

**Echo Investment S.A.  
25-528 Kielce, ul. Zagnańska 27**

**Opinion and Report  
on audit of the financial statement  
prepared according to the International Accounting Standards  
for the period from January 1, 2006 to 31 December 2005**

## **Opinion of Independent Chartered Accountant for the Shareholders and the Supervisory Board Echo Investment S.A.**

We have audited the enclosed financial statement of **Echo Investment S.A.** seated in Kielce, 27 Zagnańska Street. The said statement consists of the following sections:

- introduction to the financial statement;
- balance sheet prepared as on December 31, 2005, where the balance amount of assets and liabilities is **878,410,438.26** zlotys;
- profit and loss account for the period from January 1, 2005 to December 31, 2005, showing net profit amounting to **9,523,045.55** zlotys;
- statement of changes in equity for the period from January 01, 2005 to December 31, 2005, showing an increase in equity by **9,523,045.55** zlotys,
- cash flow statement for the period from January 01, 2005 to December 31, 2005, showing a cash increase by an amount of **63,738,347.47** zlotys;
- additional information and explanations.

The Management Board of the Company is responsible for preparation of this statement. Our task was to audit and assess the reliability, correctness and clarity of this financial statement and correctness of the books of accounts, on the basis of which the financial statement was drawn up.

We have carried out the audit pursuant to the provisions of:

- 1) chapter 7 of the Act of September 29, 1994, on Accounting (Journal of Laws No. 76, item 694 of 2002, as amended),
- 2) Chartered accountants' code of practice, issued by the National Board of Expert Auditors in Poland.
- 3) International Financial Revision Standards.

We have planned and executed the audit of the financial statement so that to achieve reasonable certainty allowing for expressing an opinion of the statement.

The audit particularly included verification of correctness of accounting principles applied by the Company and of significant estimates, primarily random verification of accounting documents and records providing grounds for values and information contained in the financial statement, as well as global evaluation of the financial statement.

In our opinion, the audit has provided sufficient grounds for the expression of a reliable opinion.

In our opinion, the audited financial statement, covering quantitative data and verbal explanations:

- fairly and clearly presents all information significant for assessment of the material and financial condition of Echo Investment S.A. as on December 31, 2005, as well as its financial result for the financial year from January 01, 2005 to December 31, 2005,
- has been prepared correctly in all substantial aspects, i.e. in compliance with the accounting principles according to the International Accounting Standards, the International Financial Reporting Standards and related interpretations published as regulations of the European Commission and, with respect to issues not regulated by the said Standards, in accordance with the requirements of the Accounting Act and secondary provisions issued on its basis, and according to properly maintained books of accounts,
- conforms to the legal regulations and provisions of the Articles of Echo Investment S.A. affecting the contents of the financial statement,

The presented financial statement is an individual financial statement and cannot provide exclusive grounds for assessment of the Company's financial and property condition, as the Company is the dominant organization of a Capital Group. The Company prepares a consolidated financial statement of the capital group where it is the dominant body.

71.4% of net income from sales of products, goods and materials is the income realized with affiliated companies, which are excluded in the consolidated statement.

The Management Report of the Company's activity is complete as defined in Article 49 clause 2 of the Accounting Act. The information contained therein is based on and compliant with the audited financial statement.

Katowice, May 08, 2006

**BDO Polska Spółka z o.o. [BDO Poland Limited Liability Company]**

**address: ul. Postępu 12**

**02-676 Warszawa**

**Registration number 523**

**Katowice Branch**

**address: al. Korfantego 2**

**40-004 Katowice**

Grażyna Maślanka  
Chartered Accountant  
registry no. 9375/7031

dr André Helin  
State Authorized  
Public Accountant  
Chartered Accountant 90004/502  
President of BDO Polska Sp. z o.o.

**Echo Investment S.A.  
25-528 Kielce, ul. Zagnańska 27**

**Complementary report to the Opinion  
on audit of the financial statement  
prepared according to the International Accounting Standards  
for the period from January 1, 2006 to 31 December 2005**

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## **I. GENERAL PART OF REPORT**

### **1. Identification data of the Company**

#### **1.1 Name and legal form**

Echo Investment Spółka Akcyjna [Echo Investment Joint Stock Company]

#### **1.2 Registered address of the Company**

25-528 Kielce, ul. Zagnańska 27.

