0.06	(0.01)

As at December 31, 2006, the Company has no equity instruments that could potentially dilute basic earning per share in the future.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

Euro in thousands, except share and per share data

NOTE 23:- RELATED PARTY DISCLOSURES

The financial statements include the financial statements of Nanette Real Estate Group N.V. and the subsidiaries listed in the Appendix to consolidated financial statements.

a. Transactions with related parties:

1. Composition:

	Year ended December 31,	
	2006	**2005**
General and administrative expenses:		
Key management personnel of the Group *)	739	-
Entities with significant influence over the Group	377	377
	1,116	377
Finance income:		
Proportionately consolidated entities	405	4
Finance costs:		
Entities with significant influence over the Group	2	405

*) Compensation of key management personnel composed as follows:

	2006	**2005**
Short-term benefits	629	-
Share-based compensation	110	-
	739	-

2. Management fees in the amount of € 283 to company controlled by key management personnel were capitalized to inventory cost in 2006.

3. As for a bonus granted to related parties subsequent to the balance sheet date, see Note 26(e).

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

Euro in thousands, except share and per share data

NOTE 23:- RELATED PARTY DISCLOSURES (Cont.)

b. Balances with related parties:

	December 31, 2006	December 31, 2005
Accounts receivable - other:		
Proportionately consolidated entity	550	-
Entities with significant influence over the Group	-	5,947
	550	5,947
Long-term loans (before deducting current maturities):		
Proportionately consolidated entity (1)	11,616	-
Liabilities - other:		
Entities with significant influence over the Group	17	467
Long-term liabilities:		
Entities with significant influence over the Group	32	7,310

(1) a. Currency and interest rates of loans to proportionately consolidated entity:

	Weighted average interest rate (*) %	December 31, 2006
In Euros	6.24	100
In U.S. dollars	8.87	3,809
In Hungarian forint	-	3,744
In Polish zloty	7.20	3,963
		11,616

(*) Fixed interest rate as of December 31, 2006.

b. The repayment dates of the loans have not yet been determined.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

NOTE 24:- BUSINESS COMBINATIONS AND ACQUISITION OF MINORITY INTERESTS

a. Acquisition in 2005:

1. In the second quarter of 2005, the Company acquired from controlling parties an additional 21.33% of the rights in Robyg BV in consideration of € 223 of long-term loans. Additionally, the Company invested € 907 by way of a loan to the acquired company.

   Following said acquisition, the Company held 41.33% of the rights in the acquired company.

   Concurrent with the additional acquisition of 21.33%, the contractual agreement for joint control in the acquired company was cancelled. Accordingly, during the period from June 30, 2005 to September 30, 2005, the Company accounted for the acquired company by the equity method.

   In the fourth quarter of 2005, the Company acquired in cash another 30% of the rights in Robyg B.V. in consideration of approximately € 1.5 million. The excess of cost over the equity value of € 1,245 that resulted from the acquisition was carried to the cost of buildings in construction. The Company also invested € 1.6 million in the acquired company by way of loan.

   In accordance with applicable pronouncements, the acquisition was accounted for as a step acquisition. Accordingly, the Company created an inventories revaluation reserve, in an amount of € 1,718, which arises from the difference between the fair value and the book value of the purchased inventory, for the portion that was purchased by the Company in the past (41.33%). Following said acquisition, the Company held 71.33% of the rights in the acquired company. Accordingly, as from October 1, 2005, the acquired company is fully consolidated and is no longer presented by the equity method.

   If the acquisition had occurred on January 1, 2005, Group revenue would have been € 7,813, and loss before allocations would have been € 806. These amounts have been calculated using the Group's accounting policies. The acquired business generated revenues of € 1,184 and losses of € 178 to the Group in the forth quarter of 2005.

Euro in thousands, except share and per share data

NOTE 24:- BUSINESS COMBINATIONS AND ACQUISITION OF MINORITY INTERESTS (Cont.)

The assets and liabilities arising from the acquisition are as follows:

	Fair value	Acquiree's carrying amount
Cash and cash equivalents	1,058	1,058
Fixed assets	7	7
Inventories	17,917	13,760
Receivables	337	337
Payables	(4,008)	(4,008)
Borrowings	(9,849)	(9,849)
Net deferred tax liabilities	(378)	(378)
Net assets	5,084	927
Long-term investments	(234)	(234)
Minority interests (28.67%)	(1,626)	
Inventory revaluation reserve	(1,718)	
Net assets acquired	1,506	
Purchase consideration settled in cash		1,506
Cash and cash equivalents in acquired subsidiary		(1,058)
Net cash outflow		448

2. In the second quarter of 2005, the Company acquired from one of the partners in projects in Hungary and Poland ("the Partner") additional holdings in a number of project companies. These investments have been acquired against the issue of share capital.

   Under the acquisition agreement, the Partner was entitled to cancel the agreement in the event of the Company's failure to list its shares on the Tel-Aviv Stock Exchange by December 31, 2005. Accordingly, the above investments have been included in the financial statements of the Company as investments in investee companies, and the amount of the acquisition, aggregating € 478, was presented in the balance sheet under "other receivables".

Euro in thousands, except share and per share data

NOTE 24:- BUSINESS COMBINATIONS AND ACQUISITION OF MINORITY INTERESTS (Cont.)

In December 2005, the Partner announced a waiver of its right to cancel the acquisition agreement. As a result, on that date the percentage of holding in the project companies increased as follows:

Thokoly Udvar kft	From 70.67% to 76.07%
MZM Properties Sp.z.o.o.	From 72.60% to 77.60%
Robyg B.V.	From 71.33% to 75.15%

3. In September 2005, the Company acquired an additional 20% of the rights in Robyg Investment Sp.z.o.o. in consideration of € 34 in cash. Following the acquisition, the Company holds 70.10% of the share capital in Robyg Investment Sp.z.o.o.

4. On November 2005, the Company established the project company, Robyg Wilanow II Sp.z.o.o. The Company holds 100% of the shares.

b. Acquisitions of minority interests in 2006:

During the year 2006, the Company acquired additional interests, including shareholders loans, in several subsidiaries. The difference between the consideration paid € 4,707 and the book value (= fair value) of the interests acquired in the amount of € 1,211 thousand has been recognised as goodwill.

