



**DANUBIUS HOTELS
GROUP**

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

**Consolidated Financial Statements
in accordance with
International Financial Reporting Standards
as adopted by the EU**

31 December 2007
with Report of the Independent Auditor

(approved by the AGM)

Danubius Hotel and Spa Nyrt. and Subsidiaries
Consolidated Financial Statements
For the year ended 31 December 2007

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Independent Auditors' Report

To the shareholders of Danubius Hotel and Spa Nyrt.

We have audited the accompanying 2007 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 2007, which shows total assets of 86,333 million, and the consolidated income statement which shows profit for the year of 1,404 million, consolidated statement of changes in equity and consolidated 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 our 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. as of 31 December 2007, and of its consolidated financial performance and of its consolidated cash flows 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, 8 April 2008

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 2007 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 31 December	
	Notes	2007	2006 restated
Assets			
Cash and cash equivalents	3	3,931	3,087
Trade and other receivables	4	2,905	2,593
Inventory	5	859	844
Assets held for sale	6	257	535
Other current assets		709	549
Total current assets		8,661	7,608
Property, plant and equipment	7	72,831	72,947
Intangible assets	8	2,492	2,678
Investments in associates	9	1,650	1,715
Other investments, including derivatives		72	92
Deferred tax assets	20	627	669
Total non-current assets		77,672	78,101
Total assets		86,333	85,709
Liabilities and Shareholders' Equity			
Trade accounts payable		2,600	3,226
Advance payments from guests		494	518
Income tax payable		396	61
Other payables and accruals	10	3,006	3,690
Interest-bearing loans and borrowings	11	5,678	3,940
Provisions	12	379	340
Total current liabilities		12,553	11,775
Interest-bearing loans and borrowings	11	18,241	18,607
Loan from related party	25	1,708	1,866
Deferred tax liabilities	20	1,467	1,631
Provisions	12	1,265	1,142
Total non-current liabilities		22,681	23,246
Total liabilities		35,234	35,021
Shareholders' Equity			
Share capital	13	8,285	8,285
Capital reserve		7,435	7,435
Treasury shares	14	(1,162)	(1,162)
Translation reserve		4,441	3,850
Hedging reserve		24	8
Retained earnings		30,410	29,944
Attributable to equity holders of the parent		49,433	48,360
Minority interests	15	1,666	2,328
Total shareholders' equity		51,099	50,688
Total liabilities and shareholders' equity		86,333	85,709

.....
Dr. Imre Deák
Member of Board of Directors

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

Budapest, 8 April 2008

The notes set out on pages 8 to 40 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 31 December	
		2007	2006 restated
Room revenue		22,249	22,885
Food and beverage revenue		14,999	14,571
Spa revenue		5,875	5,890
Other departmental revenue		2,313	2,220
Revenue from wineries		197	163
Revenue from security services		777	1,008
Other income	16	932	578
Total operating revenue and other income		47,342	47,315
Cost of goods purchased for resale		270	398
Material costs	17	9,835	9,428
Services used	18	9,814	10,354
Material expenses and services used		19,919	20,180
Wages and salaries		11,816	11,787
Other personnel expenses		1,413	1,347
Taxes and contributions		4,097	4,116
Personnel expenses		17,326	17,250
Depreciation and amortisation		4,702	4,587
Other expenses	19	2,539	2,657
Changes in inventories of finished goods and w.i.p.		7	(5)
Work performed by the entity and capitalised		(58)	(59)
Total operating expenses		44,435	44,610
Profit from operations		2,907	2,705
Interest income		52	43
Interest expense		(1,548)	(1,200)
Foreign currency gain		420	287
Financial Income/(loss)		(1,076)	(870)
Share of profit/ (loss) of associates		(65)	(48)
Profit before tax		1,766	1,787
Current tax expense	20	501	262
Deferred tax expense / (benefit)	20	(139)	57
Profit for the year		1,404	1,468
Attributable to:			
Equity holders of the parent		1,368	1,442
Minority interests	15	36	26
Basic and diluted earnings per share (HUF per share):	21	173	182

The notes set out on pages 8 to 40 are an integral part of the consolidated financial statements.

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						Total	Minority Interests	Total equity
	Share Capital	Capital Reserve	Treasury Shares	Retained Earnings	Translation Reserve	Hedging Reserve			
1 January 2006, as previously reported	8,285	7,435	(1,162)	29,134	2,400	-	46,092	2,811	48,903
Restatement relating to Gundel acquisition (see Note 11)	-	-	-	(149)	-	-	(149)	(503)	(652)
Restatement relating to employee benefits (see Note 12)	-	-	-	(483)	-	-	(483)		(483)
1 January 2006, restated	8,285	7,435	(1,162)	28,502	2,400	-	45,460	2,308	47,768
Dividends to minority interests	-	-	-	-	-	-	-	(6)	(6)
Fair valuation of hedging instruments (see Note 27)	-	-	-	-	-	8	8	-	8
Translation of foreign subsidiaries	-	-	-	-	1,450	-	1,450	-	1,450
<i>Subtotal: net income recognized directly in equity</i>	-	-	-	-	1,450	8	1,458	(6)	1,452
Net profit for the year	-	-	-	1,442	-	-	1,442	26	1,468
<i>Subtotal: total recognized income and expense for the year</i>	-	-	-	1,442	1,450	8	2,900	20	2,920
31 December 2006, restated	8,285	7,435	(1,162)	29,944	3,850	8	48,360	2,328	50,688
Fair valuation of hedging instruments (see Note 27)	-	-	-	-	-	16	16	-	16
Translation of foreign subsidiaries	-	-	-	-	591	-	591	-	591
<i>Subtotal: net income recognized directly in equity</i>	-	-	-	-	591	16	607	-	607
Net profit for the year	-	-	-	1,368	-	-	1,368	36	1,404
<i>Subtotal: total recognized income and expense for the year</i>	-	-	-	1,368	591	16	1,975	36	2,011
Share in subsidiary purchased from minority interest (see Note 1)	-	-	-	(902)	-	-	(902)	(698)	(1,600)
31 December 2007	8,285	7,435	(1,162)	30,410	4,441	24	49,433	1,666	51,099

The notes set out on pages 8 to 40 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)

