Engel East Europe N.V.

Condensed consolidated interim financial statements

For the six month period ended 30 June 2006

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Contents

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Independent report on review of condensed consolidated interim financial information

Engel East Europe N.V.

Introduction

We have reviewed the accompanying condensed consolidated interim balance sheet of Engel East Europe N.V. as at 30 June 2006 and the related condensed consolidated interim income statements, changes in shareholder's equity and cash flows for the six-month period then ended (interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Budapest, 21 August 2006

KPMG Hungária Kft.

KPMG Hungária Kft.

Engel East Europe N.V.
Condensed consolidated interim balance sheet
As at June 30 2006

	30 June 2006	30 June 2005	31 December 2005
	Unaudited	Unaudited	Audited
		Thousands Euro	
ASSETS			
Current assets			
Cash and cash equivalents	28,861	3,333	42,103
Restricted bank deposits and cash in escrow (see Note 12.f)	7,225	3,943	5,132
Trade accounts receivable	4,645	206	63
Other accounts receivable	1,919	770	2,617
Loans and amounts to related parties and other	3,251	473	2,448
Inventories of housing units	36,616	17,560	32,663
	82,517	26,285	85,026
Non-current assets			
Property and equipment	295	60	118
Deferred tax assets	208	587	274
Investment in associate	50	304	77
	553	951	469
Total assets	**83,070**	**27,236**	**85,495**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Interest-bearing loans from banks (see Note 9)	8,124	8,695	11,312
Loans and amounts due to related parties and other	12,335	8,335	19,538
Trade accounts payable	2,373	878	2,330
Other accounts payable	5,073	4,832	8,520
Income tax payable	639	136	94
Total liabilities	28,544	22,876	41,794
Net assets	54,526	4,360	43,701
Equity			
Share capital	878	20	878
Share premium	39,298	-	39,298
Capital reserves	(338)	-	-
Retained earnings	15,055	4,187	3,842
Translation reserve	(490)	20	(325)
Equity attributable to equity holders of the parent	54,403	4,227	43,693
Minority interest	123	133	8
Total equity	54,526	4,360	43,701
Total liabilities and equity	**83,070**	**27,236**	**85,495**

C. Satchi

Clair Satchi, CEO

Terry Roydon, Chairman of the Audit Committee

21 August 2006

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

Engel East Europe N.V.
Condensed consolidated interim income statement
For the six month period ended 30 June 2006

	For the six month period ended 30 June 2006	For the six month period ended 30 June 2005	For the year ended 31 December 2005
	Unaudited	Unaudited	Audited
	Thousands Euro		
Revenues	23,165	9,390	10,574
Cost of revenues	(9,451)	*(7,093)	*(7,350)
Gross profit	13,714	2,297	3,224
Selling, general and administrative expenses	(639)	(431)	(588)
Operating profit	13,075	1,866	2,636
Foreign exchange gains (losses)	(1,087)	*263	*(124)
Other financial income	970	*222	*395
Other financial expenses	(854)	*(521)	*(1,067)
Net financing costs	(971)	(36)	(796)
Share in profit (loss) of associate	18	(23)	155
Profit before tax	12,122	1,807	1,995
Income taxes (see Note 7)	(376)	(330)	(288)
Profit for the period	**11,746**	**1,477**	**1,707**
Attributable to:			
Equity holders of the parent	11,810	1,546	1,781
Minority interest	(64)	(69)	(74)
	11,746	**1,477**	**1,707**
Earnings per share:			
Basic earnings per share (Euro)	**0.134**	**0.026**	**0.029**
Diluted earnings per share (Euro)	**0.134**	**0.026**	**0.029**

* Reclassified.

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

Engel East Europe N.V.
Condensed consolidated interim statements of changes in shareholders' equity
For the six month period ended 30 June 2006