NOTE 25:- SEGMENT INFORMATION

a. Information on geographical and business segments:

1. Geographical segments:

The Group operates internationally and its organizational structure matches its two principal segments: Hungary and Poland. Accordingly, the division of operations in this manner represents the basis according to which the Group reports data on its principal segments. The geographical segments are determined according to the destination countries to which the Group's sales are made, which are identical to the location of assets.

2. Business segments:

The Group's two geographical segments operate in only one business segment - the sale and construction of apartments of which is initiated by the Group.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

Euro in thousands, except share and per share data

NOTE 25:- SEGMENT INFORMATION (Cont.)

b. Geographical segment data:

As of December 31, 2006 and for the year then ended:

	Hungary	Poland	Consolidated
Income statement data:			
Revenues	21,203	10,666	31,869
Segment results - operating profit	2,500	2,448	4,948
Unallocated general corporate expenses			1,957
Operating profit			2,991
Finance costs			(3,602)
Finance income			5,835
Taxes on income			1,079
Other income			4,216
Profit for the year			8,361
Other data:			
Segment assets (*)	39,455	54,194	93,649
Unallocated corporate assets			43,897
Consolidated total assets			137,546
Segment liabilities	10,392	17,164	27,556
Unallocated corporate liabilities			77,817
Consolidated total liabilities			105,373
Other segment information:			
Capital expenditure:			
Investment property	12,474	-	12,474
Furniture and equipment	27	110	137
Goodwill	516	695	1,211
Depreciation	38	6	44

(*) Includes inventory of land and housing units in Hungary and Poland of approximately € 24.5 and € 53.5, respectively.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Euro in thousands, except share and per share data

NOTE 25:- SEGMENT INFORMATION (Cont.)

As of December 31, 2005 and for the year then ended:

	Hungary	Poland	Consolidated
Income statement data:			
Revenues	3,938	1,184	5,122
Segment results - operating profit (loss)	20	(60)	(40)
Unallocated general corporate expenses			(488)
Operating loss			(528)
Finance costs			(1,853)
Finance income			633
Tax benefit			217
Share of profit of an associate		146	146
Loss for the year			(1,385)
Other data:			
Segment assets	43,307	14,313	57,620
Investments in associates			7,229
Unallocated corporate assets			12,030
Consolidated total assets			76,879
Segment liabilities	14,493	2,790	17,283
Unallocated corporate liabilities			46,629
Consolidated total liabilities			63,912
Other segment information:			
Capital expenditure:			
Furniture and equipment			24
Depreciation			5

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

NOTE 26:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

a. Company Capital

1. On January 23, 2007, the Company issued to institutional investors in AIM in London 13 million ordinary shares at £ 0.85 per share (€ 1.3 per share). The total proceeds from the issuance are approximately £ 11 million (€ 16.7 million). The issuance expenses of approximately € 0.6 million were offset against the share premium in equity.

2. On March 6, 2007, an investment agreement with LBREP II Neptune S.a.r.l (LBREP) was signed. According to the agreement, the Company issued to LBREP 25,762,414 ordinary shares at £ 0.85 per share (€ 1.25 per share). The proceeds from this issuance amounted to approximately £ 21.9 million £ (€ 32.1 million). As result of the issuance LBREP acquired 15% of the Company's issued and outstanding share capital. The issuance expenses of € 0.5 million were offset against the share premium in equity.

3. In April 2008, the Company made market purchases of 650,000 Ordinary shares of the Company, representing approximately 0.38% of the issued share capital of the Company, at an average price of 65 pence per share. Following the abovementioned purchase, the number of the Company's outstanding shares was 171,099,427.

4. On May 23, 2008 a manager of one of the Companies affiliate companies exercised his share option, The Company issued additional 500,000 shares bringing the total number of shares to 171,599,427.

5. On July 01, 2008 a manager of one of the Companies affiliate companies exercised his share option, The Company issued additional 200,000 shares bringing the total number of shares to 171,799,427 .

b. Debenture

1. In June 2007, the Company issued to institutional investors debentures (series B) with a par value in New Israeli Shekels (NIS) of approximately NIS 214 million (€ 38 million). The debentures are rated by Maalot, an Israeli rating agency which is affiliated with Standard and Poor's, at a local rating of AStable. An Israeli affiliate of Moody's, Midrug Ltd., rated the debentures as A2. The debentures bear interest at an annual rate of 5.5% and are linked (principal and interest) to the Israeli Consumer Price Index. In the event the debentures are registered for trading on the Tel-Aviv Stock Exchange, the interest will decrease by 0.65% to 4.85%. The Company registered these debentures on June, 2008. The interest on the debentures is payable every six months, starting in December 2007, and the principal will be paid in four equal annual installments starting in June 2012.

NOTE 26:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE (Cont.)

2. In June 2008, the Company issued debentures (series B) with a par value in New Israeli Shekels (NIS) of approximately NIS 130 million (€ 25 million). The debentures are rated by an Israeli affiliate of Moody's, Midrug Ltd., that rated the debentures as A2. The debentures bear interest at an annual rate of 8% and are linked (principal and interest) to the Israeli Consumer Price Index. Nanette is committed to protect the debenture for the currency fluctuation between the Euro and the Israeli Shekel. The interest on the debentures is payable every six months, starting December 2008, the principal will be paid in four equal annual installments starting in June 2011.

c. *Dividends*

1. In March 2007 the Board of Directors proposed a dividend payment of € 0.0175 per share (total dividend of approximately € 3,006 thousand). On April 13, 2007 at the Company's general shareholders meeting the dividend payment was approved. The dividend was paid on 10 May 2007.

2. On August 28, 2007 the Board of Directors proposed an additional dividend of € 0.006 per share (total dividend of approximately € 1,031 thousand). On September 17, 2007 at the Company's general shareholders meeting the dividend payment was approved. The dividend was paid on October 8, 2007.

3. In the event of dividend distribution, the Company is obliged to make a purchase offer for the redemption of the outstanding debentures (series A), up to an amount equal to the amount of dividend distribution, such that the par value of the remaining outstanding debentures on such date shall not be less than NIS 3.2 million (€ 560 thousands).

