

DANUBIUS HOTELS NYRT.

2006

**CONSOLIDATED
FINANCIAL STATEMENTS**

ACCORDING TO IFRS

**Danubius Hotel and Spa Nyrt.
and Subsidiaries**

**Consolidated
Financial Statements**

December 31, 2006
with Report of the Independent Auditor

Danubius Hotel and Spa Nyrt. and Subsidiaries
Financial Statements
For the year ended December 31, 2006

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Independent Auditors' Report

To the shareholders of Danubius Hotel and Spa Nyrt.

We have audited the accompanying 2006 consolidated financial statements of Danubius Hotel and Spa Nyrt (hereinafter referred to as "the Company"), which comprise the consolidated balance sheet as at 31 December 2006, which shows total assets of 85,080 million and a retained profit for the year of 1,454 million, and the consolidated income statement, consolidated statement of changes in equity and cash flow statement for the year then ended, and the consolidated supplementary notes including a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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 consolidated financial statements based on the audit and to assess whether the consolidated business report is consistent with the consolidated financial statements. We conducted our audit in accordance with the Hungarian National Standards on Auditing and applicable laws and regulations in Hungary. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our work with respect to the consolidated business report was limited to the assessment of the consistency of the consolidated business report with the consolidated financial statements, and did not include a review of any information other than that drawn from the audited accounting records of the Company.

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

Opinion

We have audited the consolidated financial statements of Danubius Hotel and Spa Nyrt., its components and elements and their documentary support in accordance with Hungarian National Standards on Auditing and gained sufficient and appropriate evidence that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Danubius Hotel and Spa Nyrt. and its consolidated subsidiaries as of 31 December 2006, and of their consolidated financial performance and of the consolidated result of their operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU. The consolidated business report is consistent with the disclosures in the consolidated annual financial statements.

Budapest, 24 April 2007.

KPMG Hungária Kft.
1139 Budapest, Váci út 99.
Chamber registration number: 000202

David Thompson
Partner

Péter Szabó
Registered Auditor
Identification number: 005301

This is an English translation of the Independent Auditors' Report on the 2006 IFRS Consolidated Annual Report of Danubius Hotel and Spa Nyrt. issued in Hungarian. If there are any differences, the Hungarian language original prevails. This report should be read in conjunction with the complete IFRS Consolidated Annual Report it refers to.

Danubius Hotel and Spa Nyrt. and Subsidiaries
Consolidated Balance Sheet
(All amounts in million HUF)

		At December 31,	
	Notes	2006	2005
Assets			
Cash and cash equivalents	3	3,087	2,363
Accounts receivable	4	2,000	1,889
Other receivables and prepayments	5	1,142	1,678
Inventory	6	844	884
Assets held for sale	7	535	-
Total current assets		7,608	6,814
Property, plant and equipment	8	72,947	67,687
Intangible assets	9	2,147	2,111
Investments in associates	10	1,715	1,763
Other investments, including derivatives		92	235
Deferred tax assets	21	571	554
Total non-current assets		77,472	72,350
Total assets		85,080	79,164
Liabilities and Shareholders' Equity			
Trade accounts payable		3,226	2,327
Advance payments from guests		518	433
Income tax payable		61	215
Other payables and accruals	12	3,690	2,716
Interest-bearing loans and borrowings	13	3,940	2,769
Provisions	11	868	840
Total current liabilities		12,303	9,300
Interest-bearing loans and borrowings	13	17,471	17,609
Loan from related party	27	1,866	1,828
Deferred tax liabilities	21	1,631	1,524
Total non-current liabilities		20,968	20,961
Total liabilities		33,271	30,261
Shareholders' Equity			
Share capital	15	8,285	8,285
Capital reserve		7,435	7,435
Treasury shares	15	(1,162)	(1,162)
Translation reserve		3,850	2,400
Hedging reserve		8	-
Retained earnings		30,543	29,134
Attributable to equity holders of the parent		48,959	46,092
Minority interests	14	2,850	2,811
Total shareholders' equity		51,809	48,903
Total liabilities and shareholders' equity		85,080	79,164

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Imre Dr. Deák
Member of Board of Directors

.....
János Tóbiás
Member of Board of Directors

Budapest, 24 April 2007

The notes set out on pages 9 to 34 are an integral part of the consolidated financial statements.

Danubius Hotel and Spa Nyrt. and Subsidiaries
Consolidated Statement of Income
(All amounts in million HUF)

	Notes	Year ended December 31, 2006	2005
Room revenue		22,885	20,462
Food and beverage revenue		14,571	14,371
Spa revenue		5,890	5,242
Other departmental revenue		2,220	2,279
Revenue from wineries		163	175
Revenue from security services		1,008	-
Other income	17	578	256
Total operating revenue and other income		47,315	42,785
Cost of goods purchased for resale		398	335
Raw material costs	18	9,428	8,702
Services used	19	10,354	9,051
Material expenses and services used		20,180	18,088
Wages and salaries		11,880	10,975
Other personnel expenses		1,347	1,232
Taxes and contributions		4,161	3,859
Personnel expenses		17,388	16,066
Depreciation and amortisation		4,587	4,324
Other expenses	20	2,515	2,106
Changes in inventories of finished goods and work in progress		(5)	(50)
Work performed by the entity and capitalised		(59)	(37)
Total operating expenses		44,606	40,497
Profit from operations		2,709	2,288
Interest income		43	57
Interest expense		(1,083)	(843)
Foreign currency (loss) / gain		158	(379)
Financial Income/(loss)		(882)	(1,165)
Share of profit/ (loss) of associates		(48)	6
Profit before tax		1,779	1,129
Current tax expense	21	262	431
Deferred tax expense / (benefit)	21	63	(183)
Profit for the year		1,454	881
Attributable to:			
Equity holders of the parent		1,409	817
Minority interest	14	45	64
Basic and diluted earnings per share (HUF per share):	22	178	103

Danubius Hotel and Spa Nyrt. and Subsidiaries
Consolidated Statement of Changes in Shareholders' Equity
(All amounts in million HUF)