	Attributable to equity holders of the Company							
	Share capital	Share premium	Capital reserve	Translation reserve	Retained earnings	Total	Minority interest	Total equity
	Thousands Euro							
Balance at 1 January 2005	20	-	-	(76)	2,641	2,585	424	3,009
Foreign currency translation adjustment	-		-	96	-	96	-	96
Profit for the period	-	-	-	-	1,546	1,546	(69)	1,477
Total recognised income and expense						1,642	(69)	1,573
Dividend paid to minority shareholders (including foreign currency translation adjustment)	-	-	-	-	-	-	(222)	(222)
Balance at 30 June 2005	20	-	-	20	4,187	4,227	133	4,360
Balance at 1 January 2006	878	39,298	-	(325)	3,842	43,693	8	43,701
Foreign currency translation adjustment	-	-	-	(165)	-	(165)	-	(165)
Profit for the period	-	-	-	-	11,810	11,810	(64)	11,746
Total recognised income and expense						11,645	(64)	11,581
Acquisition of subsidiaries(including foreign currency translation adjustment) (see Note 12.e)	-	-	-	-	-	-	179	179
Dividend paid to shareholders (see Note 12.d)	-	-	-	-	(597)	(597)	-	(597)
Transaction with minority (see Note 12.e)	-	-	(340)	-	-	(340)	-	(340)
Share based payment (see Note 10)	-	-	2	-	-	2	-	2
Balance at 30 June 2006	878	39,298	(338)	(490)	15,055	54,403	123	54,526

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

Engel East Europe N.V.
Condensed consolidated interim statement of cash flows
For the six month period ended 30 June 2006

	For the six month period ended 30 June		For the year ended 31 December
	2006	2005	2005
	Unaudited	Unaudited	Audited
	Thousands Euro		
Cash from (used in) operating activities:			
Net profit for the period	**11,746**	**1,477**	**1,707**
Adjustments necessary to reflect cash flows from operating activities:			
Depreciation	21	3	19
Unrealised foreign exchange losses (gains)	837	-	(127)
Finance expenses (income), net	971	(147)	923
Income taxes, net	235	(73)	97
Company's share in loss (profits) of associate	(18)	23	(155)
Capital loss on sale of property and equipment	-	6	-
Gain on sale of subsidiary	-	-	(36)
Share based payment (see Note 10)	2	-	-
Increase in inventory	(4,076)	(354)	(7,466)
Deferred taxes	610	(30)	49
(Increase) decrease in trade accounts receivable	(4,582)	64	174
Decrease in other accounts receivable	(818)	(130)	(2,068)
Increase (decrease) in trade accounts payable	52	(86)	1,335
Decrease in other accounts payable	(2,806)	(7,753)	(6,413)
Cash from (used in) operations:			
Interest received	197	294	466
Interest paid	(363)	(75)	(400)
Income taxes paid	(374)	(260)	(382)
Net cash from (used in) operating activities	**1,634**	**(7,041)**	**(12,277)**
Cash from (used in) investing activities			
Purchase of property and equipment	(198)	(34)	(117)
Proceeds from sale of property and equipment	-	6	-
Acquisition of subsidiaries, net of cash acquired (see Note 12.e)	(155)	-	671
Loan granted to associate	-	(11)	364
Short term loans granted to (repaid by) related parties, net	(1,374)	322	(1,751)
Restricted cash	(2,112)	(2,060)	(3,481)
Net cash used in investing activities	**(3,839)**	**(1,777)**	**(4,314)**

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

Engel East Europe N.V.
Condensed consolidated interim statement of cash flows (continued)
For the six month period ended 30 June 2006

	For the six month period ended 30 June		For the year ended 31 December
	2006	2005	2005
	Unaudited	Unaudited	Audited
	Thousands Euro		
Cash from (used in) financing activities			
Issue of share capital	-	-	39,576
Short term loans from (repaid to) banks, net	(3,145)	3,625	6,768
Short term loans received from (repaid to) related parties, net (see Note 11)	(7,136)	4,109	8,521
Dividend paid to minority shareholders	-	(229)	(362)
Dividend paid to shareholders (see Note 12.d)	(597)	-	-
Net cash from (used for) financing activities	**(10,878)**	**7,505**	**54,503**
Increase (decrease) in cash and cash equivalents during the period	**(13,083)**	**(1,313)**	**37,912**
Effect of exchange rate changes on cash	(159)	8	(447)
Cash and cash equivalents at the beginning of the period	**42,103**	**4,638**	**4,638**
Cash and cash equivalents at the end of the period	**28,861**	**3,333**	**42,103**

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

Engel East Europe N.V.
Notes to the condensed consolidated interim financial statements

1. Reporting entity

Engel East Europe N.V. (the "Company") is a company domiciled in The Netherlands. The condensed consolidated interim financial statements of the Company as at 30 June 2006 and for the six month period then ended comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates and jointly controlled entities.