4. Following the dividend distributions as describe in 1&2 above, purchase offers were made and the Company received acceptance notices for an immaterial amount of debentures.

5. On March 25, 2008, the Board of Directors proposed a dividend payment of € 0.064 per share. The proposed dividend will be presented at the Company's general shareholders meeting. As of the approval date of the financial statements, the dividend was not approved yet by the Company's general shareholders meeting.

d. Purchase of companies

1. In April 2007, the Company signed an agreement to purchase all of the shares of a Romanian company, California Group S.R.L. ("California") for a consideration of approximately € 1.3 million (including assignment of a shareholder loan of € 375 thousands). California owns a plot of vacant land of 1,400 sq. m..

Euro in thousands, except share and per share data

NOTE 26:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE (Cont.)

In April 2008 California signed a collaboration agreement with the owner of a plot of land of 1,400 sq. m which is located next to California's land. In accordance with the agreement the seller will be entitled to 49% of the profits from the entire project. California also signed another agreement with two owners of attached plots of land, with a total area of approximately 6,400 s.q. m for the consideration of approximately 17% of the sales from the project. California intends to construct a residential housing project on the total land area of approximately 9,200 sq. m consisting approximately 470 housing units, in a gross area of approximately 37,000 sq. m. The total estimated investment in the project is € 31.3 million and the company's estimated share in the sales from the project is € 41 million (the revenue is less the share of the other partners of approximately (17%) in the sales of the project).

2. During the first quarter of 2007, the Company acquired 10% of the issued and outstanding share capital of ROBYG Willanow II S.p.z.o.o. (Willanow II) for a consideration of €1,650 thousand of which €825 thousand was paid for the equity of Willanow II and an additional €825 thousand for purchasing the shareholders' loans. As a result of the acquisition, the Company's holdings in Willanow II increased to 42.5%. The difference between the consideration paid and the book value of the Company's share of net assets of Willanow II amounted to € 833 thousand and was allocated to inventory and deferred taxes.

3. In April 2007, the Company purchased approximately 11% of the issued and outstanding share capital of ROBYG B.V. for a consideration of approximately € 2.1 million (including a brokerage fee of € 300 thousand). The amount paid included assignment of loans of approximately €314 thousand granted by the minority shareholders. Subsequent to the purchase, the Company owns 100% of ROBYG B.V.. ROBYG B.V. holds jointly with LB 100% of the Polish Company ROBYG Development Sp.z.o.o. (the Company's share - 50%). The difference between the consideration paid and the carrying amount of the minority interest in the amount of € 818 thousand was allocated to goodwill.

4. During November 2007, the Company purchased from minority shareholders various interests in subsidiaries, as described below. The Company paid a total amount of $ 9,300 thousand (€ 6,600 thousand), of which $ 4.6 million (€ 3.2 million) is for the outstanding loans and the balance is for the shares in the various projects.

   As a result, the percentage of holding in the project companies increased as follows:

Location	Company	
Hungary	Thokoly Udvar kft	From 89.4% to 100%
Hungary	Immo prop kft	From 57.5% to 100%
Hungary	Karolina kft	From 57.5% to 100%
Hungary	Foodex kft	From 57.5% to 100%
Poland	Robyg Orgod Sp.z.o.o.	From 46% to 100%

NOTE 26:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE (Cont.)

The Company presented the difference between the consideration paid and the carrying amount of the minority interest in the companies shown above partly as goodwill (€ 818 thousands) and partly as addition to Inventory (€ 2,021 thousands).

5. March 2008, the Company acquired 15% of the share capital of Olimpia Real Estate LLC (including 11% acquired from related party) for a consideration of approximately € 1. The Company also granted loans to Olimpia Real Estate LLC in the total amount of € 3.9 million. Olimpia Real Estate LLC is a Cyprus company that holds 100% of the shares of an Ukrainian company that is the owner of a plot of land in Kiev, Ukraine.

6. April 2008, the Company purchased, through a 90% Hungarian subsidiary (Taltoring Ingatlaforgalmazo Kft. ("Taltoring")), a 153,000 sq. m. plot in Budapest Hungary for a consideration of 1,870 million Hungarian Forint (approximately € 7.4 million). The company also granted shareholder loans to Taltoring in amount of 5,630 million Hungarian forint (approximately € 22.3 million). According to the agreement signed with the municipality, the owner of the remaining 10% interest in the subsidiary, the municipality has an option (put) to sell to the Company its entire interest in the subsidiary upon the approval of a new zoning plan for the plot, for a consideration of approximately € 2.2 million. The agreement also provides the Company with an option (call) to buy the municipality's interest at the same price. The put and call options may be exercised at any time during the period ending in April 2011.

e. Disposal of companies

1. During the first quarter of 2007, the Company sold to Lehman Brothers Real Estate Partners ("LB"), a shareholder, 50% of its interest (80%) in the subsidiary ROBYG Morena S.p.z.o.o. for a consideration amounting to € 5 thousand, which represents 50% of the Company's equity investment in the subsidiary as of the disposal date. Subsequent to the disposal, LB and the Company each hold a 40% interest in ROBYG Morena S.p.z.o.o..

2. On August 24, 2007, the Company sold to LB 50% of its interest (90%) in MZM Properties Sp.z.o.o, for a consideration of € 1.4 million. Subsequent to the sale, each company holds 45% interest in MZM Properties Sp.z.o.o. The Company recorded a gain of approximately € 1.2 million from this sale, which is presented in the financial statements for 2007 as other income. Commencing from the date of the sale, the Company ceased to consolidate and started to proportionally consolidate the financial statements of MZM Properties Sp.z.o.o.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

NOTE 26:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE (Cont.)

3. On September 26, 2007, the Company and LB sold 25% (the Company's share - 12.5%) of the issued and outstanding share capital of a jointly held company, ROBYG City Apartments Sp.z.o.o. for a total amount of approximately € 12 million (the Company's share - approximately € 6 million). Subsequent to the sale, the Company and LB each owns 37.5% of ROBYG City Apartments. As a result of the sale, the Company recorded a gain of approximately € 5.9 million, which is presented in the financial statements for 2007 as other income. Concurrently, the Company recorded an additional gain of approximately € 1 million which represents the realization of a proportional amount of the deferred gain from a prior intercompany transaction related to the land held by ROBYG City Apartments Sp. z.o.o.