#### **1.3 Objects of activity**

During the audited period, the Company operated in accordance with the Company Articles and the content of entry in the registry of entrepreneurs, focusing on builder's and developer's activity in the field of building apartments, shopping and entertainment centers, hotels and offices, lease of areas and advisory services for affiliated companies.

#### **1.4 Basis of activity**

Echo Investment S.A. acts on the basis of:

- company Articles prepared as a notarial deed Repertory A 4162/94 as of June 30, 1994, as amended, C
- the Polish Code of Commercial Partnerships and Companies, t

#### **1.5 Registration at the Economic Court**

On April 10, 2001 the Company was entered into the National Court Register at the District Court in Kielce, 10<sup>th</sup> Economic Department, with National Court Register number KRS 0000007025.

Previously the Company was registered in the commercial registry with number RHB 2054.

#### **1.6 Registration with the Tax Office and the Provincial Statistical Office**

NIP [Tax Identification Number] 657-023-09-12  
REGON [Company statistical number]: 290463755

#### **1.7 Equity and changes in equity during the reporting period**

The value of the Company's share capital is PLN 21,000 and is divided into 10,500 shares with nominal value of PLN 2.00 each.

As on December 31, 2005 the Company's shares were taken up by:

Shareholders	Number of shares (pcs.)	share in capital (%)
Michał Sołowow - directly	146 392	1,39%
Michał Sołowow – indirectly through:	3 817 742	36,36%
- Magellan Pro-Equity Fund I S.A.	2 608 242	24,84%
- Columbus Pro-Equity Fund II Sp. z o.o.	927 000	8,83%
- Amundsen Pro-Equity Fund III Sp. z o.o.	282 500	2,69%
Otwarty Fundusz Emerytalny ING NN	1 040 000	9,90%
OFE PZU Złota Jesień PTE	927 343	8,83%
Commercial Union PTE	806 504	7,68%
Artur Kłoczko	676 069	6,44%
Other Shareholders	3 085 950	29,39%
<b>Total</b>	<b>10 500 000</b>	<b>100%</b>

The value of share capital did not change during the audited period.

### 1.8 The Supervisory Board and the Management Board of the Company

As at the beginning of the audited period, the Management Board of Echo Investment S.A. was composed of:

- Andrzej Majcher- President of the Management Board
- Jarosław Grodzki Vice-President of the Management Board
- Piotr Gromniak - Member of the Management Board

On June 14, 2005, by way of Resolution no. 5, the Supervisory Board of Echo Investment SA appointed new members of the Management Board for the new term of office:

- Andrzej Majcher- President of the Management Board
- Jarosław Grodzki Vice-President of the Management Board
- Piotr Gromniak - Member of the Management Board
- Artur Langner - Member of the Management Board

The composition of the Management Board did not change until the end of the audited period.

As on December 31, 2005, the following persons were members of the Supervisory Board of Echo Investment S.A.:

- Wojciech Ciesielski- Chairman of the Supervisory Board
- Mariusz Waniółka- Deputy Chairman of the Supervisory Board
- Robert Oskard - Member of the Supervisory Board:
- Mariusz Gromek - Member of the Supervisory Board:
- Karol Żbikowski - Member of the Supervisory Board:
- Artur Kłoczko - Member of the Supervisory Board:

The composition of the Supervisory Board did not change during the audited period.

### 1.10 Employment

Employment as on December 31, 2005 was 116 persons.

### **1.11 Information about affiliated companies**

Echo Investment S.A. is the dominant company of a Capital Group, which prepares a consolidated financial statement.



## **2. Identification data of the audited financial statement and comparable information**

The audit concerned the financial statement prepared for the period from January 1, 2005 to December 31, 2005, including:

- introduction to the financial statement;
  - balance sheet prepared as on December 31, 2005, where the balance amount of assets and liabilities is **878,410 thousand** zlotys,
  - profit and loss account for the period from January 01, 2005 to December 31, 2005, showing net profit amounting to 9,523 thousand zlotys,
  - statement of changes in equity for the period from January 01, 2005 to December 31, 2005, showing an increase in equity by 9,523 thousand zlotys,
  - cash flow statement for the period from January 01, 2005 to December 31, 2005, showing a cash increase by an amount of 63,738 thousand zlotys;
  - additional information and explanations,
- and a Management Report on the activities of the Company.

