



**DANUBIUS HOTELS
GROUP**

DANUBIUS HOTELS RT.

2005

**CONSOLIDATED
FINANCIAL STATEMENTS**

ACCORDING TO IFRS

**Danubius Hotel and Spa Rt.
and Subsidiaries**

**Consolidated
Financial Statements**

December 31, 2005
with Report of the Independent Auditor

Danubius Hotel and Spa Rt. and Subsidiaries
Financial Statements
For the year ended December 31, 2005

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Independent Auditors' Report

To the Shareholders of Danubius Hotel and Spa Rt.

We have audited the accompanying consolidated balance sheet of Danubius Hotel and Spa Rt ("the Company") as at 31 December 2005 which shows total assets of HUF 79,164 million and total shareholders' equity of HUF 48,903 million and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the year then ended, being components of the Company's 2005 Consolidated Annual Report. The Consolidated Annual Report and the Consolidated Business Report are the responsibility of the Company's management. Our responsibility is to express an opinion on the Consolidated Annual Report based on our audit. In addition it is our responsibility to assess whether the accounting information included in the Consolidated Business Report is consistent with that contained in the Consolidated Annual Report.

We conducted our audit in accordance with Hungarian Standards on Auditing issued by the Hungarian Chamber of Auditors, which are substantially consistent with International Standards on Auditing, and applicable law and regulations in Hungary. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Consolidated Annual Report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Consolidated Annual Report. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Consolidated Annual Report presentation. Our work with respect to the Consolidated Business Report was limited to the afore-mentioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.

We have audited the Company's Consolidated Annual Report, its components and elements and their documentary support in accordance with Hungarian Standards on Auditing and gained sufficient and appropriate evidence that the Consolidated Annual Report has been prepared in accordance with the International Financial Reporting Standards as adopted by the EU. In our opinion, the Consolidated Annual Report gives a true and fair view of the consolidated financial position of Danubius Hotel and Spa Rt and its subsidiaries as at 31 December 2005 and of the consolidated result of their operations for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU. The Consolidated Business Report is consistent with the Consolidated Annual Report.

Budapest, 20 March 2006

KPMG Hungária Kft.
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 2005 IFRS Consolidated Annual Report of Danubius Hotel and Spa Rt. 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 Rt. and Subsidiaries
Consolidated Balance Sheet
(All amounts in million HUF)

		At December 31,	
	Notes	2005	2004
Assets			
Cash and cash equivalents	3	2,363	2,396
Accounts receivable	4	1,889	1,695
Other receivables and prepayments	5	1,489	1,435
Income tax receivable	20	189	391
Inventory	6	884	844
Total current assets		6,814	6,761
Property, plant and equipment	7	67,687	65,573
Intangible assets	8	2,111	(1,857)
Investments in associates	9	1,763	31
Other non-current assets	10	235	1,282
Deferred tax assets	20	554	402
Total non-current assets		72,350	65,431
Total assets		79,164	72,192
Liabilities and Shareholders' Equity			
Trade accounts payable		2,327	2,093
Advance payments from guests		433	366
Income tax payable		215	262
Other payables and accruals	12	2,716	2,535
Interest-bearing loans and borrowings	13	2,769	4,202
Provisions	11	840	709
Total current liabilities		9,300	10,167
Interest-bearing loans and borrowings	13	17,609	17,068
Loan from related party	28	1,828	-
Deferred tax liabilities	20	1,524	1,541
Total non-current liabilities		20,961	18,609
Total liabilities		30,261	28,776
Shareholders' Equity			
Share capital	15	8,285	8,285
Capital reserve		7,435	7,435
Treasury shares	15	(1,162)	(1,162)
Retained earnings		29,134	24,666
Translation reserve		2,400	1,296
Attributable to equity holders of the parent		46,092	40,520
Minority interests	14	2,811	2,896
Total shareholders' equity		48,903	43,416
Total liabilities and shareholders' equity		79,164	72,192

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

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

Budapest, 20 March 2006

The notes set out on pages 8 to 38 are an integral part of the consolidated financial statements.