		Year ended 31 December	
	Notes	2007	2006 restated
Profit from operations		2,907	2,705
Depreciation and amortisation	7,8	4,702	4,587
(Gain)/loss on sale of fixed assets	16	(667)	(268)
Change of provisions	12	162	67
Impairment of receivables	4	42	20
<u>Changes in working capital</u>			
<i>(Increase)/ decrease of accounts receivable and other current assets</i>		(563)	510
<i>(Increase)/ decrease of inventory</i>		(15)	40
<i>Increase / (decrease) of accounts payable and other current liabilities</i>		(1,002)	1,666
Interest paid		(1,529)	(1,086)
Income tax paid		(166)	(353)
Net cash provided by operating activities		3,871	7,888
Purchase of property, plant and equipment and intangibles	7,8	(3,665)	(8,619)
Interest received		52	14
Proceeds on sale of property, plant and equipment		829	363
Cash paid to acquire additional shares in subsidiaries	1	(1,600)	-
Other cash inflow / (outflow)		(1)	15
Net cash used in investing activities		(4,385)	(8,227)
Receipt of long-term bank loans		3,352	2,867
Repayment of long-term bank loans		(2,753)	(2,703)
Payment of finance lease liabilities	11	(179)	(136)
Net cash provided by financing activities		420	28
Net increase (decrease) in cash held		(94)	(311)
Cash and cash equivalents at the beginning of the period, net		2,015	2,326
Cash and cash equivalents at the end of the period, net	3	1,921	2,015

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

1. The Company and its subsidiaries

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 2007, 71.75% 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 2007 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The Company's principal subsidiary companies are as follows:

Name	Principal Activity	Country of Incorporation	Group interest held at December 31, 2007	Group interest held at December 31, 2006
Danubius Szállodaüzemeltető és Szolgáltató Zrt.	Hotel operator	Hungary	100%	100%
Gundel 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%
SC Salina Invest SA	Holding company	Romania	99.94%	56.43%
SC Balneoclimaterica SA	Hotel operator	Romania	95.80%	53.03%

In June 2007 the Company acquired an additional 43.51% shareholding in SC Salina Invest SA for HUF 1,600 million. Salina Invest SA is a holding company which owns a 95.86% interest in SC Balneoclimaterica SA. SC Balneoclimaterica SA owns a hotel and real estate complex in Sovata, Romania. Danubius has a 95.80% effective interest in SC Balneoclimaterica SA.

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 the European Union ("EU").

Basis of preparation

The consolidated financial statements are presented in Hungarian Forint (HUF), which is the functional currency of the Company, and are presented in millions of Forints.

Danubius Hotel and Spa Nyrt. and Subsidiaries

Notes to the Consolidated Financial Statements

(All amounts in million HUF)

The consolidated financial statements are prepared under the historical cost convention except for derivative financial instruments, which are measured at fair value (see Note 26).

The significant accounting policies have been consistently applied by the Group enterprises.

The Company has determined that it did not apply IFRSs correctly in respect of two items in prior years. Corresponding 2006 financial amounts has been restated for consistency with the amounts presented in these 2007 financial statements. See Note 11, Interest bearing loans and borrowings, and Note 12, Provisions.

The financial statements were authorised for issue by the Board of Directors on 17 March 2008 and by the Supervisory Board on 8 April 2008.

Use of estimates and assumptions

The preparation of financial statements in conformity with IFRSs 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 28.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. 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.

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the total recognised gains and losses and equity movements of associates after adjustments to align the accounting policies with those of the Group, 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

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

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.

Financial statements of foreign operations

The functional currencies of the Group's foreign operations differ from that of the Company. Assets and liabilities of foreign operations including goodwill and fair value adjustments arising on acquisitions on or after 1 January 2005 (the effective date of revised IAS 21), are translated to HUF at foreign exchange rates effective at the balance sheet date. Goodwill and any fair value adjustments arising on acquisitions prior to 1 January 2005, the effective date of revised IAS 21, are treated as assets and liabilities of the acquiring entity and therefore are not retranslated. The income and expenses of foreign operations are translated to HUF at the exchange rate that approximates the rate at the date of the transaction. Foreign exchange differences arising on translation of foreign operations are recognised directly in equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities 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 Group company at the foreign exchange rate ruling at that date. 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. Foreign exchange differences arising on translation are recognised in the income statement.

Non-derivative financial instruments

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end. Purchases and sales of investments are recognized on settlement date which is the date when the asset is delivered to the counterparty.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit and loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are

Danubius Hotel and Spa Nyrt. and Subsidiaries

Notes to the Consolidated Financial Statements

(All amounts in million HUF)

designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognised in the income statement.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded. As at 31 December 2007 and 2006, no financial assets have been designated as at fair value through profit and loss.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Group has the positive intention and ability to hold to maturity. After initial measurement, held to maturity investments are measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available for sale financial assets are measured at fair value with unrealised gains or losses being recognised directly in equity in the fair valuation reserve. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognised in the income statement.

Fair value

For investments that are actively traded in organised financial markets, fair value is determined by reference to quoted market prices at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Classification and derecognition of financial instruments

Financial assets and financial liabilities carried on the consolidated balance sheet include cash and cash equivalents, marketable securities, trade and other accounts receivable and payable, long-term receivables, loans, borrowings, and investments. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in this Note.

Danubius Hotel and Spa Nyrt. and Subsidiaries

Notes to the Consolidated Financial Statements

(All amounts in million HUF)

Financial instruments (including compound financial instruments) are classified as assets, liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability, are reported as expense or income as incurred. Distributions to holders of financial instruments classified as equity are charged directly to equity. In case of compound financial instruments the liability component is valued first, with the equity component being determined as a residual value. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

The derecognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

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.

Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. 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.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount and are recognised net within "other income" in profit or loss.

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 carrying amount of the replaced part is derecognised. The

Danubius Hotel and Spa Nyrt. and Subsidiaries

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(All amounts in million HUF)

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 construction 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 measured upon initial recognition 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. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Intangible assets

Goodwill

Business combinations are accounted for by applying the purchase method and are allocated to cash-generating units upon initial recognition.

Acquisitions prior to 31 March 2004, the date that IFRS 3 became effective

The Group applied IFRS 3 to business combinations that occurred on or after 31 March 2004. In respect of business combinations that occurred before that date goodwill represents the amount recorded previously by the Group in accordance with IAS 22 (original cost less accumulated amortisation to 31 December 2005) less accumulated impairments (if any).