According to Resolution no. 1 passed by the Extraordinary General Meeting of Shareholders of Echo Investment S.A. of December 23, 2004 (Repertory A no. 5931/2004), as from January 1, 2005 the Company was preparing individual financial statements in accordance with the International Accounting Standards and the International Financial Reporting Standards.

Changes to the current accounting policy were passed through Resolution of the Management Board of Echo Investment S.A. as of January 3, 2005.

The audited statement was the first financial statement prepared according to the IFRS. For purposes of this financial statement, the date of transition to the IFRS shall be January 1, 2004.

According to IFRS 1, the Company transformed comparable data for the period from January 1, 2004 to December 31, 2004 according to the same accounting principles as those applied for preparing the audited financial statement.

## **3. Identification data of the certified company and chartered accountant carrying out the audit**

Audit of the financial statement of Echo Investment S.A. with its registered seat in Kielce was carried out by BDO Polska Sp. z o.o. with its registered seat in Warsaw, listed as a company certified to audit financial statements by the National Board of Chartered Accountants with number 523, pursuant to the selection made by the Supervisory Board of the audited Company and to the provisions of the audit agreement made with the certified body on August 2, 2005. The certified company was represented in execution of that agreement by Grażyna Maślanka, chartered accountant (registration number 9375/7031).

The audit was carried out at the Company's registered office during the period from March 27, 2006 to April 7, 2006, and on April 24, 2006. It was preceded by a preliminary audit, which took place during the period from November 21, 2005 to November 25, 2005.

We hereby declare that BDO Polska Sp. z o.o. as the certified company and the chartered accountant involved in the audit of the aforementioned statement comply with preconditions for expressing an impartial and independent opinion on the audited statement, pursuant to Article 66 clause 1 and 2 of the Accounting Act.

No restrictions were applied to the scope of audit in the course of performance. The Management Board of the company and employees authorized by the Management Board provided all

explanations, statements and information required by the chartered accountant in the course of audit.

The audit was carried out with the assumption of continuation of the Company's activity to the extent that is not significantly reduced in foreseeable future. No occurrences or events implying breach of this assumption were found in the course of audit.

#### **4. Information about the financial statement for the preceding year**

The basis for opening the books of accounts was the financial statement prepared by Echo Investment S.A. for the period from January 01, 2004 to December 31, 2004, which was audited by BDO Polska Sp. z o.o. and obtained an opinion with the following objection:

*„It was found in the course of audit that when calculating corporate income tax for the period from January 1, 1998 to December 31, 1999, the Company deducted an amount of PLN 16,932 thousand as a deduction for erection of apartments for lease from taxable income. Non-depreciated value of expenditure financed with this deduction as on December 31, 2004 is PLN 15,726 thousand. The Company did not establish a reserve for deferred income tax in relation to this deduction. When taking decision in this respect, the Management Board of the Company followed the literal meaning of the provision of Article 37 of the Accounting Act as of September 29, 1994, thus assuming that if the deduction on account of erection of apartments for lease is used, then the circumstances described in the aforementioned provision as 'different moment of recognizing income as earned or cost as incurred within the meaning of the Act and tax laws' shall not apply.*

*In our opinion, the Company should have established a reserve for a timing difference concerning corporate income tax as on December 31, 1999, and thus equity as on the balance day would have been lower than that disclosed in the financial statement by PLN 2,988 thousand, with simultaneous increase of reserve for deferred corporate income tax for the same amount.”*

In 2005, the Company established a reserve for deferred income tax of PLN 2,988 thousand, charged to equity as a correction of basic error.

The Company's financial statement for the period from January 01, 2004 to December 31, 2004 was approved through Resolution no. 1 of the Ordinary General Meeting of Shareholders as of June 14, 2005. By way of Resolution no. 3 of the Ordinary General Meeting of Shareholders as of June 14, 2005, the profit for the period from January 01, 2004 to December 31, 2004 in the amount of PLN 7,543 thousand was allocated to supplementary capital.

The financial statement for 2004 was submitted to the Tax Office competent in the relevant territory, and to the National Court Register in due time as stipulated by related acts of law.

The financial statement for the year 2004 was published in Monitor Polski B no. 1843 as of November 28, 2005.