	Attributable to equity holders of the parent							Minority Interest	Total equity
	Share Capital	Capital Reserve	Treasury Shares	Retained Earnings	Translation Reserve	Hedging Reserve	Total		
January 1, 2005	8,285	7,435	(1,162)	28,317	1,296	-	44,171	2,896	47,067
Dividends to minority shareholders								(8)	(8)
Acquisition of subsidiary	-	-	-	-	-	-	-	29	29
Acquisition of minority interest	-	-	-	-	-	-	-	(172)	(172)
<i>Subtotal: transactions with equity holders</i>	-	-	-	-	-	-	-	(151)	(151)
Net profit for the year	-	-	-	817	-	-	817	64	881
Translation of foreign subsidiaries	-	-	-	-	1,104	-	1,104	2	1,106
<i>Subtotal: income and expense for the year</i>	-	-	-	817	1,104	-	1,921	66	1,987
December 31, 2005	8,285	7,435	(1,162)	29,134	2,400	-	46,092	2,811	48,903
Dividends to minority shareholders	-	-	-	-	-	-	-	(8)	(8)
<i>Subtotal: transactions with equity holders</i>	-	-	-	-	-	-	-	(8)	(8)
Net profit for the year	-	-	-	1,409	-	-	1,409	45	1,454
Fair valuation of hedging instruments (see Note 29)	-	-	-	-	-	8	8	-	8
Translation of foreign subsidiaries	-	-	-	-	1,450	-	1,450	2	1,452
<i>Subtotal: income and expense for the year</i>	-	-	-	1,409	1,450	8	2,867	47	2,914
December 31, 2006	8,285	7,435	(1,162)	30,543	3,850	8	48,959	2,850	51,809

The notes set out on pages 9 to 34 are an integral part of the consolidated financial statements.

Danubius Hotel and Spa Nyrt. and Subsidiaries
Consolidated Statement of Cash Flows
(All amounts in million HUF)

	Note	Year ended December 31,	
		2006	2005
Cash flows from operating activities:			
Profit for the year		1,454	881
Adjustments for:			
Income tax	21	325	248
Share of profit/(loss) from associates		48	(6)
Interest income		(43)	(57)
Interest expense		1,083	843
Depreciation and amortisation		4,587	4,324
Unrealised foreign exchange (gain) / loss		(265)	341
Gain on sale of fixed assets	17	(268)	(121)
Changes in assets and liabilities:			
Accounts receivable and other receivables		530	81
Inventory		40	(34)
Accounts payable and other current liabilities		1,836	392
Cash generated from operations		9,327	6,892
Interest paid		(1,086)	(817)
Corporate income tax paid		(353)	(531)
Net cash provided by operations		7,888	5,544
Cash flows from investing activities:			
Purchase of property, plant and equipment		(8,403)	(4,972)
Purchase of intangible assets		(216)	(309)
Cash paid on acquisition of shares from minority	14	-	(172)
Acquisition of subsidiary, net of cash acquired	14,26	-	(82)
Interest received		14	79
Investment in associate	10	-	(1,775)
Proceeds on sale of fixed assets		363	187
Decrease in restricted cash		-	1,031
Other cash inflows		15	12
Net cash used in investing activities		(8,227)	(6,001)
Cash flows from financing activities:			
Receipts of long-term bank loans		2,867	2,887
Repayment of long-term bank loans		(2,703)	(3,943)
Payment of finance lease liabilities		(136)	(125)
Related party loan received	10	-	1,740
Net cash provided by / (used in) financing activities		28	559
Increase / (decrease) in cash and cash equivalents		(311)	102
Cash and cash equivalents at beginning of year		2,326	2,224
Cash and cash equivalents at end of year, net		2,015	2,326

Danubius Hotel and Spa Nyrt. and Subsidiaries
Notes to the Consolidated Financial Statements
(All amounts in million HUF)

1. The Company and its recent history

Danubius Hotel and Spa Nyrt. ("Danubius" or "the Company") is a company limited by shares which is domiciled in, and incorporated under the laws of the Republic of Hungary. The Company and its subsidiaries (the "Group") provide hospitality services in Hungary, Czech Republic, Slovakia and Romania, with an emphasis on 3, 4 and 5 star spa and city hotels. The Company's shares are listed on the Budapest Stock Exchange. At 31 December 2006, 53.4% of the Company's shares were owned by CP Holdings Limited, a UK private company, and companies controlled by CP Holdings Limited. The ultimate controlling party of the Group is the Schreier family.

The consolidated financial statements of the Company as at and for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

Danubius is a holding company. A wholly owned subsidiary, Danubius Szállodaüzemeltető és Szolgáltató ZRt, owns and operates the Group's hotel properties in Hungary.

Danubius has a 95.36% shareholding in Léčebné Lázně a.s., a company which owns and operates hotels in Marienbad, Czech Republic and a 100% shareholding in Gama 45 s.r.o which owns a hotel in Marienbad.

Danubius owns 56.43% of the shares of Salina Invest SA, a holding company which owns a 93.97% interest in Balneoclimaterica SA. Balneoclimaterica SA owns a hotel and real estate complex in Sovata, Romania. Danubius has a 53.03% effective interest in Balneoclimaterica SA.

The Group has an 88.60% shareholding in Slovenské Liečebné Kúpele Piestany a.s. ("Piestany"), a Slovakian company which owns and operates hotels in Piestany and Smrdaky.

In 2004 Danubius acquired a 66.67% shareholding in Lángastronomia Kft, a company which owns and operates the Gundel and Bagolyvár restaurants in Budapest and wineries in the Tokaj and Eger regions .

In August 2005, Danubius acquired a 25% interest in CP Regents Park Two Limited, a company which owns and operates the Danubius Hotel Regents Park, London and concluded a cooperation agreement with the 75% shareholder in that company, CP Holdings Limited (see Note 10).

In October 2005 Danubius Beta Hotels Kft., a wholly owned subsidiary operating 2 and 3 star hotels on a franchise basis was merged at book value into Danubius Szállodaüzemeltető és Szolgáltató Zrt.

In December 2005 Danubius acquired an additional 45.85% interest in Preventív-Security ZRt, a company, which provides security services, resulting in a 78.6% shareholding at December 31, 2005. (see Note 26).