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

	<u>Notes</u>	Year ended December 31,	
		<u>2005</u>	<u>2004</u>
Revenue			
Rooms		20,462	18,591
Food and beverage		14,371	12,502
Spa		5,242	5,050
Other departmental revenues		2,454	2,398
Interest income		57	256
Other revenue	17	256	306
Total revenue	30	42,842	39,103
Costs and expenses			
Rooms		4,114	3,904
Food and beverage		10,319	9,183
Spa		2,254	2,168
Other departmental expenses		2,837	2,679
Administrative and general	18	15,328	14,166
Interest expense		843	838
Foreign currency loss / (gain)		379	(989)
Depreciation and amortisation		4,324	4,179
Other expenses	19	1,321	1,421
Total costs and expenses		41,719	37,549
Share of profit of associates		6	-
Profit before tax		1,129	1,554
Current tax expense	20	431	358
Deferred tax benefit	20	(183)	(371)
Net profit after tax		881	1,567
Attributable to:			
Equity holders of the parent		817	1,590
Minority interest	14	64	(23)
Net profit for the year		881	1,567
Earnings per share (expressed in HUF per share):	21	103	201

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

	Attributable to equity holders of the parent						Total	Minority Interest	Total equity
	Note	Share Capital	Capital Reserve	Treasury Shares	Retained Earnings	Translation Reserve			
December 31, 2003		8,285	7,435	(1,162)	23,076	1,250	38,884	2,462	41,346
Minority share in subsidiary acquired		-	-	-	-	-	-	462	462
Share in subsidiary purchased from minority shareholders		-	-	-	-	-	-	(5)	(5)
<i>Subtotal: transactions with equity holders</i>		-	-	-	-	-	-	457	457
Net profit for the year		-	-	-	1,590	-	1,590	(23)	1,567
Translation of foreign subsidiaries		-	-	-	-	46	46	-	46
<i>Subtotal: income and expense for the year</i>		-	-	-	1,590	46	1,636	(23)	1,613
December 31, 2004		8,285	7,435	(1,162)	24,666	1,296	40,520	2,896	43,416
Dividend paid by subsidiaries to minority shareholders		-	-	-	-	-	-	(8)	(8)
Minority share in subsidiary acquired		-	-	-	-	-	-	29	29
Share in subsidiary purchased from minority shareholders		-	-	-	-	-	-	(172)	(172)
<i>Subtotal: transactions with equity holders</i>		-	-	-	-	-	-	(151)	(151)
Net profit for the year		-	-	-	817	-	817	64	881
Derecognition of previously recognised negative goodwill		-	-	-	3,651	-	3,651	-	3,651
Translation of foreign subsidiaries		-	-	-	-	1,104	1,104	2	1,106
<i>Subtotal: income and expense for the year</i>		-	-	-	4,468	1,104	5,572	66	5,638
December 31, 2005		8,285	7,435	(1,162)	29,134	2,400	46,092	2,811	48,903

The notes set out on pages 8 to 38 are an integral part of the consolidated financial statements.

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

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

	Note	Year ended December 31,	
		2005	2004
Cash flows from operating activities:			
Net profit for the year after minorities		817	1,590
Adjustments for:			
Income tax	20	248	(13)
Minority interest	14	64	(23)
Income from associates		(6)	-
Interest income		(57)	(256)
Interest expense		843	838
Depreciation and amortisation		4,324	4,179
Foreign exchange (gain) / loss		379	(989)
Gain on sale of fixed assets	17	(121)	(71)
Changes in assets and liabilities:			
Accounts receivable and other receivables		81	(105)
Inventory		(34)	(21)
Accounts payable and other current liabilities		392	1,025
Cash generated from operations		6,930	6,154
Interest paid		(817)	(866)
Corporate income tax paid		(531)	(247)
Net cash provided by operations		5,582	5,041
Cash flows from investing activities:			
Purchase of fixed assets and intangible assets		(5,282)	(6,048)
Cash paid on acquisition of minority shares		(172)	(5)
Acquisition of subsidiary, net of cash acquired	27	(82)	(1,807)
Interest received		79	278
Investment in associate	9	(1,775)	-
Proceeds on sale of fixed assets		187	198
Decrease in restricted cash		1,031	(465)
Other cash inflows		12	26
Net cash used in investing activities		(6,001)	(7,823)
Cash flows from financing activities:			
Net increase / (decrease) in long-term debt		(1,094)	1,358
Payment of finance lease liabilities		(125)	(120)
Related party loan received, net	9	1,740	-
Net cash provided by / (used in) financing activities		521	1,238
Increase / (decrease) in cash and cash equivalents		102	(1,544)
Cash and cash equivalents at beginning of year		2,224	3,768
Cash and cash equivalents at end of year, net	3	2,326	2,224

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

1. The Company and its recent history

Danubius Hotel and Spa Rt. ("Danubius" or "the Company") is a company limited by shares which is 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 2005, 53.4% of the Company's shares were owned by CP Holdings Limited, a UK private company, and companies controlled by CP Holdings Limited.