The consolidated financial statements of the Group as at and for the year ended 31 December 2005 are available upon request from the Company's registered office at Rapenburgerstraat 204, 1011MN Amsterdam, The Netherlands.

The revenues for the period ended 30 June 2006 partly derive from the share premium of Enman B.V. (see b. below) received in connection with agreement signed with an investment fund HEPP III Luxembourg Master S.A.R.L. ("HEPP III"), see Note 12.g.

During the six month period ended 30 June 2006 the following changes and additions occurred in the Company's holdings:

a Changes in holding percentage of subsidiaries held by Arces International B.V. ("Arces") - 50% interest in share capital - holding company, Amsterdam, The Netherlands:

1. Palace Engel Dejvice s.r.o. ("Dejvice") - a wholly owned subsidiary by Arces (formerly 64% interest in share capital) (see Note 12.e) - through its wholly owned subsidiary Palace Engel Safranka s.r.o.("Safranka") builds residential project in Prague, Czech Republic.
2. Palace Engel Estate s.r.o. ("Vokovice") - a wholly owned subsidiary by Arces (formerly 64% interest in share capital) (see Note 12.e) - plans to build a residential project in Prague, Czech Republic.

b. Additional subsidiaries purchased and/or incorporated by Enman B.V. ("Enman") - 50% interest in share capital - holding company, Amsterdam, The Netherlands:

1. Wilanow 3 Development Ltd. ("Wilanow") - a wholly owned subsidiary by Enman - plans to build a residential project in Warsaw, Poland (see Note 12.a).
2. Engel Ingatlan Kft. ("Ingatlan") - a wholly owned subsidiary by Enman - plans to build a residential project in Budapest, Hungary (see Note 12.c).
3. Palace Engel Mokotow sp.zoo ("Mokotow") - a wholly owned subsidiary by Enman - plans to build a residential project in Warsaw, Poland.

c. Additional subsidiaries incorporated by the Company:

1. E.G. Management Ltd. ("E.G. Management") - a wholly owned subsidiary - management company, Bulgaria.
2. Engel Marina Dorcol Ltd. ("Marina Dorcol") - 95% interest in the share capital - plans to build a residential project in Belgrade, Serbia (see Note 12.b and Note 13.a).

2. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2005.

These condensed consolidated interim financial statements were approved by the Board of Directors on 21 August 2006.

3. Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2005.

4. Estimates

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2005.

5. Segment reporting

	For the six month period ended 30 June					
	CEE Region		Canada		Consolidated	
	2006	2005	2006	2005	2006	2005
	Thousands Euro					
Segment revenue	23,165	-	-	-	23,165	-
Segment result	13,148	-	(73)	-	13,075	-

6. Financial risk management

All the aspects of the Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements as at and for the year ended 31 December 2005.

7. Income tax expense

The Group's consolidated effective tax rate in respect of continuing operations for the six months ended 30 June 2006 was 3% (for the year ended 31 December 2005: 14%, for the six months ended 30 June 2005: 18%). This change in effective tax rate was caused mainly by the mixture of revenues, which are deriving mostly from subsidiaries in Hungary, where the rate of corporate tax is 16%, from subsidiary in Poland, where the rate of corporate tax is 19% and from the results of agreements with HEPP III (see Note 12.g) which are mostly tax exempt.

8. Property, plant and equipment

Acquisitions

During the six month period ended 30 June 2006 the Group acquired assets with a cost of EUR198 thousands (during the six month period ended 30 June 2005: EUR34 thousands).

9. Interest-bearing loans from banks

The following interest-bearing loans from banks were received and repaid during the six months ended 30 June 2006:

	Currency	Interest rate	Face value	Carrying amount	Year of maturity
		Thousands Euro			
Balance at 1 January 2006				**11,312**	
Received loans					
Secured bank loan	Euro	3m Euribor+2.35%	137	138	2006
Subsidised bank loan	Hungarian Forint	5.72%	880	887	*2008
Secured bank loan	Czech Crown	3m Pribor+2.5%	618	622	2006
Secured bank loan	Euro	3m Euribor+1.05%	1,500	1,500	*2008
Repayments					
Subsidised bank loan	Hungarian Forint	6.91%	(3,942)	(3,942)	
Secured bank loan	Euro	3m Euribor+1.5%	(1,320)	(1,320)	
Secured bank loan	Polish Zloty	3m Wibor+2.25%	(830)	(830)	
Secured bank loan	Polish Zloty	3m Wibor+1.7%	(243)	(243)	
Balance at 30 June 2006				**8,124**	

* Represents the latest possible year of maturity.