4. December 2007, the Company completed the sale of 50% of its interest (100%) in four Romanian entities to LB , for a consideration equivalent to 50% of those companies share capital (approximately € 28 in each company). The Company recorded a gain from this sale of approximately € 240 thousands.

5. In November 2007, the Company sold its wholly-owned subsidiary in Piekarniza Sp.z.o.o., to a jointly controlled company, ROBYG Morena Sp.z.o.o. The consideration in respect of this sale was recorded as a long-term loan in the accounts of the Company. Since the collection of the loan is dependent upon future funds to be received in connection with vacant land held by Piekarniza Sp.z.o.o., the Company has deferred the recognition of the gain on the sale (amounted to approximately € 4.7 million) until the loan is collected.

6. In June 2008, the company sold to AI Property Holdings LP (Hungary) ("Access") 50% of its interest (90%) in the Hungarian subsidiary Taltoring Ingatlaforgalmazo Kft. ("Taltoring) for a consideration of approximately €16,250 million. According to the agreement Access would provide shareholder loans in amount equivalent to the company shareholder loans. According to the agreement the company will be entitled for 30% of Access share in the profits once several conditions had been fulfilled among other an IRR above 25%.. The completion of the sale is subject to the approval of the local municipality which holds 10% of the issued and outstanding share capital of Taltoring. As of the approval date of the financial statement the municipality has not approved the above transaction.

7. In June 2008 the company signed on a preliminary agreement according to which the company will transfer its share in Taltoring (45%) to a new company and will sell 45% of its share in the new company to Edr Real Estate (Estern Europe) S.C.A. ("Edr"), a company owned 100% by Rotshild Group for a consideration of € 337,500. According to the agreement Edr would provide to the new company shareholder loans in the amount of approximately € 7.5 million. Moreover, according to the agreement the company will be entitled for 30% of Access share in the profits once several conditions had been fulfilled among other an IRR above 25%.

   The completion of the sale is subject to signing of a final agreement. As of the approval date of the financial statement a final agreement was not signed.

NOTE 26:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE (Cont.)

Subsequent to the completion of the above transactions, the company's share in the issued and outstanding share capital of Taltoring is 24.75% and the share of Access and Edr in the issued and outstanding share capital of Taltoring is 45% and 20.25%, respectively.

f. Reorganization of the holdings of the Polish companies

In October 2007, the Company signed a memorandum of understanding with Lehman Brothers Real Estate Partners L.P. ("Lehman") to reorganize the holdings of the jointly-controlled Polish companies of the Company and of Lehman. The Company accounts for its investment in these Polish companies under the proportionate consolidation method. This reorganization was subject to court approval in Poland.

In addition, Lehman has agreed to purchase from the Company for a consideration of € 26,000, the Company's right to receive earnings in excess of its interest in projects with Lehman. The purchase is conditional on the floatation of ROBYG S.A. on the Warsaw Stock Exchange by August 2008 at a valuation of at least a certain amount. The consideration will be paid to the Company in the form of ROBYG S.A shares equivalent to € 26,000.

In February the company purchased 14% of ROBYG S.A. for a consideration of approximately 40 thousands Euro. The purchase was the first stage of the reorganization.

In April 2008, the court approved the reorganization plan. Accordingly, the Company and Lehman each contributed their interests in all jointly-controlled Polish companies to a holding company (ROBYG S.A.) established for this purpose. In consideration of the contribution, the Company and Lehman received an equal number of shares of ROBYG S.A., thus retaining (indirectly) the joint ownership of the Polish companies. In addition, the collaboration agreement between the Company and Lehman was amended such that the decisions regarding entry into new projects will be agreed by the board of directors of ROBYG S.A. according to a regular majority, therefore the Company and Lehman do not have joint control of ROBYG S.A.. Accordingly, commencing from the second quarter of 2008, the Company will include the accounts of ROBYG S.A. under the equity method and, consequently, the aforementioned Polish companies will no longer be proportionately consolidated.

In connection with the abovementioned reorganization, in April 2008, ROBYG S.A. acquired the operations of the company that provides management services to the Polish companies. The total consideration for the acquisition was € 9.5 million, of which € 3.5 million was paid in cash and the balance of the € 6 million is to be paid in three equal annual installments commencing April 2009 until April 2011.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

NOTE 26:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE (Cont.)

g. Purchase of land

1. During the first quarter of 2007, ROBYG Palacowa S.p.z.o.o., a jointly controlled entity (50%), purchased vacant land comprising 42 hectares in Gdansk, Poland for a consideration of approximately € 17 million (the Company's share - € 8.5 million). The management of ROBYG Palacowa S.p.z.o.o. designated approximately two-thirds of the land (€ 11.3 million, the Company's share - € 5.7 million) as investment property which it intends to hold for long-term capital appreciation. The balance of the land is designated as inventory intended for sale in the ordinary course of business. The Company adjusted the fair value of the land as of December 31, 2007, based on a valuation performed by Knight Frank Ltd., an industry specialist in valuing such type of properties. The fair value represents the amount at which the asset could be exchanged between a knowledgeable, willing seller in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards. In determining the fair value of the investment property, the valuator relied on comparable arm's length market transactions for similar properties. The Company's share of the income(before tax) from the fair value adjustment for the year ended December 31, 2007 amounted to € 3,815.

2. In May 2007, two of the company's subsidiaries signed agreements to purchase two plots of land comprising 23,000 sq. m. in the town of Timisoara in Romania for a consideration of approximately € 9.4 million (the amount includes related costs of approximately € 500).

   The first plot of land is of an area around 18,000 sq. m. with zoning designated for residential housing. The Company estimates it will be able to build approximately 524 apartment units in the area of approximately 47,000 sq. m.. The second plot of land is of an area around 5,000 sq. m. with zoning designated for residential and commerce. The company estimated it will be able to build 170 apartment units in the area of approximately 13,000 sq. m and commercial area of 650 sq. m..