Danubius Hotel and Spa Nyrt. and Subsidiaries
Notes to the Consolidated Financial Statements
(All amounts in million HUF)

2. Significant accounting policies

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by EU.

Basis of preparation

The consolidated financial statements are prepared in Hungarian Forint (HUF) and are presented in millions of Forints.

The consolidated financial statements are prepared under the historical cost convention except for derivative financial instruments, which are measured at fair value (see Note 28).

The accounting policies have been consistently applied by the Group enterprises and are consistent with those used in the previous year.

The Company has applied IFRS 3 "Business Combinations" and IAS 36 "Impairment of Assets" (revised 2004) in accounting for the acquisition of Lángastronomia Kft .

The financial statements were authorised for issue by the Board of Directors on April 24, 2007.

Use of estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 30.

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The consolidated financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The consolidated financial statements include the financial statements of the Company and its subsidiaries after elimination of all inter-company transactions and balances, including any unrealised gains and losses.

Danubius Hotel and Spa Nyrt. and Subsidiaries
Notes to the Consolidated Financial Statements
(All amounts in million HUF)

2. Significant accounting policies (continued)

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Investments

Investments in which the Group has less than 20% ownership are classified as available for sale financial assets and carried at cost, less provision for impairment, where such investments are unquoted and fair value cannot be reasonably estimated. Otherwise they are measured at fair value using the quoted bid price of the investment.

The Company's principal subsidiary companies are as follows:

Name	Principal Activity	Country of Incorporation	Group interest held at December 31, 2006	Group interest held at December 31, 2005
Danubius Szállodaüzemeltető és Szolgáltató Zrt.	Hotel operator	Hungary	100%	100%
Lángastronomia Kft.	Restaurant operator	Hungary	66.67%	66.67%
Preventív-Security ZRt	Security	Hungary	78.6%	78.6%
Léčebné Lázně a.s.	Hotel operator	Czech Republic	95.36%	95.36%
Gama 45 s.r.o	Hotel owner	Czech Republic	100%	100%
Slovenské Liečebné Kúpele Piestany a.s.	Hotel operator	Slovakia	88.85%	88.85%
Salina Invest SA	Holding company	Romania	56.43%	56.43%
SC Balneoclimaterica SA	Hotel operator	Romania	53.03%	53.03%

Financial statements of foreign operations

The presentation and functional currencies of the Group's foreign operations differ from that of the parent company. Assets and liabilities of foreign operations are translated to HUF at foreign exchange rates ruling at the balance sheet date. Goodwill and any fair value adjustments arising on consolidation prior to 1 January 2005, the effective date of revised IAS 21, are treated as assets and liabilities of the reporting entity and therefore are not retranslated. The revenues and expenses of foreign operations are translated to HUF at the average exchange rate for the year. Foreign exchange differences arising on translation are recognised directly in equity.

Danubius Hotel and Spa Nyrt. and Subsidiaries
Notes to the Consolidated Financial Statements
(All amounts in million HUF)

2. Significant accounting policies (continued)

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency of the relevant company at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the measurement currency at foreign exchange rates ruling at the dates the fair value was determined.

Property, plant and equipment

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads directly attributable to bringing the asset to a working condition for its intended use.

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

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is provided using the straight-line method over the estimated useful lives of each part of an item of property, plant and equipment. The depreciation rates used by the Group are from 2% to 5% for buildings and leasehold improvements and 14.5% to 33% for machinery and equipment. Land and capital projects in progress are not depreciated. Leased assets are depreciated over the shorter of the lease term and their useful lives.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see above) and impairment losses. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Danubius Hotel and Spa Nyrt. and Subsidiaries
Notes to the Consolidated Financial Statements
(All amounts in million HUF)

2. Significant accounting policies (continued)

Intangible assets

Goodwill

Business combinations are accounted for by applying the purchase method. Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

Negative goodwill

The excess of the net fair value of identifiable assets, liabilities and contingent liabilities acquired over the cost is recognised immediately in the income statement.

The carrying amount of negative goodwill at 1 January 2005, that arose from business combinations which occurred before 31 March 2004 was derecognised on 1 January 2005 with a corresponding adjustment to the opening balance of retained earnings in compliance with IFRS 3 Business Combinations.

Acquisitions of minority interests

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

Other Intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses (see below). Where the Group has the legal right to use a particular property the value of these rights is amortised over the term for which the Group holds the rights. These include property rights on Margaret Island, Budapest which are being amortised over 100 years.

Non-derivative financial instruments

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

Debt securities are classified as held to maturity if the Group has the positive intent and ability to hold them to maturity, and are measured at amortised cost less any impairment losses. Investments held to maturity are recognised/derecognised on the day they are transferred to/by the Group.

Inventory

Inventory is stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses. The cost of inventory is determined on the weighted average cost basis and includes expenditure incurred in acquiring the inventory and bringing it to its existing location and condition.

Danubius Hotel and Spa Nyrt. and Subsidiaries

Notes to the Consolidated Financial Statements

(All amounts in million HUF)

2. Significant accounting policies (continued)

Cash and cash equivalents

Cash equivalents are liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Trade and other receivables

Trade and other receivables are stated initially at their fair value and subsequently at their amortised cost less impairment losses (see below).

Impairment

Financial assets

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

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

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date. An impairment loss is recognised if carrying amount of an asset or its cash-generating exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

Danubius Hotel and Spa Nyrt. and Subsidiaries
Notes to the Consolidated Financial Statements
(All amounts in million HUF)

2. Significant accounting policies (continued)

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

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

Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale (current, if sale is expected within a year). Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter generally the asset (or disposal group) are measured at the lower of carrying amount and fair value less costs to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on a *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Provisions

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

Trade and other payables

Trade and other payables are initially measured at fair value and then subsequently at amortised cost.