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

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

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

The Group has an 88.60% effective shareholding (2004: 87.1%) in Slovenské Liečebné Kúpele Piestany a.s. ("Piestany"), a Slovakian company which owns and operates hotels in Piestany and Smrdaky.

In 2004 Danubius acquired a 66.67% shareholding in Lángastronomia Kft, a company which owns and operates the Gundel and Bagolyvár restaurants in Budapest and wineries in the Tokaj and Eger regions (see note 26).

In August 2005, Danubius acquired a 25% interest in CP Regents Park Two Limited – which owns and operates the Danubius Hotel Regents Park, London and concluded a cooperation agreement with the 75% shareholder in that company, CP Holdings Limited (see Note 9).

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

In December 2005 Danubius acquired an additional 45.85% interest in Preventív-Security ZRt, a company, which provides security services, resulting in a 78.6% shareholding at December 31, 2005. (see Note 27).

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

2. Significant accounting policies

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) adopted by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, as well as in accordance with IFRS as adopted by the EU further to the IAS Regulation (EC 1606/2002).

Basis of preparation

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

The consolidated financial statements are prepared under the historical cost convention.

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

The Company has applied IFRS 3 “Business Combinations” and IAS 36 “Impairment of Assets” (revised 2004) in accounting for the acquisition of Lángastronomia Kft (see note 26).

The financial statements were authorised for issue by the Board of Directors on March 20, 2006.

Use of estimates and assumptions

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

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

Judgements made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 31.

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

2. Significant accounting policies (continued)

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The 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 significant subsidiaries after elimination of all material inter-company transactions and balances, including any unrealised gains.

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Investments

Investments in which the Group has less than 20% ownership are carried at cost, less provision for impairment.

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

2. Significant accounting policies (continued)

The Company's principal subsidiary companies are as follows:

Name	Principal Activity	Country of Incorporation	Group interest held at December 31, 2005	Group interest held at December 31, 2004
Danubius Szállodaüzemeltető és Szolgáltató ZRt.	Hotel operator	Hungary	100%	100%
Lángastronomia Kft.	Restaurant operator	Hungary	66.67%	66.67%
Preventív-Security ZRt	Security	Hungary	78.6%	32.75%
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%	87.10%
Salina Invest SA	Holding company	Romania	56.43%	56.43%
SC Balneoclimaterica SA	Hotel operator	Romania	53.03%	53.03%

Financial statements of foreign operations

The Group's foreign operations are not considered an integral part of the Company's operations. Accordingly, the assets and liabilities of foreign operations are translated to HUF at foreign exchange rates ruling at the balance sheet date. Goodwill and any fair value adjustments arising on consolidation are treated as assets and liabilities of the reporting entity and therefore are not retranslated. The revenues and expenses of foreign operations are translated to HUF at the average exchange rate for the year. Foreign exchange differences arising on translation are recognised directly in equity.

Foreign currency transactions

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

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

2. Significant accounting policies (continued)

Property, plant and equipment

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Depreciation

Depreciation is provided using the straight-line method. The depreciation rates used by the Group are from 2% to 5% for buildings and leasehold improvements and 14.5% to 33% for machinery and equipment. Land and capital projects in progress are not depreciated.

Refurbishment

Significant refurbishment costs which increase the future economic benefits embodied in the item of property, plant and equipment are capitalised and depreciated in accordance with the policy described above. All other costs are recognised in the income statement as an expense as incurred.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see above) and impairment losses.

Intangible assets

Goodwill

Business combinations are accounted for by applying the purchase method. Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill arising in respect of business combinations which occurred prior to 31 March 2004 is stated at cost less accumulated amortisation and impairment losses. Goodwill arising in respect of business combinations which occurred on or after 31 March 2004 is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment.

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

2. Significant accounting policies (continued)

Negative goodwill

Negative goodwill arising on an acquisition which occurred prior to 31 March 2004 represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition. To the extent that negative goodwill related to an expectation of future losses and expenses that were identified in the plan of acquisition and could be measured reliably, but which had not yet been recognised, it was recognised in the income statement when the future losses and expenses were recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, was recognised in the income statement over the weighted average useful life of those assets that were depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired was recognised immediately in the income statement.