3. In July 2007, a subsidiary of the Company purchased a plot of land in the total area of around 10,000 sq. m. in Bucharest, Romania for the consideration of € 6.4 million. The Company estimates that it will be able to build around 315 apartment units in the gross area of approximately 32,000 sq. m..

4. In May 2007, a fully consolidated subsidiary signed a preliminary agreement to purchase a plot of land of 15,000 sq. m in the town of Zagreb, Croatia for the consideration of approximately € 6 million. The subsidiary estimates upon the completion of the purchase it will be able to build approximately 580 housing units, in a net area of 35,000 sq. m. .As of the date of the financial statements the company had paid € 100 thousand on account of the purchase of the land.

Euro in thousands, except share and per share data

NOTE 26:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE (Cont.)

5. In October 2007, a fully consolidated subsidiary acquired a plot of land of approximately 45,000 sq. m. in the town of Zagreb, Croatia for the consideration of approximately € 9 million. The subsidiary estimates it will be able to build approximately 1,221 housing units, in a area of 90,000 sq. m..

6. In July 2008, a Hungarian subsidiary has signed a final agreement to purchase a 6,122 sq.m. plot, which is located in the 11th district of Budapest. The plot is designated for residential use. The Group estimates it will build approximately 260 apartments in a area of approximately 15,000 sq.m..

   Lehman Brothers has the option to participate as a 50% partner in the project.

NOTE 27:- FINANCIAL INSTRUMENTS

a. Fair values:

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments, including those classified under discontinued operations that are carried in the financial statements:

	Carrying amount		Fair value	
	2006	**2005**	**2006**	**2005**
Financial assets				
Cash	5,511	7,502	5,511	7,502
Deposits	24,709	10,696	24,656	10,696
Loan notes	11,616	-	11,346	-
Other financial assets (non-current)	2,799	-	2,799	-
Financial liabilities				
Interest-bearing loans and borrowings:				
Floating rate borrowings	38,122	8,128	38,122	8,128
Fixed rate borrowings	32,195	35,559	33,661	36,511
Other liabilities	1,586	1,509	1,586	1,509

The fair value of loan notes and other financial assets has been calculated using market interest rates.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

Euro in thousands, except share and per share data

NOTE 27:- FINANCIAL INSTRUMENTS (Cont.)

b. Interest rate risk

The following table sets out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk:

Year ended 31 December 2006

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
Fixed rate							
Cash assets	4,229	-	-	-	-	-	4,229
Deposits	3,851	-	-	-	-	-	3,851
Loans to related parties	-	4,480	-	-	-	-	4,480
Loan from Global	(1,281)	(1,283)	(1,385)	-	-	-	(3,949)
8% debentures	(2,746)	(5,492)	(5,492)	(5,492)	-	-	(19,222)
Bank loans	-	-	-	-	-	-	-
Loans from others	(5,515)	-	-	-	-	(3,519)	(9,034)
Floating rate							
Cash assets	1,282	-	-	-	-	-	1,282
Deposits	20,858	-	-	-	-	-	20,858
Loans to related parties	-	5,480	64	-	-	1,592	7,136
Loans to others	763	-	-	-	-	2,036	2,799
Bank loans	(24,922)	(2,108)	(6,948)	(1,957)	-	-	(35,935)
Loans from others	-	(1,175)	-	-	(1,022)		(2,197)
Interest rate swap	(393)	-	-	-	-	-	(393)

Interest on financial instruments classified as floating rate is repriced at intervals of less than six months. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

Year ended 31 December 2005

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
Fixed rate							
Cash assets	7,436	-	-	-	-	-	7,436
Loan from Global	-	(1,436)	-	(1,194)	(1,703)	-	(4,333)
8% debentures	-	(2,740)	(2,740)	(2,740)	(1,371)	-	(9,591)
Bank loans	(6,953)	(5,347)	-	-	-	-	(12,300)
Loans from others	(1,900)	(2,051)	-	-	-	(5,381)	(9,332)
Floating rate							
Cash assets	66	-	-	-	-	-	66
Deposits	10,696	-	-	-	-	-	10,696
Bank loans	(2,695)	(3,934)	-	-	-		(6,629)
Loans from others	(621)	(334)	-	-	-	(637)	(1,592)

c. Credit risk

There are no significant concentrations of credit risk within the Group.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

LIST OF SUBSIDIARIES, PROPORTIONATELY CONSOLIDATED COMPANIES AND ASSOCIATED COMPANIES

Name of company	Country	Shareholding and control December 31, 2006	2005
		%	
Subsidiaries:			
Robyg Investment Sp.z.o.o.	Poland	70.10	70.10
Real Prop House Kft.	Hungary	-	55.00
Thokoly Udvar Kft.	Hungary	89.33	76.07
Zold Park Haz Kft.	Hungary	77.50	77.50
Foodex 2003 Kft.	Hungary	57.50	57.50
Karolina Udvar Kft.	Hungary	57.50	57.50
MZM Properties Sp.z.o.o.	Poland	90.00	77.60
Ok Investment Sp.z.o.o.	Poland	-	55.00
Robyg B.V.	Netherlands	89.33	75.15
ITP Properties Sp.z.o.o.	Poland	46.00	46.00
Robyg Galicia Sp.z.o.o.	Poland	80.00	-
Robyg Morena Sp.z.o.o.	Poland	80.00	-
IMMO Prop. Kft.	Hungary	57.00	-
Kamaraerdo Kft.	Hungary	100.00	-
Nanette Construction Kft.	Hungary	100.00	-
Proportionately consolidated companies:			
Robyg Palacowa Sp.z.o.o.	Poland	50.00	-
OK Investment Sp z.o.o.	Poland	50.00	-
Robyg Wilanow II Sp.z.o.o.	Poland	32.50	-
Gondola HAZ K.f.t.	Hungary	50.00	-
Real Prop House K.f.t.	Hungary	50.01	-
Proportionately consolidated companies of Robyg B.V.:			
Nova Dom Sp.z.o.o.	Poland	-	50.00
Robyg Development Sp.z.o.o.	Poland	50.00	-
Associated company of Robyg B.V.:			
Robyg Development Sp.z.o.o.	Poland	-	40.00
Subsidiary of MZM Properties Sp.z.o.o. -			
Robyg Park Sp.z.o.o.	Poland	70.00	70.00
Proportionately consolidated company of Kamaraerdo K.f.t.:			
Kamara-Projekt K.f.t.	Hungary	50.00	-

- - - - - - - - - - -

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

Nanette Real Estate group
Amsterdam, the Netherlands

COMPANY-ONLY STATUTORY DUTCH GAAP FINANCIAL STATEMENTS

NANETTE REAL ESTATE GROUP N.V.