Interest-bearing loans

Interest bearing loans are recognised initially at fair value of the proceeds received, less attributable transaction costs. In subsequent periods, they are measured at amortised cost using the effective interest method. Any difference between proceeds received (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings on an effective interest basis.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

Danubius Hotel and Spa Nyrt. and Subsidiaries
Notes to the Consolidated Financial Statements
(All amounts in million HUF)

2. Significant accounting policies (continued)

Revenue recognition

Goods sold and services rendered

Room revenue (based on completed guest nights), food and beverage, spa revenue, winery, security and other departmental revenues are each recognised as the service is provided, net of VAT.

Rental income

Rental income from property is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Financial Income

Financial income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method.

Borrowing costs

The Group recognises all borrowing costs immediately when incurred to profit and loss and does not capitalise any borrowing cost to qualifying assets.

Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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2. Significant accounting policies (continued)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Employee benefits

Defined contribution plan

The Company operates a defined contribution pension plan for Hungarian employees. Pension costs are charged against profit in the period in which the contributions are payable. The assets of the fund are held in a separate trustee administered fund.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Derivative financial instruments

The Group holds derivative financial instruments to hedge its interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Segment reporting

Group operations are presented in respect of geographical areas identified by location of assets and business segments that are separately evaluated for management reporting purposes. Management considers that it operates primarily in hotel and hospitality segment. In Hungary the Group also has a security segment through its Preventiv Security Zrt subsidiary.

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2. Significant accounting policies (continued)

New accounting pronouncements not yet adopted

New standards, amendments to Standards and Interpretations not yet effective as at 31 December 2006 have not been applied in preparing these consolidated financial statements. The Company does not expect that any of these pronouncements will have a significant impact on the Company's financial statements.

IFRS 7 Financial Instruments: Disclosures and the *Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require additional disclosures with respect to financial instruments and share capital.

IFRS 8 Segment Reporting describes how an entity reports segment activities in its annual financial statements and relates to selected details regarding segments in interim statements. Also the standard relates to disclosure requirements regarding products and services, geographical areas and major customers. The standard leaves the key to division of the segments to the entity such that the segment reporting is based on elements which are under supervision of management for purpose of operating decision making. The standard will become mandatory for the Group's 2009 financial statements. Early adoption is permitted and comparative figures are required to be restated.

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Group's 2007 financial statements.

IFRIC 9 Reassessment of Embedded Derivatives requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Group's 2007 financial statements.

IFRIC 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognized in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39 respectively.

IFRIC 11 Group and Treasury Share Transactions addresses how to apply IFRS 2 Share-based Payment to share-based payment arrangements involving an entity's own equity Instruments or equity instruments of another entity in the same group (e.g. equity instruments of its Parent). IFRIC 11 is effective for annual periods beginning on or after 1 March 2007. Earlier application is permitted.

IFRIC 12 Service Concession Arrangements addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services to private sector operators.

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3. Cash and cash equivalents

	December 31,	
	2006	2005
Cash and cash equivalents	3,087	2,363
Overdraft (see Note 13)	(1,072)	(37)
Cash and cash equivalents, net (per cash flow statement)	<u>2,015</u>	<u>2,326</u>

4. Accounts receivable

	December 31,	
	2006	2005
Trade receivables	2,411	2,280
Allowance for doubtful receivables	(411)	(391)
	<u>2,000</u>	<u>1,889</u>

5. Other receivables and prepayments

	December 31,	
	2006	2005
Receivables from employees	40	29
Prepaid and recoverable taxes and duties	167	187
Advance payments to suppliers	96	126
Other prepayments and accruals	549	521
Other receivables	290	815
	<u>1,142</u>	<u>1,678</u>

6. Inventory

	December 31,	
	2006	2005
Food and beverages	275	372
Wine in barrels	311	232
Materials	157	205
Goods for resale	101	75
	<u>844</u>	<u>884</u>

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7. Assets held for sale

Assets held for sale comprises the net carrying value, less cost to sell, of certain hotel and hospitality properties and an investment the Group expects to sell within the next twelve months.

8. Property, plant and equipment

	Land	Buildings and improvements	Furniture, fittings and equipment	Constructions in progress	Total
At 1 January 2005					
Gross book value	9,491	72,965	18,006	1,788	102,250
Accumulated depreciation and impairment	-	22,711	13,966	-	36,677
Net book value	9,491	50,254	4,040	1,788	65,573
For year ended 31 December 2005					
- Additions and capitalisations	4	3,664	1,094	210	4,972
- Acquisitions through business combinations	-	5	44	-	49
- Effect of movements in exchange rates	233	963	81	92	1,369
- Depreciation charge for the year	-	(2,503)	(1,707)	-	(4,210)
- Disposal	(16)	-	(48)	(2)	(66)
Closing net book value	9,712	52,383	3,504	2,088	67,687
At 31 December 2005					
Gross book value	9,712	78,116	18,926	2,093	108,847
Accumulated depreciation and impairment	-	25,733	15,422	5	41,160
Net book value	9,712	52,383	3,504	2,088	67,687
For year ended 31 December 2006					
- Additions and capitalisations	19	3,420	1,436	3,528	8,403
- Effect of movements in exchange rates	398	1,167	187	(78)	1,674
- Depreciation charge for the year	(9)	(2,696)	(1,674)	-	(4,379)
- Disposal	-	(39)	(17)	-	(56)
- Transfers	(60)	(275)	-	-	(335)
- Other	(21)	(17)	(3)	(6)	(47)
Closing net book value	10,039	53,943	3,433	5,532	72,947
At 31 December 2006					
Gross book value	10,048	75,825	20,382	5,532	111,787
Accumulated depreciation and impairment	9	21,882	16,949	-	38,840
Net book value	10,039	53,943	3,433	5,532	72,947

The net book value of property, plant and equipment pledged as loan security was HUF 30,879 million as of 31 December 2006 and HUF 25,177 million as of 31 December 2005.

The Group leases air conditioning equipment under a finance lease agreement. At the end of the lease the Group has the option to purchase the equipment at a beneficial price. At 31 December 2006 and 31 December 2005 the net carrying amount of the leased equipment was HUF 317 million and HUF 393 million, respectively. This equipment is included in "Furniture, fittings and equipment". The leased equipment secures lease obligations (see Note 13).