Acquisitions on or after 31 March 2004, the date that IFRS 3 became effective

For acquisitions on or after 31 March 2004, goodwill 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 of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Goodwill is stated at cost less any accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

Acquisitions of minority interests

No goodwill is recognised when acquiring the minority interest in a subsidiary. The difference between the acquisition price and the carrying value of the minority interest is recorded directly in equity.

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.

Software is amortised on a straight line basis over its expected useful life of 3 years.

Danubius Hotel and Spa Nyrt. and Subsidiaries

Notes to the Consolidated Financial Statements

(All amounts in million HUF)

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

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.

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 assessed at each reporting date to determine whether there is any objective evidence that it is impaired. 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 to 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 the carrying amount of an asset or its cash-generating

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units 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.

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. 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, as a result of a past event, the Group has a legal or constructive obligation that can be reliably measured 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

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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.

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.

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 and expenses

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

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, impairment and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

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

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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 substantially enacted at the balance sheet date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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 as other personnel expenses in the period in which the contributions are payable. The assets of the fund are held in a separate trustee administered fund and the Group has no legal or constructive obligation with regard to the plan assets outside of its defined contributions.

Retirement and Jubilee benefit programmes

The Group operates long term defined employee benefit programmes. None of these programmes requires contributions to be made to separately administered funds. The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

The principal actuarial assumptions are the discount rate used to determine the net present value of cash outflows and the average salary increase. The average discount rate used was 7% and the average salary increase was 5% at 31 December 2007 and 31 December 2006. Assumptions regarding future mortality and job leavers are based on published statistics and mortality tables.

The cost of providing benefits is determined separately for each programme using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised as income or expense immediately. Past service costs, resulting from the introduction of, or changes to the defined benefit scheme are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to pay additional termination benefits to certain retirees.

Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

Segment reporting

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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 the hotel and hospitality segment. In Hungary the Group also has a security segment through its Preventív Security Zrt subsidiary.

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the Group's business and geographical segments. The Group's primary format for segment reporting is based on geographic segments identified by location of assets. The business segments are determined based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

New accounting pronouncements not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these consolidated financial statements:

Revised IFRS 2 *Share-based Payment* (effective from 1 January 2009) clarifies the definition of *vesting* conditions and *non-vesting* conditions. Based on the revised Standards failure to meet non-vesting conditions will generally result in treatment as a cancellation. Revised IFRS 2 is not relevant to the Group's operations as the Group does not have any share-based compensation plans.

Revised IFRS 3 *Business Combinations* (effective for annual periods beginning on or after 1 July 2009). The scope of the revised Standard has been amended and the definition of a business has been expanded. The revised Standard also includes a number of other potentially significant changes. Revised IFRS 3 is not relevant to the Group's operations as the Group does not have any interests in subsidiaries that will be affected by the revisions to the Standard.

IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. The Group presents segment information in respect of its business and geographical segments.

Revised IAS 1 *Presentation of Financial Statements* (effective from 1 January 2009) requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The Group is currently evaluating whether to present a single statement of comprehensive income, or two separate statements.

Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Revised IAS 23 becomes mandatory for periods starting on and after 1

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January 2009 and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply Revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.

Revised IAS 27 *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009). In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. The Group has not yet completed its analysis of the impact of the revised Standard.

Amendments to IAS 32 *Financial Instruments: Presentation*, and IAS 1, *Presentation of Financial Statements* (effective for annual periods beginning on or after 1 January 2009) introduce an exemption to the principle otherwise applied in IAS 32 for the classification of instruments as equity; the amendments allow certain puttable instruments issued by an entity that would normally be classified as liabilities to be classified as equity if and only if they meet certain conditions. The amendments are not relevant to the Group's financial statements as none of the Group entities have in the past issued puttable instruments that would be affected by the amendments.

IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Group's 2008 financial statements, with retrospective application required. It is not expected to have any impact on the consolidated financial statements.

IFRIC 12 *Service Concession Arrangements* provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Group's 2008 financial statements, is not expected to have any effect on the consolidated financial statements.

IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group's 2009 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 will become mandatory for the Group's 2008 financial statements, with retrospective application required. It is not expected to have any effect on the consolidated financial statements.

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3. Cash and cash equivalents

	31 December	
	2007	2006
Cash and cash equivalents	3,931	3,087
Overdraft (see Note 11)	(2,010)	(1,072)
Cash and cash equivalents, net (per cash flow statement)	<u>1,921</u>	<u>2,015</u>

4. Trade and other receivables

	31 December	
	2007	2006
Trade receivables, net	2,056	2,000
Recoverable taxes and duties	219	167
Advance payments to suppliers	61	96
Receivables from employees	44	40
Other receivables	525	290
	<u>2,905</u>	<u>2,593</u>

The ageing of trade receivables at the reporting date was:

	31 December 2007			31 December 2006		
	Gross	Impairment	Net	Gross	Impairment	Net
Not past due	1,118	-	1,118	1,003	-	1,003
Past due 0-60 days	815	-	815	835	-	835
Past due 61-90 days	111	16	95	162	24	138
Past due 91-120 days	56	28	28	48	24	24
More than 121 days	287	287	-	363	363	-
	<u>2,387</u>	<u>331</u>	<u>2,056</u>	<u>2,411</u>	<u>411</u>	<u>2,000</u>

Reconciliation of allowance for doubtful receivables:

Opening balance, 1 January 2006	391
Impairment loss recognised	20
Closing balance, 31 December 2006	411
Impairment loss recognised	42
Write-offs	(122)
Closing balance, 31 December 2007	<u>331</u>

5. Inventory

	31 December	
	2007	2006
Food and beverages	255	275
Wine in barrels	311	311
Materials	202	157
Goods for resale	91	101
	<u>859</u>	<u>844</u>

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6. 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 for hotel construction with carrying value of 0, all in Hungary. The Group has sold the investment in 2008. No profit or loss was recognised on the sale. Hotel Esztergom has been sold in 2007, therefore as at 31 December 2007 hotel and hospitality properties comprise Park Hotel Hévíz, Hotel Phoenix and Hotel Hullám, all of which have been advertised for sale and which the Group expects to sell within the next twelve months.