As from January 1, 2005, the Company assumed valid accounting principles according to the International Accounting Standards and the International Financial Accounting Standards. Therefore, as on January 1, 2005 a correction of opening balance was applied in the books according to the International Financial Reporting Standard 1.

#### **5. Events following the balance date**

Events following the balance date are presented in the additional information. These events have no impact on the audited financial statement.

## II. FINANCIAL ANALYSIS OF THE COMPANY

The presentation below contains selected values of the profit and loss account and balance sheet, with basic financial ratios.

The financial statement for the period from January 1, 2005 to December 31, 2005 is the first financial statement prepared by the Company according to International Financial Reporting Standards. According to IFRS 1, the Company transformed comparable data for the period from January 1, 2004 to December 31, 2004 according to the same accounting principles as those applied for preparing the audited financial statement. Therefore, financial analysis covers data for two financial years.

### 1. Balance sheet

(in thousands PLN)				
ASSETS	31.12.05	% of balance total	31.12.04	% of balance total
<b>Fixed assets</b>	<b>299.629</b>	<b>34,1</b>	<b>353.426</b>	<b>44,2</b>
Intangible assets	58	-	65	-
Tangible assets	50.263	5,7	46.593	5,8
Long-term receivables	-	-	-	-
Long-term investments	233.829	26,6	300.864	37,6
Real estate	13.990	1,6	53.686	6,7
Long-term financial investments	219.839	25,0	247.178	30,9
Deferred income tax assets	15.479	1,8	5.904	0,8
<b>Current assets</b>	<b>578.781</b>	<b>65,9</b>	<b>445.772</b>	<b>55,8</b>
Inventories	213.559	24,3	214.147	26,8
Short-term receivables	246.339	28,0	122.325	15,3
Short-term financial investments	46.489	5,3	95.996	12,0
In affiliated companies	46.481	5,3	95.950	12,0
In other companies	8	-	46	-
Cash and cash equivalents	72.231	8,2	13.304	1,7
Short-term accruals	163	0,1	-	-
<b>ASSETS TOTAL</b>	<b>878.410</b>	<b>100,0</b>	<b>799.198</b>	<b>100,0</b>
<b>LIABILITIES</b>				
<b>Equity</b>	<b>323.296</b>	<b>36,8</b>	<b>313.773</b>	<b>39,2</b>
Initial capital	21.000	2,4	21.000	2,6
Supplementary capital	288.690	32,9	281.147	35,2
Reserve capital	-	-	-	-
Profit/loss brought forward	4.083	0,4	8.204	1,0
Net profit/loss of the present year	9.523	1,1	3.422	0,4
<b>Reserves</b>	<b>29.477</b>	<b>3,5</b>	<b>23.254</b>	<b>3,0</b>
Reserve for deferred income tax	14.056	1,6	15.511	2,0
Reserves	15.421	1,7	7.743	1,0
<b>Liabilities</b>	<b>525.637</b>	<b>59,7</b>	<b>460.890</b>	<b>57,8</b>
Long-term liabilities	232.328	26,4	232.263	29,0
Short-term liabilities, including	293.309	33,3	229.908	28,8
To affiliated companies	4.872	0,6	4.678	0,6
To other companies	288.432	32,8	225.225	28,2
Special funds	5	-	5	-
Accruals	-	-	-	-
<b>LIABILITIES TOTAL</b>	<b>878.410</b>	<b>100,0</b>	<b>799.198</b>	<b>100,0</b>

In 2005, the balance total increased by 9.9% as compared to the same period in the preceding year. In respect of the structure of assets, the share of current assets in the balance total grew from 55.8% in 2004 to 65.9% in the present reporting period, and the share of fixed assets in the balance total dropped from 44.2% in 2004 to 34.1% in the audited year. The factors that contributed to the change in the structure of assets in 2005 primarily included a decrease of the value of long-term investments and increase in the balance of receivables.

Decrease of long-term investments mainly resulted from lower value of investment property because of sale of a shopping center.

The decrease in long-term financial investments mainly results from established revaluation write-downs on shares accounting for permanent loss of value, particularly considering the shares in MDP Sp. z o.o. and Echo Centrum Gdynia and Zakłady Ogrodnicze Naramowice. The details of individual write-downs are presented in the additional information to the financial statement.

The increase in the value of short-term receivables highly result from the sale of immovable property to an affiliated Company for PLN 134,961 thousand as of December 30, 2005.