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9. Intangible assets

	Goodwill	Land usage rights	Software and other intangibles	Total
At 1 January 2005				
Gross book value	1,146	537	1,377	3,060
Accumulated depreciation and impairment	168	102	996	1,266
Net book value	978	435	381	1,794
Year ended 31 December 2005				
- Additions and capitalisations	-	58	251	309
- Acquisitions through business combinations	117	-	1	118
- Effect of movements in exchange rates	-	-	4	4
- Depreciation charge for the year	-	(11)	(103)	(114)
Closing net book value	1,095	482	534	2 111
At 31 December 2005				
Gross book value	1,095	595	1,631	3,321
Accumulated depreciation and impairment	-	113	1,097	1,210
Net book value	1,095	482	534	2,111
Year ended 31 December 2006				
- Additions and capitalisations	-	-	216	216
- Effect of movements in exchange rates	-	-	17	17
- Depreciation charge for the year	-	(19)	(189)	(208)
- Other	-	-	11	11
Closing net book value	1,095	463	589	2,147
At 31 December 2006				
Gross book value	1,095	595	1,512	3,202
Accumulated depreciation and impairment	-	132	923	1,055
Net book value	1,095	463	589	2,147

At 31 December 2006 intangible assets include HUF 456 million, net of amortisation (2005: HUF 462 million) for land usage rights relating to two hotels on Margaret Island held under licenses given by the Municipality of Budapest.

Goodwill relates to the following acquisitions:

	December 31, 2006	2005
Léčebné Lázně a.s.	565	565
Lángastronomia Kft.	413	413
Preventiv-Security Zrt. (see Note 26)	117	117
Total positive goodwill	1,095	1,095

On 1 January 2005 the accumulated amortisation of goodwill was offset against its gross book value in compliance with IFRS 3 "Business combinations".

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10. Investments in associates

As of 31 December 2005 and 2006 the only investment in an associate company was a 25% shareholding in CP Regents Park Two Limited, a United Kingdom company.

In August 2005, Danubius acquired a 25% interest in CP Regents Park Two Limited which owns and operates the Danubius Hotel Regents Park, a 4 star city hotel in London. The investment was acquired from CP Holdings Limited for GBP 5.1 million and CP Holdings Limited provided a loan of GBP 5.1 million to finance the acquisition.

The Company's share of post acquisition total recognised loss in the above Associate for the year ended 31 December 2006 and 2005 was HUF 48 million and HUF 6 million, respectively. Included in other revenue is a management support fee of HUF 147 million and HUF 54 million from this Associate for 2006 and 2005, respectively. The interest expense was HUF 120 million and HUF 43 million in 2006 and 2005, respectively on the loan received from CP Holdings Limited and a loan arrangement and handling fee of HUF 20 million and HUF 36 million was paid to CP Holdings Limited in 2006 and 2005, respectively.

Summary financial information on associate – 100 percent:

In thousand GBP	Assets	Liabilities	Equity	Revenues	Net result
CP Regents Park Two Limited					
2006	58,632	39,174	19,458	10,004	(770)
2005	59,352	39,124	20,228	4,799	(178)

11. Provisions

	Acquisition of Piestany	Retirement and Redundancy	Other	Total
Balance at 31 December 2004	610	54	45	709
Provision made during the year	-	200	-	200
Provision used during the year	-	(95)	-	(95)
Effect of movements in exchange rates	26	-	-	26
Balance at 31 December 2005	636	159	45	840
Provision made during the year	-	181	27	208
Provision released	(163)	-	-	(163)
Provision used during the year	-	(105)	-	(105)
Effect of movements in exchange rates	57	5	-	62
Increase/(decrease) due to acquisition or disposal	-	-	26	26
Balance at 31 December 2006	530	240	98	868

In 2002 a provision for legal cases of HUF 621 million was recognised at the acquisition of Piestany from which HUF 11 million was utilized in 2003 as a result of a lost legal case. At the end of 2006 HUF 163 million of the provision was released as it is not probable that an outflow of resources embodying economic benefits will be required to settle these obligations.

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Provision for retirement and redundancy comprises provisions for Hungarian termination and Slovakian long service benefits. The amounts used represents the amounts paid for termination and long-service benefits. As of 31 December 2006 and 2005 the other provision of HUF 98 million and HUF 45 million, respectively related to various legal cases.

12. Other payables and accruals

	December 31,	
	2006	2005
Wages and salaries	749	643
Social security	454	439
Taxes payable	697	467
Accrued expenses	724	606
Advance payment received	350	-
Other	716	561
	<u>3,690</u>	<u>2,716</u>

13. Interest-bearing loans and borrowings

Non-current liabilities

	December 31,	
	2006	2005
Secured bank loans	17,465	17,430
Finance lease liabilities	6	179
	<u>17,471</u>	<u>17,609</u>

Current liabilities

	December 31,	
	2006	2005
Current portion of secured bank loans	2,689	2,596
Bank overdrafts	1,072	37
	<u>3,761</u>	<u>2,633</u>
Current portion of finance lease liabilities	179	136
	<u>3,940</u>	<u>2,769</u>

The finance lease liabilities are in respect of air conditioning equipment installed in certain Hungarian hotels, and are payable as follows:

	December 31, 2006			December 31, 2005		
	Minimum Lease Payments	Interest	Principal	Minimum Lease Payments	Interest	Principal
Within 1 year	191	12	179	160	24	136
1 to 2 years	-	-	-	191	12	179
2 to 5 years	6	-	6	-	-	-
over 5 years	-	-	-	-	-	-
Total debt	<u>197</u>	<u>12</u>	<u>185</u>	<u>351</u>	<u>36</u>	<u>315</u>

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13. Interest-bearing loans and borrowings (continued)

As of 31 December 2006 the Group's secured bank loans are denominated in EUR, total to EUR 80.5 million and fall due for repayment, as follows:

	December 31, 2006	2005
Within 1 year	3,761	2,633
1 to 2 years	3,023	3,358
2 to 5 years	11,760	9,209
over 5 years	2,682	4,863
Total debt	21,226	20,063
Total current debt	(3,761)	(2,633)
Total non-current debt	17,465	17,430

The interest rates for all borrowings are floating and determined by 3 months EURIBOR + margin between 0,95% to 4,5% depending on the relevant country.