10. Share-based payments

In 2006 the Company established a share option programme to purchase shares of the Company. According to the programme, during year 2006, it granted options to executive directors and senior employees which entitle them to purchase shares of the Company. The total amount of benefit component in the share option programme in the six month period ended 30 June 2006 is EUR45 thousands, the amount recorded in the income statements as at 30 June 2006 is EUR2 thousands.

The terms and conditions of the grants made during the six months ended 30 June 2006 are as follows:

Grant date	Number of instruments	Vesting conditions	Contractual life of options
Option grant for the period 1.1.2006-30.6.2006	280,000	3 years of service/ employment	10 years

Fair value of share options and assumptions for the six month period ended 30 June 2006:

Weighted average fair value at grant date	EUR0.30
Weighted average share price	EUR2.19
Weighted average exercise price	EUR2.41
Expected volatility (expressed as weighted average volatility used in the modelling under Black&Sholes model)	26.74%
Option life (expressed as weighted average life used in the modelling under Black&Sholes model)	3 years
Expected dividends	4%
Risk-free interest rate (based on government bonds)	4.88%

11. Related parties

Main shareholder

During the six months ended 30 June 2006 the Company repaid a loan to Engel General Developers Ltd. - the main shareholder of the Company incorporated in Israel - an amount of EUR9.4 million.

Transactions with directors and senior employees

As described in Note 10, in 2006 the Company established a share option programme that entitles executive directors and senior employees to purchase shares of the Company.

12. Significant acquisitions and transactions

a. On 30 January 2006 the Company has signed two agreements for the purchase of two plots in Warsaw, Poland.

The Company intends to develop a residential project on the acquired land with a total area of approximately 26,000 Sqm. One plot has been acquired for a total purchase price of approximately EUR1.8 million and on 7 April 2006 the ownership of the company which holds the plot, Wilanow (see Note 1.b.1) was transferred to Enman (see Note 1.b).
For the second plot a conditional pre-agreement was signed for a total purchase price of approximately EUR4.2 million, out of which 10% was transferred upon the signing to escrow account. The balance will be paid upon receiving the residential planning permit.

b. On 25 May 2006 the Company has won a bidding round run by the Municipality of Belgrade, to purchase a land in Marina Dorcol with a total area of approximately 25,700 Sqm. The total purchase price is approximately EUR21 million which includes the cost of the land, the landscaping fees and the land leasing for the construction period.

The Company intends to develop a mixed-use project on the acquired land with a total gross building area of 76,000 Sqm. The development will include approximately 600 residential units as well as a marina, offices, shopping centre, restaurants and coffee shops on the banks of the Danube River. The acquisition of the site is being done by a local subsidiary, Marina Dorcol (see Note 1.c.2). Marina Dorcol will pay for the land in accordance with the issuing of building permits for each stage.

c. On 11 April 2006 Enman, through Ingatlan, its subsidiary (see Note 1.b.2) has signed an agreement for the purchase of land in Budapest, Hungary.

The Company intends to develop a residential project on the acquired land, with a total area of approximately 20,000 Sqm. The land was acquired for a total purchase price of approximately EUR2.4 million (see Note 1.b.2).

d. On 25 April 2006 the Directors of the Company announced that, subject to obtaining shareholders' approval at the annual general meeting of the Company, a gross annual dividend of EUR0.0068 per share for the year ended 31 December 2005 will be paid on 22 June 2006 (dividend payment date) to the registered shareholders on 26 May 2006 (record date).

The dividend payment was approved at the annual general meeting of the Company held in Amsterdam on 13 June 2006 and the payment was made on 22 June 2006.

e. On 15 May 2006 Arces (see Note 1.a) purchased 36% share held by Immoconsult - affiliate of Austrian Volksbank A.G., an Austrian Bank, and Emerald - its agent, in two of projects which Arces owned 64% in its share capital - Dejvice and Vokovice (see Notes 1.a.1 and 1.a.2) - for approximately EUR320 thousands (as at 30 June 2006 EUR10 thousands from this amount are payable to Emerald). Arces repaid to Immoconsult interest-bearing loans it provided to the two companies with total amount of approximately EUR1.1 million. As at 30 June 2006 loans amounted to EUR36 thousands are payable to Emerald.