Reduction in short-term investments results from decreased balance of loans granted as they were repaid.

The increase in cash was occasioned by the incomes earned from the Company's investment activity.

The share of equity in the balance total dropped from 39.2% to 36.8%. This slight decrease, despite the Company earning a net profit, is due to increased balance of short-term debt to other companies.

Regular capital is used for financing the Company's fixed assets in 100% and current assets in 40%. Long-term loans obtained from affiliated Companies for a value of PLN 44,551 thousand contribute to the value of regular capital.

Long-term liabilities changed slightly in comparison with the preceding year. The most significant item of liabilities is the debt on account of issuing debt securities. As on the balance day, the value of this debt is PLN 147,777 thousand.

The Company partially finances its economic activity with cash obtained as loans from subsidiaries, but it also provides financial support to subsidiaries. The value of long-term and short-term loans obtained from subsidiaries with interest is PLN 48,834 thousand and the value of loans granted is PLN 57,032 thousand.

The growth of short-term debt is mainly caused by issue of debt securities. As compared to the preceding year, debt related to short-term loans decreased, liabilities on account of deliveries, advances received for deliveries, and budgetary debt increased, the latter mainly accounting for VAT in relation to the real estate sale transaction in December 2005.

**2. Profit and loss account**

	2005	2004	(in thousands PLN) Dynamics 2005/2004
Income from sales of products, goods and materials	228.476	235.350	97,1%
Costs of sold products, goods and materials	177.966	182.055	97,8%
<b>Gross profit (loss) on sales</b>	<b>50.510</b>	<b>53.295</b>	<b>94,8%</b>
Profit (loss) from sales of immovable property	29.873	36	829,8%
Revaluation of non-financial assets	-22 682	- 16.076	141,1%
Costs of sales	- 7.561	- 6.842	110,5%
Overheads	- 15.231	- 11.921	127,8%
Other operating income / costs	- 3.918	545	-
<b>Profit before tax and financial income/costs</b>	<b>30.991</b>	<b>19.036</b>	<b>162,8%</b>
Financial income	38.480	13.520	284,6%
Financial costs	58.282	28.334	205,7%
<b>Gross profit (loss)</b>	<b>11.189</b>	<b>4.222</b>	<b>265,0%</b>
Corporate income tax	1.665	800	208,1%
a) current portion	12.695	415	3.059,0%
b) deferred portion	-11.030	385	-
<b>Net profit (loss)</b>	<b>9.523</b>	<b>3.422</b>	<b>278,3%</b>

In 2005, Echo Investment S.A. earned gross profit from sales of PLN 50,510 thousand, which is a drop by 5.2% as compared to 2004. The audited year was characterized by both a decrease in operating incomes and a decrease in operating costs. These values dropped in comparison to the previous year by 2.9% and 2.2%, respectively.

In 2005, profit from operating activity equaled PLN 30,991 thousand and increased by 62.8% as compared to 2004 as a result of profit earned on sales of immovable property.

In 2005, the company incurred financial costs higher by 105.7% and generated financial income that was higher by 184.6%.

Growth of financial incomes results from PLN 25,299 thousand dividend received, where the amount of dividend in 2004 was PLN 1,500 thousand.

Growth of financial costs is a consequence of revaluation write-downs made to the financial assets held in affiliated companies, to equal PLN 33,533 thousand. The value of revaluation write-downs on financial assets in 2004 was PLN 5,659 thousand.

Effective income tax rate was 15% in 2005, compared to 19% in 2004.

Net profit was PLN 9,523 thousand as compared to PLN 3,422 thousand in the preceding year, which is 178.3% growth.