COMPANY-ONLY STATUTORY DUTCH GAAP FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2006

INDEX

- - - - - - - - - - - - -

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

BALANCE SHEETS AS AT 31 DECEMBER

Euro in thousands

ASSETS		2006		2005	
		€000	€000	€000	€000
NON-CURRENT ASSETS					
INVENTORY OF LAND	1	3,876		-	
FINANCIAL FIXED ASSETS	2				
Investments in subsidiaries and joint ventures		47,918		17,586	
TOTAL NON-CURRENT ASSETS			**51,794**		**17,586**
CURRENT ASSETS					
OTHER RECEIVABLES	3				
Receivables from group companies	4	2,650		1,364	
Other receivables and prepayments	5	278		6,010	
			2,928		7,374
CASH AND CASH EQUIVALENTS	6		1,551		5,098
TOTAL CURRENT ASSETS			**4,479**		**12,472**
TOTAL ASSETS			**56,273**		**30,058**

BALANCE SHEETS AS AT 31 DECEMBER

Euro in thousands

	Note	2006 €000	2006 €000	2005 €000	2005 €000
EQUITY	7				
Share capital	8	2,660		2,400	
Share premium	9	20,524		8,422	
Legal reserve	10	3,221		3,025	
Retained Earnings	11	3,868		-1,721	
			30,273		**12,126**
NON-CURRENT LIABILITIES	12				
Debentures		16,476		9,591	
Payables to affiliated companies	13	6,059		7,242	
			22,535		**16,833**
CURRENT LIABILITIES	14				
Debentures	12	2,746		-	
Payables to affiliated companies	15	336		523	
Other Payables	16	383		576	
			3,465		**1,099**
TOTAL LIABILITIES AND EQUITY			**56,273**		**30,058**

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

PROFIT AND LOSS ACCOUNT

Euro in thousands

		2006	2005
		€000	€000
NET INCOME (LOSS) FROM INVESTMENTS	17	7,712	-325
OTHER INCOME (EXPENSES), NET	18	- 681	- 701
NET PROFIT (LOSS)		7,031	-1,026

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

NOTES

GENERAL

The description of the Company's activity and the group structure, as included in the notes to the consolidated IFRS financial statements, also apply to the Company-only statutory Dutch GAAP financial statements, unless otherwise stated.

The company annual accounts are presented in thousands of Euro.

SIGNIFICANT ACCOUNTING POLICIES

The Company-only statutory Dutch GAAP financial statements are drawn up in accordance with accounting policies generally accepted in The Netherlands (Dutch GAAP) and are the same as described in the Notes to the Consolidated IFRS financial statements with the exception of the following: investments in consolidated subsidiaries and joint ventures are stated at the Company's share in their net asset value as well as the loans to related parties are recognized at carrying value.
In accordance with Article 402 of part 9, Book 2, of the Netherlands Civil Code, the company only statutory Dutch GAAP income statement of operations is condensed, as its income statement is already included in the consolidated IFRS income statement.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

BALANCE SHEET

1 INVENTORY OF LAND

The movements during the year:

	Land (1)	Capitalized Expenses (2)	Total
	€000	€000	€000
Opening balance at 1 January 2006	-	-	-
Additions	3,732	144	3,876
Closing balance at 31 December 2006	3,732	144	3,876

(1) This concern to acquisition of a land in Poland for development of real estate.

(2) This concems to capitalized expenses for projects in Romania and Croatia. When a project would recognize revenue, these expenses will be allocated to the profit and loss account.

2 FINANCIAL FIXED ASSETS

Investments in subsidiaries and joint ventures

The investment in subsidiaries and joint ventures comprises the following:

	2006	2005
Net asset value of investments	14,788	2,249
Loans granted	33,130	15,337
	47,918	17,586

The movement in the investment in subsidiaries and joint ventures can be summarized the following:

	2006	2005
Opening balance at January 1,	17,586	3,947
Acquisition of shares in subsidiaries and joint ventures	7,132	2,005
Disposals of subsidiaries and joint ventures	-12	-
Revaluation arising on business combinations	-	1,718
Change in loans	17,793	11,723
Share in result of investments for the year	5,493	-325
Original differences amortization	-425	-32
Dividends	-27	-1,514
Currency translation differences	378	64
Closing balance at December 31,	47,918	17,586

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

3 OTHER RECEIVABLES

	2006	2005
	€000	€000
4 Receivables from group companies		
Int. loan MZM Prop. Mimi agr.	13	8
Int. loan Global - Zold Park HAZ	21	109
Int. loan MZM Prop. Sp. zo.o	178	102
Int. loan Thokoly Udvar Kft.	59	18
Int. loan Robyg B.V.	1,104	798
Int. loan OK Investments Sp. zo.o.	780	259
Int. loan Robyg Galicija Sp. zo.o.	7	-
Int. loan Robyg Morena Sp. zo.o.	82	-
Int. loan Robyg Wilanow II Sp. zo.o.	175	-
Int. loan Robyg Ogrov Jel Sp. zo.o.	231	70
	2,650	1,364

The interest on loans from group companies are according to market conditions (Wibor 3M+3%, Libor 6M+3%).