7. Property, plant and equipment

	Land	Buildings and improvements	Furniture, fittings and equipment	Constructions in progress	Total
At 1 January 2006					
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		(2,705)	(1,674)	-	(4,379)
- Disposals	-	(39)	(17)	-	(56)
- Transfers to assets held for sale	(60)	(275)	-	-	(335)
- Other	(21)	(17)	(3)	(6)	(47)
Closing net book value	10,048	53,934	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		21,891	16,949	-	38,840
Net book value	10,048	53,934	3,433	5,532	72,947
For year ended 31 December 2007					
- Additions and capitalisations	-	5,647	1,560	(3,608)	3,599
- Effect of movements in exchange rates	157	589	7	140	893
- Depreciation charge for the year		(2,852)	(1,640)	-	(4,492)
- Disposals	(67)	(50)	-	-	(117)
- Other	-	-	1	-	1
Closing net book value	10,138	57,268	3,361	2,064	72,831
At 31 December 2007					
Gross book value	10,138	82,255	21,783	2,064	116,240
Accumulated depreciation and impairment		24,987	18,422	-	43,409
Net book value	10,138	57,268	3,361	2,064	72,831

The net book value of property, plant and equipment pledged as loan security was HUF 32,220 million as of 31 December 2007 and HUF 30,879 million as of 31 December 2006.

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 2007 and 31 December 2006 the net carrying amount of the leased equipment was HUF 240 million and HUF 317 million, respectively. This equipment is included in "Furniture, fittings and equipment". The leased equipment secures lease obligations (see Note 11).

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8. Intangible assets

	Goodwill	Land usage rights	Software and other intangibles	Total
At 1 January 2006, restated (see Note 11)				
Gross book value	1,626	595	1,631	3,852
Accumulated amortisation and impairment	-	113	1,097	1,210
Net book value	1,626	482	534	2,642
Year ended 31 December 2006				
- Additions and capitalisations	-	-	216	216
- Effect of movements in exchange rates	-	-	17	17
- Amortisation charge for the year	-	(19)	(189)	(208)
- Other	-	-	11	11
Closing net book value	1,626	463	589	2,678
At 31 December 2006, restated (see Note 11)				
Gross book value	1,626	595	1,512	3,733
Accumulated amortisation and impairment	-	132	923	1,055
Net book value	1,626	463	589	2,678
Year ended 31 December 2007				
- Additions and capitalisations	-	-	66	66
- Effect of movements in exchange rates	-	-	3	3
- Amortisation charge for the year	-	(19)	(191)	(210)
- Disposals	-	-	(45)	(45)
Closing net book value	1,626	444	422	2,492
At 31 December 2007				
Gross book value	1,626	595	1,520	3,741
Accumulated amortisation and impairment	-	151	1,098	1,249
Net book value	1,626	444	422	2,492

At 31 December 2007 intangible assets include HUF 444 million, net of amortisation (2006: HUF 463 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:

	31 December	
	2007	2006
Léčebné Lázně a.s.	565	565
Gundel Kft. (restated, see Note 11)	944	944
Preventiv-Security Zrt.	117	117
Total goodwill	1,626	1,626

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable value of the cash-generating units (CGUs) to which the goodwill is allocated. Value in use was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

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- Cash flows were projected based on actual operating results and the 5-year business plan, which includes an annual 3 percent growth rate on average. Cash flows for a further indefinite period were extrapolated using a constant growth rate of 3 percent, which does not exceed the long-term average growth rate for the industry. Management believes that this indefinite forecast period was justified due to the long-term nature of the Group's hospitality business.

- An average weighted average cost of capital (WACC) of 10 percent was applied in determining the net present value of future cash flows. The discount rate was estimated based on the risk free interest rate, market risk premium, industry beta and company's leverage.

9. Investments in associates

As of 31 December 2006 the only investment in an associate company was a 25% shareholding in CP Regents Park Two Limited, a United Kingdom company. As of 31 December 2007 Egészség-sziget Kft, a newly established project company with two owners in which Danubius has 50% shareholding, is also presented as an associate, as no joint venture agreement has been concluded between the shareholders.

Egészség-sziget Kft acquired a property close to the Hotel Gellert in Budapest in December 2007, on which it plans to develop hotel and residential units.

CP Regents Park Two Limited owns and operates the Danubius Hotel Regents Park, a 4 star city hotel in London. The investment was acquired in 2005 from CP Holdings Limited for GBP 5.1 million (HUF 1,776 million) and CP Holdings Limited provided a loan of GBP 5.1 million to finance the acquisition. CP Holdings Limited owns the other 75% of the shares in CP Regents Park Two Limited.

The Company's share of post acquisition total recognised loss in the above associates for the year ended 31 December 2007 and 2006 was HUF 65 million and HUF 48 million, respectively. Included in Other revenue for 2007 and 2006 are management support fees from CP Regents Park Two Limited of HUF 136 million and HUF 147 million, respectively. Interest expense includes HUF 133 million and HUF 120 million in 2007 and 2006, respectively, on the loan received from CP Holdings Limited and Services used includes loan arrangement and handling fees of HUF 19 million and HUF 20 million paid to CP Holdings Limited in 2007 and 2006, respectively.

Summary financial information on associates – 100 percent:

	Assets	Liabilities	Equity	Revenues	Net result
CP Regents Park Two Limited					
2007	19,986	13,526	6,460	3,835	(267)
2006	22,032	14,720	7,312	3,877	(192)
Egészség-sziget Kft					
2007	2,012	2,001	11	7	4

10. Other payables and accruals

	31 December	
	2007	2006
Wages and salaries	768	749
Social security	429	454
Taxes payable	411	697
Accrued expenses	873	724
Advance payment received	-	350
Other	525	716
	<u>3,006</u>	<u>3,690</u>

11. Interest-bearing loans and borrowings

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Non-current liabilities	31 December	
	2007	2006
Secured bank loans	17,141	17,465
Obligation due to written put option on Gundel Kft. shares held by minority interests (2006: restated)	1,094	1,136
Finance lease liabilities	6	6
	<u>18,241</u>	<u>18,607</u>

Current liabilities	31 December	
	2007	2006
Current portion of secured bank loans	3,668	2,689
Bank overdrafts	2,010	1,072
	<u>5,678</u>	<u>3,761</u>
Current portion of finance lease liabilities	-	179
	<u>5,678</u>	<u>3,940</u>

Danubius purchased a 66,67% interest in Gundel Kft. (formerly Lángastronomia Kft) from LL Partners on 7 July 2004. Based on an agreement with LL Partners, dated 7 July 2004, LL Partners has an option to sell to Danubius the remaining 33.33% shareholding in Gundel Kft between 7 July 2009 and 7 July 2011. The exercise price is USD 5 million plus compound annual interest at a rate of 7%, accumulated from 7 July 2004.