On 30 June 2006, Arces owns 100% of each of the abovementioned projects which together consist of approximately 710 residential units.

12. Significant acquisitions and transactions (continued)

f. On 25 May 2006 the Company has signed an agreement for the purchase of land in Prague, the Czech Republic. The agreement is subject to due diligence. The project will be purchased by Enman, as a part of joint venture with HEPP III (see g. below).

The Company intends to develop a residential project on the acquired land, with a total area of approximately 10,000 Sqm. The total purchase price of the land, for which a planning permit has already been obtained, is approximately EUR5 million, which will be paid by the Company, on completion of the transfer of the land title in the land registry authority. As of 30 June 2006 the amount equal to the expected purchase price of the land is being held in escrow account.

g. On 29 December 2005 the Company and Enman entered into a series of agreements with HEPP III, whereby HEPP III subscribed for shares of Enman constituting 50% of its outstanding share capital. During the six month period ended 30 June 2006 HEPP III invested a total amount of EUR20.6 million, out of which, EUR3.1 million was repaid to the Company in January 2006 on account of loans previously provided to Enman. In addition, HEPP III paid EUR1.8 million, of which approximately EUR1.4 million was paid in December 2005 and EUR0.4 million was paid prior to 30 June 2006 to a subsidiary of the Company as a developer fee. The revenues of the Company for the period ended 30 June 2006 include a net amount of EUR10.5 million deriving from the abovementioned transaction.

13. Subsequent events

a. On 13 July 2006 the Company has signed a Terms of Agreement ("TOA") with a prestigious European investment fund specialising in emerging markets ("Fund" or "the Fund") which will invest in Marina Dorcol (see Note 1.c.2 and Note 12.b). According to the TOA, the parties are scheduled to enter into the definitive agreements within 30 days.

According to the TOA the Fund will invest EUR11.9 million for an equity investment of 30% of the local subsidiary's shares. EUR10 million will be paid upon entering into the definitive agreement and the remaining EUR1.9 million will be paid within one year thereafter. The Fund's share in the Project's proceeds will vary in accordance with the project's results.

The Company estimates that this investment transaction will result in profits before tax of approximately EUR9 million.

b. On 24 July 2006 the Company has signed a memorandum of understanding ("MOU") for a percentage deal (the main part of the payment for the land will be set as a percentage of the proceeds of the project) for a project in a central location in Romania for the development of a neighbourhood consisting of several thousand of residential units. The project will be built in several stages.

The scope of the project will be decided following completion of a due diligence process. Signing of the final agreement is subject to the completion of further due diligence by the company.

13. Subsequent events (continued)

c. On 31 July 2006 the Company has signed a MOU for a percentage deal for a second project in Romania, on the shores of the Black Sea in the Constanta region, where the company intends to develop a residential neighbourhood consisting of approximately 500 residential units and a commercial centre.

The Company intends to develop a residential project on the acquired land, with a total area of approximately 50,000 Sqm and a commercial centre with a total area of approximately 10,000 Sqm. According to the terms of the MOU, the main part of the payment for the land will be a percentage of the proceeds from the sales of the project. Signing of the final agreement is subject to the completion of further due diligence by the Company.

d. On 15 August 2006 the Company has signed an agreement for the purchase of 3 adjacent plots in Bucharest, Romania, for the development of approximately 550 residential units.

The Company intends to develop a residential project of approximately 55,000 Sqm on the acquired plots with a total area of 23,000 Sqm. The project is on the bank of a lake, within the Pipera neighbourhood.

The total purchase price of the land is approximately EUR4.6 million. Of this, approximately EUR1.5 million was paid upon the signing of a final agreement for one plot of approximately 7,500 Sqm with a planning permit. The remaining EUR3.1 million will be paid upon receipt of the planning permit for the two additional plots. If the planning permit is not issued by the seller within 60 days, the Company will be awarded a 50% discount, or given the option to withdraw from the deal.

e. On 16 August 2006 the Board of the Directors of the Company announced that a gross interim dividend of EUR0.021 per share amounting to EUR1.9 million (gross) in total will be paid on 3 November 2006 (dividend payment date) to the registered shareholders on 6 October 2006 (record date).