### 3. Basic financial indicators

Indicator	Economic content	31.12.2005	31.12.2004
Balance total (in thousands PLN)		878.410	799.198
Net financial result (in thousands PLN)		9.523	3.422
Return on assets (%)	net financial result / average annual balance of assets	1,1%	0,4%
Return on equity (%)	net financial result / average annual balance of equity	3,0%	1,1%
Net sales profit to earnings ratio (%)	net financial result / income from sales of products, goods and materials	4,2%	1,5%
Gross profit margin (%)	gross profit from sales of products, goods and materials / income from sales of products, goods and materials	22,1%	22,6%
Receivables turnover ratio in days	average annual balance of all receivables on account of deliveries and services x 365 / income from sales of products, goods and materials	282	183
Debt repayment level in days	average annual balance of all liabilities on account of deliveries and services x 365 / value of sold commodities and materials + production costs of sold products	86	91
Stocks turnover ratio in days	average annual balance of inventories x 365 / value of sold commodities and materials + production costs of sold products	439	370
Fixed assets coverage with equity and long-term reserves ratio	equity + reserves / fixed assets total	1,1	0,9
Financing structure permanence	equity + long-term reserves + long-term debt / total assets	0,7	0,7
Liquidity ratio I	current assets total / short-term liabilities	2,0	1,9
Liquidity ratio II	current assets total - inventories / short-term liabilities	1,3	1,0
Short-term debt coverage with short-term receivables ratio	(short-term receivables / short-term debt + special funds)	0,8	0,5
Net profit per 1 share (PLN)	Net profit / number of shares	0,91	0,33
Net assets per 1 share (PLN)	Net assets / number of shares	30,79	29,88

In 2005, rates of return improved as a result of yielding net profit.

Gross return on sales dropped slightly, from 22.6% in 2004 to 22.1% in 2005, which was affected by a decrease of gross profit from sales.

Liquidity ratios are ranging around upper optimum values (1.2-2 and 1-1.3), not indicating any possibility of liquidity problems.

Receivables receipt cycle was established as 282 days, i.e. 99 days longer than in the previous year. This factor is deformed by the sales transaction that took place on December 30, 2005, worth PLN 134,961 thousand.

Debt repayment cycle shortened by 5 days, from 91 to 86 days. Stocks repayment cycle became longer, from 370 to 439 days, indicating extended performance cycle of building projects development.

Regular capitals owned enable financing nearly 66% of total assets, with over 71% in 2004.

Short-term debt coverage with short-term receivables ratio shows that short-term receivables are sufficient for repayment of 84% of short-term debt. In 2004, this ratio ranged around 53%.

Neither the results achieved nor the general financial condition indicate any threat to continuation of operations by the Company.

### III. DETAILED PART OF REPORT

#### 1. Evaluation of the accounting and internal controlling system

##### 1.1. Accounting system

The Company has the documentation specifying its accounting principles. The applied rules of cost accounting, assets and liabilities valuation and calculation of profit/loss are compliant with the provisions of the International Accounting Standards.

Accounting records are maintained in a computer system IFS99 Financial by IFS Industrial and Financial Systems. The system comprises the following modules:

- general ledger, g
- clearings, c
- AT, V
- billings. b

The system is supported by the Kadry-płace (HR&Payroll) system for Windows by MCM S.C., composed of the following modules:

- R, H
- payroll. p

The accounting records ensure correctness and completeness of recorded data and comparison of transactions included in the ledgers with source documentation.

The basis for opening of the Company's books of accounts as on January 01, 2005 was the financial statement including a balance sheet prepared as on December 31, 2004.

Chronological sequence of economic events is followed.

The Company executes monthly closings of books through preparing a statement of turnovers and balances of synthetic accounts. Source documents for book records contain such data as required by the Act. Grouping of economic transactions can satisfy both external and internal information requirements.

The results of audit of the books and accounting documents being a source of the records show that they generally fulfill the fairness, correctness and verifiability condition.

Security and access control to the data and computer-based data processing system as applied by the Company are appropriate and adequate to the requirements and needs in this respect.

The books, financial statements and accounting documents are properly archived and protected against unauthorized access, damage or stealth.



## **1.2. Stocktaking of assets**

During the audited periods, inventory of assets was taken at times conforming to the Accounting Act.

Inventory of stocks related to developer activity was taken through documents verification as on December 31, 2005.

Balances of receivables were taken as on December 31, 2005 through confirmation in writing.

Balances of debts with affiliated companies and selected vendors were taken as on December 31, 2005 through confirmation in writing.

Receivables and debts related to loans were taken as on December 31, 2005 through confirmation in writing.

Balances of debts on account of issued bonds were taken as on December 31, 2005 through written reconciliation with Banks involved in issues.

Inventory of cash on hand was taken as on the last day of the year through physical count and cash on bank accounts was taken through confirmation of balances from banks as on December 31, 2005.

Stocktaking has confirmed the existence, completeness and economic usability of the Company's assets.