	2006	2005
	€000	€000
5 Other receivable and prepayments		
C/a Holender Ventures B.V.	-	5,696
C/a third parties	-	257
Lawyers account Escrow	11	42
Dividend Robyg B.V.	27	-
Prepaid expenses	236	-
Other receivables	4	15
	278	6,010

6 CASH AND CASH EQUIVALENTS

Fortis Bank	-	2,234
Bank BPH	1,120	1,365
KH Bank	277	1,111
SNS Bank	106	-
U-Bank N.I.S. (ILS)	40	388
Leumi Bank	8	-
	1,551	5,098

7 EQUITY

	2006	2005
	€000	€000
8 Share capital		
The issued share-capital can be specified as follows:		
Balance as at 1 January	2,400	44
Proceeds from shares issued	260	416
Allotment of bonus shares	-	1,940
Balance as at 31 December	2,660	2,400

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

As of December 31, 2006 the authorised share-capital of Nanette Real Estate Group N.V. is EUR 8,000,000, divided into 400,000,000 shares of EUR 0,02.

On May 30, 2006 the issued share-capital which was composed of 12,000,000 ordinary shares of EUR 0.2 par value each was split into 120,000,000 ordinary shares of EUR 0.02 par value each. All shares and per share amounts in these financial statements have been restated to reflect this split.

On June 27, 2006 the company issued 12,987,013 ordinary shares with a total par value of EUR 259,740 on the AIM in London. The shareholders of the company that held shares prior to this issuance acquired 1,143,000 ordinary shares as part of the issuance for a total consideration of EUR 1,275,000 (GBP 880.000).

As of June 28, 2006, the company's shares are quoted on the AIM in London.

	2006	2005
	€000	€000
9 *Share premium*		
Balance as at 1 January	8,422	4,215
Share-based compensation	275	-
Proceeds from shares issued	11,827	5,940
	20,524	10,155
Allotment of bonus shares	-	-1,940
Conversion of loan into share premium	-	207
Balance as at 31 December	20,524	8,422

During 2006, 2,500,000 options were granted to senior employees and directors of the company and of related companies. Each option may be exercised to purchase one ordinary share of the company at an exercise price of USD 0.192.

The company recorded in the annual accounts expenses amounting to EUR 275,000 and a corresponding increase in shareholders' equity.

On June 27, 2006 the company issued 12,987,013 ordinary shares in consideration of EUR 14,493,000 (GBP 10 million). The issuance expenses amounted to EUR 2,406,000 and the net proceeds after issuance expenses amounted to EUR 12,087,000. As a consequence the share-premium increased with EUR 11,827,000.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

10 *Legal reserve*

	Inventory revaluation	Currency translation adjustment	Acquisition of minority interest	Investment in associates	Total
Balance at January 1, 2005	48	10	-	284	342
Inventory revaluation in respect of step acquisition	1,718	-	-	-	1,718
Depreciation transfer, inventory	(23)	-	-	-	(23)
Acquisition of minority interest	-	-	65	-	65
Share of profit of associates which are held by the Group in 50% or less				243	243
Currency translation differences:					
Group	-	636	-	-	636
Associates	-	44	-	-	44
Balance at December 31, 2005	1,743	690	65	526	3,025
Transfer of revaluation reserve upon disposal of inventory	(493)	-	-		(493)
Share of profit of associates which are held by the Group in 50% or less	-	-	-	1,935	1,935
Currency translation differences:					
Group	-	(976)	-	-	(976)
Associates	-	(270)	-	-	(270)
Balance at December 31, 2006	1,250	(556)	65	2,462	3,221

11 *Retained earnings*

	2006 €000	2005 €000
Balance as at 1 January	-1,721	-452
Net result	7,031	-1,026
	5,310	-1,478
Share in the retained earnings of Companies held by the Company at 50% or less	-1,935	-243
Transfer of revaluation	493	-
Balance as at 31 December	3,868	-1,721

12 NON-CURRENT LIABILITIES

DEBENTURES

	Debentures €000
Outstanding principal amounts as at 1 January 2006	9,591
Drawn in 2006	6,885
Repayments in 2006	2,746
Outstanding principal amounts as at 31 December	19,222
Short-term portion as at 31 December 2006	-2,746
Long-term portion as at 31 December 2006	16,476

In July 2005, the company issued on the Tel Aviv Stock Exchange, debentures (series A) with a par value in New Israeli Shekels (NIS) equivalent in amount to USD 12,042,917 (EUR 10,045,000). The debentures mature in 7 equal semi-annual instalments commencing on June 30, 2007 until June 30, 2010.

The debenture issue expenses of EUR 642,000 are off-set against the debentures and are amortised over the term of the debentures.

On August 15, 2006 the company issued to institutional investors debentures (series A) with a par value in NIS equivalent in amount to USD 12,478,997 (EUR 9,846,000) at a discount of EUR 98,000.

	2006	2005
	€000	€000
13 Payables to affiliated companies		
Loan Global Europe Inv.	2,874	1,733
Loan Frandilem	3,185	5,509
	6,059	7,242

14 CURRENT LIABILITIES

15 Payables to affiliated companies

	2006	2005
	€000	€000
Int. loan Global Europe Inv.	202	85
Int. loan Zold Park	21	-
Int. loan Frandilem	76	-
Loans third parties	37	438
	336	523

	2006	2005
	€000	€000
16 Other payables		
Directors' fee	167	-
Advisory fees	111	-
Audit fees	45	-
C/A Olimpia Euro Holdings B.V.	-	385
Other loans contracted	-	59
Creditors	3	43
Capital tax payable	-	34
Other	57	55
	383	576

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

PROFIT AND LOSS ACCOUNT

17 NET INCOME (LOSS) FROM INVESTMENTS

	2006	2005
	€000	€000
Result on sales	2,219	-
Result for the year	5,493	-325
	7,712	-325

18 OTHER INCOME (EXPENSES), NET

	2006	2005
	€000	€000
Director's fee (1)	621	11
External hirers	286	-
Management fee	145	134
Option plan	275	-
Auditor's fee	167	98
Travel expenses	58	19
Administration expenses	67	40
Legal expenses	41	41
Lawyer expenses	32	83
Directors and officers expenses	31	-
Notary Public expenses	28	15
Translation expenses	25	1
Telephone expenses	16	-
Tax advisory expenses	13	37
PR expenses	12	-
Contribution expenses	12	1
KBC Peel Hunt Project Norman	10	-
Expenses subsidiaries	-	13
Debentures interest Israel	1,215	370
Interest loan Frandilem	186	-
Interest loan Global Europe Inv.	150	85
Global profit	145	51
Interest loan third party	11	22
Interest banks	9	7
Currency exchange results loans and current accounts	-	466
Depreciation of deferred issuing expenses	-	75
Currency exchange results bank	-1,173	-332
Interest loans group companies	-1,154	-491
Interest banks	-211	-77
Embedded derivative	-110	-
Currency exchange results loans and current accounts	-266	
Other	40	32
	681	701

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

(1) DIRECTOR'S FEE

	2006	2005
	€000	€000
Director's fee	545	11
Director's Insurance	22	-
Bonuses	54	-
	621	11

19 COMMITMENTS, CONTINGENT LIABILITIES AND PLEDGES

For commitments, contingent liabilities and pledges please refer to Note 15 of the Consolidated IFRS financial statements.