In the Company's 2006 and 2005 consolidated financial statements, the 33.33% shareholding held by LL Partners in Gundel Kft. was reported as a minority interest. However, under IAS 32, which was effective from 1 January 2005, the Company should have accounted for its contingent obligation to purchase the minority interest as a financial liability (at present value at the date of the agreement), consolidated the 33.33% minority interest from the date of the agreement, and recorded interest charges in each accounting period. Applying IAS 32 retrospectively has resulted in the restatement of corresponding consolidated balance sheet information at 31 December 2006 and consolidated statement of income information for the year ended 31 December 2006 as follows:

Balance sheet

Increase in goodwill	531
Decrease in minority interest	503
Decrease in retained earnings	102
Increase in non-current liabilities	1,136

Statement of income

Increase in interest expense	82
Increase in foreign currency gain	129

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

	31 December 2007			31 December 2006		
	Minimum Lease Payments	Interest	Principal	Minimum Lease Payments	Interest	Principal
Within 1 year	-	-	-	191	12	179
1 to 2 years	6	-	6	-	-	-
2 to 5 years	-	-	-	6	-	6
over 5 years	-	-	-	-	-	-
Total debt	6	-	6	197	12	185

As of 31 December 2007 the Group's secured bank loans are denominated in Euro (EUR), total EUR 82.7 million (2006: EUR 80.5 million) and fall due for repayment, as follows:

	31 December	
	2007	2006
Within 1 year	5,678	3,761
1 to 2 years	3,222	3,023
2 to 5 years	13,539	11,760
over 5 years	380	2,682
Total debt	22,819	21,226
Total current debt	(5,678)	(3,761)
Total non-current debt	17,141	17,465

The interest rates for all bank borrowings are floating and determined by 3 months EURIBOR + fixed margin of between 0,6% to 3,5%. The most common margin is 0.95%. At 31 December 2007 the average rate of interest is 5.7% (2006: 4.7%).

The net book value of property, plant and equipment pledged as security for bank loans was HUF 32,220 million as of 31 December 2007 and HUF 30,879 million as of 31 December 2006.

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12. Provisions

	Acquisition of Piestany	Employee benefits	Termination agreements	Other	Total
Balance at 31 December 2005, restated	636	633	101	45	1,415
Provision made during the year	-	179	144	27	350
Provision released	(163)	-	-	-	(163)
Provision used during the year	-	(138)	(105)	-	(243)
Effect of movements in exchange rates	57	5	-	-	62
Unwinding of discounts	-	35	-	-	35
Increase/(decrease) due to acquisition or disposal	-	-	-	26	26
Balance at 31 December 2006, restated	530	714	140	98	1,482
Provision made during the year	-	197	264	-	461
Provision used during the year	-	(148)	(140)	(69)	(357)
Effect of movements in exchange rates	17	4	-	-	21
Unwinding of discounts	-	37	-	-	37
Balance at 31 December 2007	547	804	264	29	1,644
Current portion 2006, restated	-	130	140	70	340
Non-current portion 2006, restated	530	584	-	28	1,142
Current portion 2007	-	113	264	2	379
Non-current portion 2007	547	691	-	27	1,265

Acquisition of Piestany

In 2002 a provision for legal cases of HUF 621 million was initially 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 was no longer considered probable that an outflow of resources embodying economic benefits will be required to settle certain cases. The timing of the resolution of the remaining cases is uncertain.

Employee benefits – restatement

Group companies in Hungary, the Czech Republic and Slovakia operate benefit programmes that provide lump sum benefits to employees after every five years' employment and upon retirement. The amount of the benefits is determined by the base and average monthly salary and the length of service period. None of these programmes have separately administered funds. As of 31 December 2007 the Group has recognised a provision of HUF 804 million to cover its estimated obligation regarding future retirement and jubilee benefits payable to current employees.

In previous years, the Group did not apply IAS 19 – *Employee benefits* in respect of retirement and jubilee benefit programmes operated by the Company and its principal Hungarian subsidiary, Danubius Szállodaüzemeltető és Szolgáltató Zrt. Applying IAS 19 retrospectively has resulted in the restatement of corresponding consolidated balance sheet information at 31 December 2006 and consolidated statement of income information for the year ended 31 December 2006 as follows:

Balance sheet

Increase in provisions	614
Increase in deferred tax assets	98
Decrease in retained earnings	516

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Statement of income

Decrease in wages and salaries	138
Increase in other expenses	142
Increase in interest expense	35
Decrease in deferred tax expense	6

Termination agreements

The Group has recognised a provision of HUF 264 million in 2007 for termination agreements which will be paid in 2008.

Other

As of 31 December 2007 and 2006 the other provisions of HUF 29 million and HUF 98 million, respectively related to various legal cases.

13. Share Capital

The registered share capital at December 31, 2007 and 2006 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.

14. Reserves

Capital reserve

The capital reserve was established in 1991, when the company was privatized and transformed to a public limited company.

Treasury shares

The reserve for treasury shares comprises the cost of the Company's shares held by the Group. As 31 December 2007 and 2006 the Group held 374,523 of the Company's shares, purchased at a cost of HUF 1,162 million.

Translation reserve

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

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.

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, 2007 is HUF 21,889 million (2006: HUF 20,603 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, the period in which the dividend is paid and the number of shares held. The withholding tax is also payable by individual shareholders who are resident in Hungary (resident legal entities are exempt).