The net book value of property, plant and equipment pledged as security for bank loans was HUF 30,879 million as of 31 December 2006 and HUF 25,177 million as of 31 December 2005.

14. Minority Interests

	December 31, 2006	2005
Lángastronomia Kft.	522	504
Preventív-Security Zrt.	36	29
Léčebné Lázně a.s.	461	447
Slovenské Liečebné Kúpele Piestany a.s.	1,123	1,133
Salina Invest SA and SC Balneoclimaterica SA	708	698
Total	2,850	2,811

	December 31, 2006	2005
Opening balance at 1 January	2 811	2,896
Income attributable to minority shareholders	45	64
Translation of foreign subsidiaries	2	2
Acquisition of minority interest	-	(172)
Acquisition of subsidiary	-	29
Dividends to minority shareholders	(8)	(8)
Closing balance at 31 December	2,850	2,811

In 2005 Preventív-Security Zrt. was consolidated as the Group's interest in that company increased from 32.75% to 78.6%. (see Note 26).

In 2005 the Group increased its effective shareholding in Piestany from 87.1% to 88.6%.

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15. Share Capital

The registered share capital at December 31, 2006 and 2005 consists of 8,285,437 authorised, issued and fully paid ordinary shares, each of par value HUF 1,000. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

At December 31, 2006 and 2005, the Company owned 374,523 treasury shares, which cost HUF 1,162 million.

16. Reserves

Retained Earnings

Dividends are available for distribution from the Company's retained earnings calculated according to Hungarian Accounting Law. The amount available for distribution as dividends at December 31, 2006 is HUF 20,603 million (2005: HUF 20,932 million).

If dividends are paid to non-resident shareholders, a withholding tax of up to 20% must be paid. The rate applicable is dependent on the country of residence of the shareholder, on the period and on the number of shares held. The withholding tax is also payable by individual shareholders who are resident in Hungary (resident legal entities are exempt).

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Reserve for treasury shares

The reserves for the Company's own shares comprises the cost of the Company's shares held by the Group. As 31 December 2006 and 2005 the Group held 374,523 of the Company's shares.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Capital reserve

Capital reserve reflects the equity split made in 1991 when the privatization of the Company and the transformation to Public Limited Company was taking place.

17. Other income

	2006	2005
Gain on sale of fixed assets	268	121
Release of legal provision (Piestany, see Note 11)	163	-
Other	147	135
	<u>578</u>	<u>256</u>

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18. Material cost

	2006	2005
Raw materials used in servicing	3,761	3,598
Utility costs (gas, electricity, fuel and water consumption)	3,495	3,047
Other materials used	2,172	2,057
	<u>9,428</u>	<u>8,702</u>

19. Services used

	2006	2005
Maintenance cost	1742	1591
Washing, cleaning services	1616	1367
Safety services	932	290
Professional and membership fees	855	726
Hospitality Services	813	835
Marketing, PR services	662	557
Rental	579	459
Commission	529	472
Bank and insurance charges	477	467
Manpower hired	431	511
Telecommunication services	315	320
Software, IT support	239	211
Delivery and transport fees	218	229
Other	946	1,016
I	<u>10,354</u>	<u>9,051</u>

20. Other expenses

	2006	2005
Taxes and contributions	1,931	1,505
Provisions made	208	105
Damages	78	16
Donations, sponsorship	78	87
Other	220	393
	<u>2,515</u>	<u>2,106</u>

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21. Income tax

The tax charge / (benefit) for the year comprises:

	2006	2005
Current tax	262	431
Deferred tax	63	(183)
	<u>325</u>	<u>248</u>

The deferred tax charge / (benefit) comprises:

	2006	2005
Origination and reversal of temporary differences	35	(169)
Tax losses (recognized)/utilised	28	(14)
	<u>63</u>	<u>(183)</u>

A reconciliation of the difference between the income tax expense and taxation at the statutory tax rate, is shown in the following table:

	2006	2006	2005	2005
		<u>1,779</u>		<u>1,129</u>
Profit before tax				
Income tax using the Hungarian corporation tax rate	16%	285	16%	181
Effect of different tax rates in foreign jurisdictions		53		88
Non-deductible expenses		219		52
Tax exempt revenues		(78)		(12)
Tax incentives		(111)		(61)
Effect of tax losses utilised / (deferred)		(28)		13
Effect of tax rate changes (decreases) in foreign jurisdictions		-		(31)
Others		(15)		18
		<u>325</u>		<u>248</u>

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21. Income tax (continued)

Deferred tax assets and liabilities

Deferred tax assets and liabilities as at 31 December 2006 and 31 December 2005 are attributable to the following:

	Assets		Liabilities	
	2006	2005	2006	2005
Property, plant and equipment	71	78	1,546	1,428
Repairs and maintenance provision	-	-	185	255
Legal provisions	101	121	-	-
Provision for doubtful debts	52	51	-	-
Other provisions	19	17	-	-
Tax loss carry forwards	396	424	-	-
Other	32	22	-	-
	<u>671</u>	<u>713</u>	<u>1,731</u>	<u>1,683</u>
	-	-	-	-
Offset of assets and liabilities within individual legal entities	(100)	(159)	(100)	(159)
	<u>571</u>	<u>554</u>	<u>1,631</u>	<u>1,524</u>

Deferred tax liabilities are recognised in respect of the differences between the value of fixed assets (primarily land and hotel buildings) recorded for taxation purposes and their value recorded in these financial statements.

Léčebné Lázně a.s. records a provision for repairs and maintenance in its Czech statutory accounts related to the future repair expenses of its premises, in accordance with Czech accounting and tax legislation. This provision is reversed in these IFRS financial statements and a deferred tax liability is set up for this timing difference.

S.C. Balneoclimaterica S.A. has tax losses brought forward from previous periods but no deferred tax asset has been recognised due to uncertainty about the future utilization of these.

22. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to ordinary shareholders of HUF1,409 million in 2006 (2005: HUF 817 million) and the weighted average number of ordinary shares outstanding during 2005 and 2006 of 7,910,914.