20 SUBSEQUENT EVENTS

For subsequent events please refer to Note 26 of the Consolidated IFRS financial statements.

The Board of Directors:

Shaul Lotan
Oscar Kazanelson
Ran Jacobs
Josef Cimer
Eyal Keltsh
Ron Hadassi
Ferenc Karl
Gerald Parkes
Gilley Jacoby
David Dekel

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

NANETTE REAL ESTATE GROUP N.V.

The Board of Directors:

Shaul Lotan	Oscar Kazanelson	Ran Jacobs
Josef Cimer	Gerald Parkes	Ron Hadassi
Ferenc Karl	Eyal Keltsh	Gilley Jacoby
David Dekel		

NANETTE REAL ESTATE GROUP N.V.

The Board of Directors:

Shaul Lotan	Oscar Kazanelson	Ran Jacobs
Josef Cimer	Gerald Parkes	Ron Hadassi
Ferenc Kari	Eyal Keltsh	Giley Jacoby
David Dekel		

NANETTE REAL ESTATE GROUP N.V.

The Board of Directors:

Shaul Lotan	Oscar Kazanelson	Ran Jacobs
Josef Cimer	Gerald Parkes	Ron Hadassi
Ferenc Karl	Eyal Keltsh	Gilley Jacoby
David Dekel		

NANETTE REAL ESTATE GROUP N.V.

The Board of Directors:

Shaul Lotan	Oscar Kazenelson	Ran Jacobs
	G. P. Parker	
Josef Cimer	Gerald Parkes	Ron Hadassi
Ferenc Karl	Eyal Keltsh	Gilley Jacoby
David Dekel		

The Board of Directors:

Shaul Lotan	Oscar Kazanelson	Ran Jacobs
		Ron Hadass
Josef Cimer	Gerald Parkes	Ron Hadassi
Ferenc Kari	Eyal Keltsh	Gilley Jacoby
David Dekel		

NANETTE REAL ESTATE GROUP N.V.

The Board of Directors:

Shaul Lotan	Oscar Kazanelson	Ran Jacobs
Josef Cimer	Gerald Parkes	Ron Hadassi
Ferenc Karl	Eyal Keltsh	Gilley Jacoby
David Dekel		

NANETTE REAL ESTATE GROUP N.V.

The Board of Directors:

Shaul Lotan	Oscar Kazanelson	Ran Jacobs
Josef Cimer	Gerald Parkes	Ron Hadassi
Ferenc Karl	Eyal Keltsh	Gilley Jacoby
David Dekel		

NANETTE REAL ESTATE GROUP N.V.

The Board of Directors:

Shaul Lotan	Oscar Kazanelson	Ran Jacobs
Josef Cimer	Gerald Parkes	Ron Hadassi
Ferenc Karl	Eyal Keltsh	Gilley Jacoby
David Dekel		

NANETTE REAL ESTATE GROUP N.V.

The Board of Directors:

Shaul Lotan	Oscar Kazanelson	Ran Jacobs
Josef Cimer	Gerald Parkes	Ron Hadassi
Ferenc Karl	Eyal Keltsh	Gilley Jacoby
David Dekel		

Nanette Real Estate group
Amsterdam, the Netherlands

OTHER INFORMATION

OTHER INFORMATION

PROVISIONS OF THE ARTICLES OF ASSOCIATION CONCERNING THE APPROPRIATION OF PROFITS

The articles of association stipulate that the result for the year is at the disposal of the General Meeting of Shareholders.

APPROPRIATION OF RESULT

It is proposed that the 2006 result of 7,031 thousands EURO will be allocated to the other reserves.

The company annual accounts have been prepared in the assumption that this result will be adopted by the Annual General Meeting of Shareholders.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

Nanette Real Estate group
Amsterdam, the Netherlands

AUDITOR'S REPORT ON THE STATUTORY FINANCIAL STATEMENTS

To: The Management and Shareholders of Nanette Real Estate Group N.V.

AUDITOR'S REPORT

Report on the Statutory Financial Statements

We have audited the statutory financial statements of Nanette Real Estate Group N.V. as set out on pages 21 to 94. The statutory financial statements consist of the consolidated IFRS financial statements and the company only statutory Dutch GAAP financial statements. The consolidated IFRS financial statements comprise the consolidated balance sheet as at December 31, 2006, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company only statutory Dutch GAAP financial statements comprise the company only Dutch GAAP balance sheet as at December 31, 2006, the company only Dutch GAAP income statement for the year then ended and the company only Dutch GAAP notes thereto.

Management's responsibility

Management is responsible for the preparation and fair presentation of the statutory 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 management board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the statutory financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory 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 statutory 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.

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS

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 statutory 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 IFRS financial statements
In our opinion, the consolidated IFRS financial statements give a true and fair view of the financial position of Nanette Real Estate Group N.V. as at December 31, 2006, 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 only statutory Dutch GAAP financial statements
In our opinion, the company only statutory Dutch GAAP financial statements give a true and fair view of the financial position of Nanette Real Estate Group N.V. as at December 31, 2006, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report is consistent with the statutory financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Apeldoorn, July 22, 2008

Ernst & Young Accountants LLP

Signed by A.J. Buisman

For identification purposes only
ERNST & YOUNG
ACCOUNTANTS