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15. Minority Interests

	31 December	
	2007	2006
		Restated
Preventív-Security Zrt.	44	36
Léčebné Lázně a.s.	484	461
Slovenské Liečebné Kúpele Piešťany a.s.	1,093	1,123
SC Salina Invest SA and SC Balneoclimaterica SA (see Note 1)	45	708
Total	<u>1,666</u>	<u>2,328</u>

	31 December	
	2007	2006
		Restated
Opening balance at 1 January	2,328	2,308
Income attributable to minority shareholders	36	26
Acquisition of minority interest (see Note 1)	(698)	-
Dividends to minority shareholders	-	(6)
Closing balance at 31 December	<u>1,666</u>	<u>2,328</u>

16. Other income

	2007	2006
Gain on sale of fixed assets	667	268
Release of legal provision (Piešťany, see Note 12)	-	163
Other	265	147
	<u>932</u>	<u>578</u>

17. Material costs

	2007	2006
Materials used in providing guest services	4,235	3,761
Utility costs (gas, electricity, fuel and water consumption)	3,666	3,495
Other materials used	1,934	2,172
	<u>9,835</u>	<u>9,428</u>

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18. Services used

	<u>2007</u>	<u>2006</u>
Maintenance services	1,416	1,742
Washing, cleaning services	1,615	1,616
Safety services	824	932
Professional and membership fees	781	855
Hospitality services	760	813
Marketing, PR services	777	662
Rental of buildings, equipment and vehicles	507	579
Travel agency and other commissions	557	529
Bank and insurance charges	454	477
Hire of temporary personnel	463	431
Telecommunications services	321	315
Software, IT support	262	239
Delivery and transport fees	224	218
Training	137	85
Other	716	861
	<u>9,814</u>	<u>10,354</u>

19. Other expenses

	<u>2007</u>	<u>2006</u>
Taxes and contributions	1,737	1,931
Provisions made (2006 restated, see Note 12)	461	350
Damages	9	78
Donations, sponsorship	77	78
Impairment of trade receivables	42	20
Other	213	200
	<u>2,539</u>	<u>2,657</u>

20. Income tax

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

	<u>2007</u>	<u>2006</u>
Current tax	501	262
Deferred tax (2006 restated, see Note 12)	(139)	57
	<u>362</u>	<u>319</u>

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

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	2007	2007	2006	2006 Restated
Profit before tax		1,766		1,787
Income tax using the Hungarian corporation tax rate	16%	283	16%	286
Solidarity surplus tax		49		-
Effect of different tax rates in foreign jurisdictions		56		53
Revaluation of Romanian properties in statutory books		(251)		-
Non-deductible expenses		212		219
Tax exempt revenues		(49)		(84)
Tax exempt expenses		(161)		(111)
Tax losses written-off, net		260		28
Effect of tax rate changes (decreases) in foreign jurisdictions		(52)		-
Other		15		(72)
		<u>362</u>		<u>319</u>

In 2007 S.C. Balneoclimaterica S.A. recognised a deferred tax gain of HUF 251 million due to the revaluation of hotel properties for Romanian tax purposes.

The write-off of tax losses in 2007 comprises HUF 156 million for tax losses which are not now claimable and HUF 161 million for tax losses which expire in 2008 and for which it is not now considered probable that the Group can utilise the benefits. These amounts are partially offset by HUF 57 million for tax losses carried forward which are now expected to be utilised against future taxable profit.

Deferred tax assets and liabilities

Deferred tax assets and liabilities as at 31 December 2007 and 31 December 2006 are attributable to the following:

	Assets		Liabilities		Net	
	2007	2006	2007	2006	2007	2006
Property, plant and equipment	270	71	1,533	1,546	(1,263)	(1,475)
Repairs and maintenance provision	-	-	20	185	(20)	(185)
Legal provisions	104	101	-	-	104	101
Provision for doubtful debts	44	52	-	-	44	52
Provision for employee benefits (2006 restated, see Note 12)	125	116	-	-	125	116
Other provisions	19	19	-	-	19	19
Tax loss carry forwards	136	396	-	-	136	396
Other	15	14	-	-	15	14
	<u>713</u>	<u>769</u>	<u>1,553</u>	<u>1,731</u>	<u>(840)</u>	<u>(962)</u>
Offset of assets and liabilities within individual legal entities	(86)	(100)	(86)	(100)	-	-
	<u>627</u>	<u>669</u>	<u>1,467</u>	<u>1,631</u>	<u>(840)</u>	<u>(962)</u>

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The net change in deferred tax assets and liabilities differs from the amount of the deferred tax charge or benefit for the period due to the effect of foreign exchange movements. At 31 December 2007 tax loss carry forwards of HUF 66 million can be utilised over indefinite period of time while the remaining HUF 70 million will expire in 2010.

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, which is a deductible expense in Czech tax legislation. This provision is not included in these IFRS financial statements and a deferred tax liability is set up for this timing difference.

At 31 December 2007 deferred tax assets of HUF 161 million (2006: HUF 18 million) have not been recognised in respect of tax loss carry-forwards of HUF 1,006 million (2006: HUF 115 million) because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from. The loss carry-forwards expire in 2008.

21. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to ordinary shareholders of HUF1,368 million in 2007 (2006: HUF 1,442 million) and the weighted average number of qualifying ordinary shares outstanding during 2007 and 2006 of 7,910,914.

	31 December	
	2007	2006 restated
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	1,368	1,442
Basic earnings per share (HUF/share)	<u>173</u>	<u>182</u>

The restatement of the previous year's financial statements (see Note 11 and Note 12) had a positive HUF 4 effect on the Company's basic earnings per share figure for 2006. There are no dilutive factors to earnings per share disclosed above.

22. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	31 December	
	2007	2006
Less than one year	60	120
More than one year	-	60
	<u>60</u>	<u>180</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 2007 HUF 269 million was recognised as an expense in the income statement in respect of operating leases (2006: HUF 262 million).

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23. Commitments and contingent liabilities

As of 31 December 2007 and 31 December 2006 there were 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 2007 and 31 December 2006.

24. Pension Plans

The Group's employees participate in state pension plans to which employers and employees are required by law to pay contributions based on a percentage of each employee's employment earnings. The pension liability resides with the state in Hungary, the 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 2007 was HUF 278 million (2006: HUF 248 million). The assets of the fund are held in separate trustee administered funds and are not included in these financial statements.

The Group also has 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 are members of the fund. The total contribution expense was HUF 201 million in 2007 (2006: HUF 198 million). The assets of the fund are held in separate trustee administered funds and are not included in these financial statements.

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

25. Related Party Transactions

Transactions with related parties are summarised as follows:

Expenses / (revenues)	2007	2006
Management fee to CP Holdings Limited	350	371
Interest to CP Holdings Limited	133	120
Loan arrangement fee to CP Holdings Limited	19	20
Management support fee from CP Regents Park Two Limited.	(144)	(147)
Rental fee to Interag Zrt.	159	159
Services provided by Interag Zrt.	3	5
Service provided to Interag Zrt.	(20)	(21)
Service provided by Investor Zrt.	18	15
Service provided to Investor Zrt.	(1)	(4)

Related party receivables and payables are not significant as at December 31, 2007, with the exception of the loan amounting to HUF 1,708 million (GBP 5.1 million less loan arrangement fee of GBP 0.1 million) from CP Holdings Limited (see Note 9). The repayment period of the loan is 10 years starting from 2010, repayment will be due in equal annual instalments, the interest is payable quarterly and the interest rate is floating based on 3 months LIBOR + a fixed margin of 1.2 %.