	December 31,	
	2006	2005
Weighted average number of issued ordinary shares	8,285,437	8,285,437
Weighted average number of treasury shares	(374,523)	(374,523)
Weighted average number of qualifying ordinary shares	<u>7,910,914</u>	<u>7,910,914</u>
Net profit for the year in million HUF	1,409	817
Basic earnings per share (HUF/share)	<u>178</u>	<u>103</u>

There are no dilutive factors to earnings per share disclosed above.

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23. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	December 31,	
	2006	2005
Less than one year	120	115
More than one year	60	-
	<u>180</u>	<u>115</u>

The Group leases its head office from a related party under an operating lease with an expiry date of 30 June 2008.

During the year ended 31 December 2006 HUF 262 million was recognised as an expense in the income statement in respect of operating leases (2005: HUF 242 million).

24. Commitments and contingent liabilities

During 2006 the Group fulfilled the SKK 700 million obligation reconstruction undertaken in the privatisation contract signed at the time of the acquisition of SLKP by 31 December 2006. The process of submitting the necessary documentation to the Slovakian Privatisation and Asset Management Agency has started and the guarantee registered at the time of undertaking the above obligation is expected to be cancelled in 2007.

LL Partners, the company from which Danubius purchased its 66,67% interest in Lángastronomia Kft, has an option to sell to Danubius the remaining 33.3% shareholding in Lángastronomia Kft between July 7, 2009 and July 7, 2011. The purchase price is USD 5 million plus compound annual interest of 7%, accumulated from 7 July 2004.

The company has an obligation to purchase the 43,5% shareholding in SC Salina Invest SA currently owned by Corvinus International Investment Zrt. before 1 July 2007. The purchase price is estimated to be approximately HUF 1.6 billion.

As of 31 December 2006 there is no material contractual commitments for the acquisition of property, plant and equipment.

The Group did not have any significant contingent liabilities as at 31 December 2006.

25. Pension Plans

The Group's employees participate in state pension plans to which employers and employees pay contributions. The pension liability resides with the state in Hungary, Czech Republic, Slovakia and Romania.

The Group has a defined contribution pension plan in addition to the state plan, which is available for all Hungarian employees after six months employment. The Group pays contributions equal to 5% of the salary of employees who are members of the fund. The contribution expense in 2006 was HUF 248 million while in 2005 it was HUF 239 million. The assets of the fund are held in separate trustee administered funds and are not included in these financial statements.

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25. Pension Plans (continued)

In 2004 the Group formed a Health Fund, which is available for all Hungarian employees after six months employment. The Group pays contributions equal to 1% of the salary plus HUF 4,000 per month for employees who decided to become members of the fund. The total contribution expense was HUF 198 million in 2006 while it was HUF 188 million in 2005. The assets of the fund are held in separate trustee administered funds and are not included in these financial statements.

There are no pension or health plans for the Czech, Slovak and Romanian subsidiaries.

26. Acquisition of Preventiv-Security Zrt.

On 29 December 2005, the Group acquired a further 45,85% share in Preventiv-Security ZRt addition to the 32.75% shareholding. The total purchase price for the 45.85% share was HUF 108 million of which HUF 94 million was paid in 2005 and HUF 14 million was paid in 2006. Preventiv-Security Zrt. has been consolidated as of December 31, 2005 and HUF 18 million income from associate was recorded to the consolidated net profit for 2005. If the acquisition had occurred on January 1, 2005 the Group revenues would have been higher by HUF 1,304 million and net profit would have been higher by HUF 26 million. In 2006 Preventiv Group was fully consolidated (see Note 29 – Segment Reporting).

27. Related Party Transactions

Transactions with related parties are summarised as follows:

	2006	2005
Management fee to CP Holdings	371	315
Interest to CP Holdings	120	43
Loan arrangement fee to CP Holdings	20	36
Management support fee from CP Regents Park Two Ltd.	(147)	(54)
Rental fee to Interag Zrt.	159	134
Services provided by Interag Zrt.	5	5
Service provided to Interag Zrt.	21	-
Service provided by Investor Zrt.	15	13
Service provided to Investor Zrt.	4	-

Related party receivables and payables are not significant as at December 31, 2006, with the exception of the loan amounting to HUF 1,866 million (GBP 5.1 million less loan arrangement fee of GBP 0.1 million to CP Holding) from CP Holding (see Note 9), The repayment of the loan starts from 2010 and the interest rate is floating and linked to LIBOR.

Interag Zrt., Investor Zrt., CP Regents Park Two Ltd. are each subsidiary companies of CP Holdings.

The Group considers the pricing of all transactions with related parties to be at arm's length.

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27. Related Party Transactions (continued)

Transactions with key management personnel

Total remuneration is included in personal expenses:

	2006	2005
Short-term employee benefits	345	230
Post employment benefits	6	7
Termination benefits	107	-
Total	458	237

The number of key management personnel (directors and executive officers) was 7 in 2006 and 6 in 2005.

28. Financial instruments

The Group has financial assets, which include cash and cash equivalents, investments in state treasury bills and accounts receivable. The Group has financial liabilities which include, inter alia, bank loans and accounts payable. The fair values of these financial instruments are not materially different from their carrying value.

Currency risk

The Group's sales prices are primarily quoted in Euro or US dollars and income is received in foreign currency or local currency. The Group's hotel properties are located principally in Hungary, the Czech Republic and Slovakia, the governments of which countries are committed as part of their EU accession to adopt the Euro at dates in the future which are not yet fixed. The Group also owns hotel properties in Romania and has an affiliate in the UK.

The Group had loans of EUR 80,5 million and GBP 5.1 million outstanding as of 31 December 2006 while it was EUR 80 million, GBP 5.1 million and SKK 4 million as of 31 December 2005 (see Note 13).

Management periodically reviews the merits of entering into foreign currency hedging contracts or other derivative products.

Interest rate risk

Interest rates on loans are listed in Note 13.