## **1.3. Internal controlling**

The Management Board of the Company is responsible for preparing and functioning of the Company's internal controlling system and for prevention and detection of nonconformities.

When planning and executing audit of the Company's financial statement for the period expiring on December 31, 2005, we have considered the internal controlling system procedures to establish our own manner of proceeding and to issue an opinion on the financial statement and not for the purpose of assuring correctness of functioning of the Company's internal controlling system structures. Our review of the internal controlling system could have omitted certain significant weaknesses within the structure of that system.

## **2. Information about selected balance sheet and profit and loss account items**

### **2.1. Long-term financial investments**

Long-term financial investments	PLN 219,839 thousand
Percentage in the balance total	25,03

Long-term financial investments are mainly shares and stocks in subsidiaries and associated companies, which are worth PLN 202,644 thousand. Shares are valued at acquisition prices less write-downs on account of permanent loss of value. Gross value of shares and stocks is PLN 304,612 thousand. Considering permanent loss of value, revaluation write-downs were established to cover the balance of shares and stocks in the amount of PLN 35,015 and in

addition, the value of shares was reduced by a surplus of nominal value of the shares taken up over the value of non-cash contribution to the companies of PLN 66,953 thousand.

Pledges were established on shares and stocks worth PLN 105,300 thousand as collaterals of loans taken by Echo Investment S.A. and its subsidiaries. Relevant details are presented in the additional information to the financial statement.

There was an increase of shares by PLN 6,450 thousand and a decrease by PLN 2,023 thousand during the present period.

Significant changes during the present period include transfer of shares in Princess Boryszewska Sp. z o.o. worth PLN 1,961 thousand according to acquisition price for an amount of PLN 296 thousand. The shares were acquired by Echo Investment – Centrum Handlowo-Rozrywkowe Kielce Sp. z o.o.

The balance of shares mainly increased as a result of buying shares in Projekt S sp. z o.o. for PLN 6,402 thousand. The nominal value of purchased shares is PLN 6 thousand. A significant asset of the Company is a claim for establishing perpetual usufruct right on real estate in Warsaw.

In addition, two limited partnerships were set up:

- Echo Pasaż Grunwaldzki, with initial capital worth PLN 11,000. Echo Investment contributed the amount of PLN 10,900 and is a limited partner of the Company. The newly established Company will be involved in development of real estate, i.e. a shopping center in Wrocław.
- Hotel Investment with the value of capital of PLN 1,000. Echo Investment contributed PLN 900 of capital.

The following were disclosed as long-term investments:

- advance for purchase of shares in WAN Inwestycje of PLN 6,733 thousand
- loans granted of PLN 10,462 thousand

## **2.2. Incomes from sales and costs of operating activity**

Income on sales and equivalent	PLN 228,476 thousand
Costs of operating activity	PLN 177,966 thousand

Incomes and costs were accounted for completely and classified to appropriate periods. The costs incurred are documented correctly and settled in appropriate amounts. Incomes and costs of operating activity are correctly presented in the profit and loss account.

Incomes earned in regard of affiliated companies are worth PLN 163,318 thousand, i.e. 71.48% of total incomes. The most significant transaction was the sale of the Wrocław real estate to a limited partnership called Echo Pasaż Grunwaldzki for PLN 110,624 thousand.

## **3. Statement of changes in equity**

The statement of changes in equity properly presents the increase of equity in the amount of PLN 9,523 thousand during the period from January 01, 2005 to December 31, 2005. It was executed correctly and has a proper correlation with the balance sheet and profit and loss account.

## **4. Cash flow statement**

The data disclosed in the cash flow statement for the financial year from January 01, 2005 to December 31, 2005 is properly integrated with the balance sheet, profit and loss account and ledgers. This data shows the sources of financing of the Company's operations fairly and correctly.

## **5. Management Report on the Company's operations**

Pursuant to the requirements of Article 49 of the Act and to the Polish Code of Commercial Partnerships and Companies, the Management Board prepared a report on the Company's operations in 2005.

The information contained therein is compliant with information contained in the audited financial statement of the Company for 2005.

## **6. Statement of the organization's management**

Management of the Company filed a written statement on complete disclosure of data in the books of accounts, presentation of all contingent liabilities and non-existence of any significant events after the balance date.

Katowice, May 08, 2006

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