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At 31 December 2007 the interest rate on the loan was 7.2% (31 December 2006: 6.5%).

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

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

Transactions with key management personnel

Total remuneration is included in personal expenses:

	2007	2006
Short-term employee benefits	295	345
Post employment benefits	9	6
Termination benefits	-	107
Total	304	458

26. Financial instruments and financial risk management

A) Categories of financial instruments

The following table set out the financial instruments as at the balance sheet date:

	2007	2006
Financial Asset		
Loans and receivables ¹	6,836	5,680
Derivatives	24	8
Financial Liability measured at		
Amortised cost ²	31,727	31,847

¹ Includes the total amount of cash and cash equivalents and trade and other receivables in the Balance Sheet.

² Includes the total amount of trade accounts payable, advance payments from guests, other payables and accruals, interest bearing loans and borrowings, and loan from related party recognised in the Balance Sheet.

Carrying value and fair value for all of the Group's financial assets at 31 December 2007 and 2006 are deemed to be equal. The carrying amount of cash and cash equivalents, trade and other current receivables and payables and other liabilities approximates their relative fair values due to the relatively short-term maturity. Derivative assets and liabilities are carried at fair value. All non-current borrowings have floating interest rates, so their fair values are not significantly different from their amortised cost and consequently carrying value is deemed to approximate fair value.

B) Financial risk management

The Group has documented its financial risk management policy. This policy sets out the Group's overall business strategies and its risk management philosophy. The Group's overall financial risk management programme seeks to minimise potential adverse effects on the Group's financial assets and liabilities. The Board of Directors provides written principles for overall financial risk management and written policies covering specific areas, such as market risk (including foreign exchange risk, interest rate risk), credit risk, liquidity risk, use of derivative financial instruments and investing excess cash. Such written policies are reviewed annually by the Board of Directors and periodic reviews are undertaken to ensure that the Group's policy guidelines are complied with. Risk management is carried out by the Finance Departments under the policies approved by the Board of Directors. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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I) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of giving credit to counterparties with good payment history and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The expense of individual hotels' exposure and the credit ratings of their counterparties are continuously monitored. Credit exposure is controlled by the counterparty limits that are continuously reviewed by credit managers.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of customers and advance payment is encouraged and enforced.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Approximately 6.6 HUF billion, or 14 percent of the Group's revenue, is attributable to sales transactions with the top 30 customers. However, geographically there is no concentration of credit risk.

The carrying amount of trade receivables and other financial assets recorded in the financial statements, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

II) Liquidity risk

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

At the reporting date the Group has the following unused loan facilities:

	31 December 2007	31 December 2006
Overdraft	1,374	2,370
Long-term loan	5,067	3,763

The Company pays its trade suppliers in no later than 3 months after receiving products and services and collects the majority of advance payments from certain clients 2 months before arrival. Interest bearing loans and borrowings are paid by quarterly and yearly instalments (see Note 11 for more information), and all other payables and accruals are due within 6 months.

III) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

i) Currency risk

The Group is exposed to currency risk on sales and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Euro, but also Sterling (GBP).

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At the reporting date, the carrying amounts of financial assets and financial liabilities denominated in currencies other than the respective group entities' functional currencies are as follows:

HUF million	Financial liabilities		Financial assets		Net asset/(liability)	
	2007	2006	2007	2006	2007	2006
Euros	22,443	21,366	1,142	1,188	(21,301)	(20,178)
Sterling	1,828	2,112	44	41	(1,784)	(2,071)
Swiss Frank	-	-	-	64	-	64
US dollars	-	-	19	28	19	28
Financial instruments denominated in foreign currency	24,271	23,478	1,205	1,321	(23,066)	(22,157)
Total financial instruments	31,727	31,847	6,860	5,688	(24,867)	(26,159)

The Group's sales prices are primarily quoted in Euro and income is received in foreign currency or local currency. This provides a natural hedge against foreign exchange movements for the interest and capital installments of loans and borrowings the majority of which are denominated in EUR.

Management periodically reviews the merits of entering into foreign currency hedging contracts or other derivative products. Based on the approval of Board of Directors the Group may use forward exchange contracts to hedge its currency risk in respect of sales revenues, with a maturity of less than one year from the reporting date. The effect of such hedges is not material in 2007 and 2006.

The Company has investments in foreign subsidiaries, and is exposed to currency translation risk in respect of the net assets of these subsidiaries.

Foreign currency sensitivity

A 10 percent strengthening of the Euro against each of the following currencies at 31 December would have increased (decreased) profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates and margins, remain constant.

	Profit and Loss
31 December 2007	
Hungarian forint (HUF)	(1,274)
Czech Crown (CZK)	(255)
Slovakian Crown (SKK)	(412)
Romanian Lei (RON)	(41)
31 December 2006	
Hungarian forint (HUF)	(1,335)
Czech Crown (CZK)	(169)
Slovakian Crown (SKK)	(376)
Romanian Lei (RON)	(48)

A 10 percent weakening of the Euro against the above currencies at 31 December would have had the equal but opposite effect, on the basis that all other variables remain constant.

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ii) Interest rate risk

The interest rates for all bank borrowings are floating and determined by 3 months EURIBOR + margin between 0.95% to 3.5% depending on the relevant country. The most common margin is 0.95%, at 31 December 2007 the average rate of interest is 5.7% (2006: 4.7%).

Since June 2006 the Company has used an interest rate swap 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 this hedging instrument accords with that of the underlying debt and therefore IAS 39 hedge accounting treatment applies.

As of 31 December 2007 the Company had an interest rate swap (Collar) agreement in effect, with a notional amount of EUR 46.2 million (31 December 2006: EUR 55.5 million), that has a 3 months EURIBOR floor of 3.35% and cap of 4.75%. Having this instrument means that the Company does not have to pay more than 4.75% interest + margin for the hedged amount, but cannot pay less than 3.35% interest + margin. The collar is amortising in line with the underlying loan facilities (maturing in 2012) and is gross settled. The fair value of this Collar agreement was an asset of HUF 24 million as of 31 December 2007 and HUF 8 million as of 31 December 2006.