Since June 2006 the Company uses interest rate swaps to manage the relative level of its exposure to cash flow interest rate risk associated with floating interest-bearing borrowings. The amount and interest payment period of these hedging instruments accord with that of the underlying debt and therefore IAS 39 hedge accounting treatment applies.

As of 31 December 2006 the Company had one interest rate swap (Collar) agreement in effect, with a notional amount of EUR 62,2 million. The fair value of this Collar agreement was an asset of HUF 8 million as of 31 December 2006.

Credit risk

Financial assets which may be subject to credit risk consist of short term investments, cash at bank and trade receivables. Short term investments are government securities, cash is held at reputable banks and the allowance for doubtful receivables reflects credit risk on trade receivables. The Company has no significant concentrations of credit risk.

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29. Segment reporting

2006	Hungarian operations		Czech operations	Slovakian operations	Romanian operations	Elimination	Total
	H&H segment	Security segment					
<u>Results</u>							
Total operating revenue	31,886	1,334	6,226	7,257	1,287	(675)	47,315
Total operating expenses	29,850	1,267	5,766	7,293	1,105	(675)	44,606
Operating profit	2,036	67	460	(36)	182	-	2,709
Financial results	(864)	(3)	(2)	177	(32)	(158)	(882)
Income from associates	(48)	-	-	-	-	-	(48)
Profit before tax	1,124	64	458	141	150	(158)	1,779
Income tax charge	135	5	119	36	30	-	325
Net profit after tax	989	59	339	105	120	(158)	1,454
<u>Assets and liabilities</u>							
Property, plant and equipment	38,048	54	13,232	19,297	2,316	-	72,947
Investment in associates	1,715	-	-	-	-	-	1,715
Cash and cash equivalents	1,295	22	1,139	235	396	-	3,087
Accounts receivables	1,329	174	201	306	26	(36)	2,000
Inventory	580	4	70	172	18	-	844
Other current and non-current assets	23,441	113	2,558	331	(1,071)	(20,885)	4,487
Total assets	66,408	367	17,200	20,341	1,685	(20,921)	85,080
Trade accounts payable	1,540	121	379	1,116	106	(36)	3,226
Advance payments from guests	337	-	76	105	-	-	518
Interest bearing loans and borrowings	16,581	35	3,833	4,328	516	(2,016)	23,277
Provisions	146	26	-	629	67	-	868
Other current and non-current liabilities	3,833	33	756	682	77	1	5,382
Total liabilities	22,437	215	5,044	6,860	766	(2,051)	33,271
Minority interest	522	36	461	1,123	708	-	2,850
Net assets	43,449	116	11,695	12,358	211	(18,870)	48,959

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29. Segment reporting (continued)

2005	Hungarian operations		Czech operations	Slovakian operations	Romanian operations	Elimination	Total
	H&H segment	Security segment					
<u>Results</u>							
Total operating revenue	30,159	-	5,689	6,316	973	(352)	42,785
Total operating expenses	28,142	-	4,796	6,582	977	-	40,497
Operating profit	2,017	-	893	(266)	(4)	(352)	2,288
Financial results	(924)	-	(3)	(45)	(139)	(54)	(1,165)
Income from associates	6	-	-	-	-	-	6
Profit before tax	1,099	-	890	(311)	(143)	(406)	1,129
Income tax charge/(benefit)	128	-	204	(40)	(44)	-	248
Net profit after tax	971	-	686	(271)	(99)	(406)	881
<u>Assets and liabilities</u>							
Property, plant and equipment	38,140	49	11,878	15,305	2,315	-	67,687
Investment in associates	1,763	-	-	-	-	-	1,763
Cash and cash equivalents	884	12	1,056	208	203	-	2,363
Accounts receivables	1,271	148	214	233	23	-	1,889
Inventories	627	6	74	163	14	-	884
Other current and non-current assets	24,316	116	2,584	380	(1,015)	(21,803)	4,578
Total assets	67,001	331	15,806	16,289	1,540	(21,803)	79,164
Trade accounts payable	1,579	111	247	329	61	-	2,327
Advance payments from guests	307	-	68	58	-	-	433
Interest bearing loans and borrowings	18,312	46	3,259	2,375	560	(2,346)	22,206
Provisions	105	-	-	694	41	-	840
Other current and non-current liabilities	3,044	39	822	425	62	63	4,455
Total liabilities	23,347	196	4,396	3,881	724	(2,283)	30,261
Minority interest	504	29	447	1,133	698	-	2,811
Net assets	43,150	106	10,963	11,275	118	(19,520)	46,092

Eliminations principally comprise the equity consolidation and inter group loans. Inter-segment pricing is determined on an arm's length basis.

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30. Key sources of estimation uncertainty

The Group makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

Deferred tax assets

The Group recognizes deferred tax assets in its balance sheet relating to tax loss carry forwards. The recognition of such deferred tax assets is subject to the future utilization of tax loss carry forwards. The utilization of certain amounts of such tax loss carry forwards is subject to statutory limitations and is dependent on the amount of future taxable income.

The Group recognizes deferred tax assets relating to tax loss carry forwards based on estimated future taxable income. If the future taxable income is significantly less than the amount estimated the deferred tax asset may need to be written off.

Impairment of property, plant and equipment and intangible assets

The carrying amounts of the Group's property, plant and equipment and intangible assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.

The Group considers that the accounting estimate related to asset impairment is significant due to the need to make assumptions regarding the above factors and the material impact that recognising impairment could have on the results of the Group.

Depreciation

Property, plant and equipment and intangible assets are recorded at cost and are depreciated or amortized on a straight-line basis over their estimated useful lives. The determination of the useful lives of assets is based on historical experience with similar assets. The appropriateness of the estimated useful lives is reviewed annually. Due to the significance of property plant and equipment in the asset base of the Group, the impact of any changes in these assumptions could be material to the results of operations.

Provisions

The Group establishes provisions where management considers that it is probable that an outflow of economic benefits will be required to settle obligations arising from past events. The estimated amounts of provisions are reviewed on an ongoing basis. Changes in estimates are recognised in the income statement and such changes could be material to the net results reported in a particular year.

31. Subsequent events

On 2 January 2007 the Company sold Hotel Esztergom to a third party.