Interest rate sensitivity

3 months EURIBOR was 4.684% as of 31 December 2007 and 3.725% as of 31 December 2006. A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit and loss by the amounts shown below. The change in the fair value of the Collar agreement affects the Company's equity, the impact of which is considered immaterial. This analysis assumes that all other variables, in particular foreign currency rates and interest margins, remain constant.

	<u>Profit and Loss</u>
31 December 2007	
100 basis points increase	(117)
100 basis points decrease	225
31 December 2006	
100 basis points increase	(220)
100 basis points decrease	132

C) Capital Management

The Group's policy is to maintain a capital base which is sufficient to maintain investor and creditor confidence and to sustain future development of the business.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the Group's approach to capital management during the year.

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27. Segment reporting

2007	Hungarian operations			Czech operations	Slovakian operations	Romanian operations	Inter-segment transfers	TOTAL
	Hotel & Hospitality segment	Security segment	Total					
Revenue								
Sales to external customers	30,739	780	31,519	6,085	8,143	1,595	-	47,342
Inter segment sales	421	310	731	-	-	-	(731)	-
Total operating expenses	29,338	1,041	30,379	5,314	8,292	1,181	(731)	44,435
<i>of which Depreciation and amortisation</i>	<i>2,166</i>	<i>17</i>	<i>2,183</i>	<i>934</i>	<i>1,381</i>	<i>204</i>	<i>-</i>	<i>4,702</i>
Profit from operations	1,822	49	1,871	771	(149)	414	-	2,907
Financial results	(695)	(2)	(697)	(68)	(141)	(45)	(125)	(1,076)
Profit / (loss) of associates	(65)	-	(65)	-	-	-	-	(65)
Profit before tax	1,062	47	1,109	703	(290)	369	(125)	1,766
Assets and liabilities								
Property, plant and equipment	37,987	48	38,035	13,792	19,182	1,822	-	72,831
Investment in associates	1,650	-	1,650	-	-	-	-	1,650
Cash and cash equivalents	2,619	57	2,676	918	117	220	-	3,931
Trade receivables	1,359	135	1,494	216	353	31	(38)	2,056
Inventories	584	5	589	77	178	15	-	859
Intangibles	1,666	122	1,788	634	70	-	-	2,492
Assets held for sale	257	-	257	-	-	-	-	257
Other non-allocated assets	-	-	-	-	-	-	-	2,257
Total assets	46,122	367	46,489	15,637	19,900	2,088	(38)	86,333
Trade accounts payable	1,493	83	1,576	487	467	108	(38)	2,600
Advance payments from guests	291	-	291	104	99	-	-	494
Interest bearing loans and borrowings	17,640	6	17,647	3,237	4,851	418	(526)	25,627
Provisions	932	26	957	36	649	2	-	1,644
Other non-allocated liabilities	-	-	-	-	-	-	-	4,869
Total liabilities	20,356	115	20,471	3,864	6,066	528	(564)	35,234
Capital expenditure	1,305	2	1,307	1,095	839	424	-	3,665

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27. Segment reporting (continued)

2006 restated	Hungarian operations			Czech operations	Slovakian operations	Romanian operations	Inter-segment transfers	TOTAL
	Hotel & Hospitality segment	Security segment	Total					
Revenue								
Sales to external customers	31,514	1,031	32,545	6,226	7,257	1,287	-	47,315
Inter segment sales	372	303	675	-	-	-	(675)	-
Total operating expenses	29,854	1 267	31,121	5,766	7,293	1,105	(675)	44,610
<i>of which Depreciation and amortisation</i>	<i>2,276</i>	<i>20</i>	<i>2,296</i>	<i>875</i>	<i>1,199</i>	<i>217</i>	-	<i>4,587</i>
Profit from operations	2,032	67	2,099	460	(36)	182	-	2,705
Financial results	(852)	(3)	(855)	(2)	177	(32)	(158)	(870)
Profit / (loss) of associates	(48)	-	(48)	-	-	-	-	(48)
Profit before tax	1,132	64	1,196	458	141	150	(158)	1,787
Assets and liabilities								
Property, plant and equipment	38,048	54	38,102	13,232	19,297	2,316	-	72,947
Investment in associates	1,715	-	1,715	-	-	-	-	1,715
Cash and cash equivalents	1,295	22	1,317	1,139	235	396	-	3,087
Trade receivables	1,329	174	1,503	201	306	26	(36)	2,000
Inventories	580	4	584	70	172	18	-	844
Intangibles	1,773	119	1,892	633	153	-	-	2,678
Assets held for sale	535	-	535	-	-	-	-	535
Other non-allocated assets	-	-	-	-	-	-	-	1,903
Total assets	45,275	373	45,648	15,275	20,163	2,756	(36)	85,709
Trade accounts payable	1,540	121	1,661	379	1,116	106	(36)	3,226
Advance payments from guests	337	-	337	76	105	-	-	518
Interest bearing loans and borrowings	17,717	35	17,752	3,833	4,328	516	(2,016)	24,413
Provisions	760	26	786	-	629	67	-	1,482
Other non-allocated liabilities	-	-	-	-	-	-	-	5,382
Total liabilities	20,354	182	20,536	4,288	6,178	689	(2,052)	35,021
Capital expenditure	2,692	26	2,718	1,647	4,035	219	-	8,619

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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28. 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 might be subject to statutory limitations and is dependent on the amount of future taxable income. If the future taxable income is significantly less than the amount estimated the deferred tax asset may need to be written down.

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.

Such value is measured based on discounted projected cash flows. The most significant variables in determining cash flows are discount rates, terminal values and the period for which cash flow projections are made, as well as the assumptions and estimates used to determine the cash inflows and outflows.

For property, plant and equipment the recoverable amount is determined to be the fair value rather than the value in use. The estimated fair value of the Group's assets or group of assets significantly exceeds its net carrying amount.

The Group considers that the accounting estimate related to asset impairment is significant due to the need to make assumptions when estimating the recoverable amount and the material impact that recognising impairment could have on the results of the Group. See Notes 7 and 8 for more information.

Depreciation

Property, plant and equipment and intangible assets are recorded at cost and are depreciated or amortised 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. See Note 12 for more information.