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

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.

Debt securities

Debt securities are classified as held to maturity and are stated at amortised cost. Investments held to maturity are recognised/derecognised on the day they are transferred to/by the Group.

Inventory

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

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

2. Significant accounting policies (continued)

Cash and cash equivalents

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

Trade and other receivables

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

Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

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 stated at their amortised cost, being the net proceeds received. Loan interest is recognized on an accrual basis and expensed when incurred. Loans denominated in foreign currencies at the balance sheet date are translated at the year-end rates of exchange.

Repurchase of share capital

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

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

2. Significant accounting policies (continued)

Revenue recognition

Goods sold and services rendered

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

Rental income

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

Operating lease payments

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

Finance lease payments

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

Interest Income

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

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

2. Significant accounting policies (continued)

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. No temporary differences are recognised on the initial recognition of goodwill. 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.

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.

Pension Plan

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

Fair value of financial instruments

The carrying values of financial instruments approximate fair values due to either the short-term duration or the proximity of interest rates of the various instruments to market rates.

Segment reporting

Group operations are presented in respect of geographical areas only. Management considers that it operates in a single business segment, hotel and hospitality operations.

New accounting pronouncements

New standards, amendments to Standards and Interpretations not yet effective as at 31 December 2005 have not been applied in preparing these consolidated financial statements. The Company does not expect that any of these pronouncements will have a significant impact on the Company's financial statements.

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

3. Cash and cash equivalents

	2005	2004
Cash in hand and at bank	2,363	2,363
Marketable securities	-	33
Cash and cash equivalents	2,363	2,396
Overdraft (see Note 13)	(37)	(172)
Cash and cash equivalents, net (per cash flow statement)	2,326	2,224

4. Accounts receivable

	December 31,	
	2005	2004
Trade receivables	2,280	2,036
Allowance for doubtful receivables	(391)	(341)
	1,889	1,695

5. Other receivables and prepayments

	December 31,	
	2005	2004
Receivables from non-consolidated subsidiaries	39	29
Prepayments and accrued income	674	605
VAT receivables	197	383
Other receivables	579	418
	1,489	1,435

6. Inventory

	December 31,	
	2005	2004
Food and beverages	372	289
Wine in barrels	232	203
Materials	205	284
Goods for resale	75	68
	884	844

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

7. Property, plant and equipment

	Land	Buildings and improvements	Furniture, fittings and equipment	Capital projects in progress	Total
Cost/Valuation:					
December 31, 2004	9,491	72,965	18,006	1,788	102,250
Acquisitions through business combinations	-	5	44	-	49
Effect of movements in exchange rates	233	1,580	426	97	2,336
Additions	4	3,664	1,094	210	4,972
Disposals	(16)	(94)	(644)	(2)	(756)
December 31, 2005	9,712	78,116	18,926	2,093	108,847
Depreciation:					
December 31, 2004	-	22,711	13,966	-	36,677
Effect of movements in exchange rates	-	613	345	5	963
Depreciation charge for year	-	2,503	1,707	-	4,210
Disposals	-	(94)	(596)	-	(690)
December 31, 2005	-	25,733	15,422	5	41,160
Net book value:					
December 31, 2004	9,491	50,254	4,040	1,788	65,573
December 31, 2005	9,712	52,383	3,504	2,088	67,687

The net book value of property, plant and equipment pledged was HUF 25,177 million as at 31 December 2005 (HUF 27,382 million as at 31 December 2004). Further information about assets pledged as security for mortgages is given in Note 13.

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 2005, the net carrying amount of the leased equipment was HUF 393 million (2004: HUF 469 million). The leased equipment secures lease obligations (see Note 13).

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8. Intangible assets

	Goodwill	Negative goodwill	Land usage rights	Software and other intangibles	Total
Cost					
December 31, 2004	1,146	(5,095)	537	1,377	(2,035)
Acquisitions through business combinations	117	-	-	1	118
Effect of movements in exchange rates	-	-	-	4	4
Additions	-	-	58	251	309
Disposals	-	-	-	(2)	(2)
Offset goodwill depreciation against cost	(168)	-	-	-	(168)
Derecognition of negative goodwill	-	5,095	-	-	5,095
December 31, 2005	1,095	-	595	1,631	3,321
Depreciation:					
December 31, 2004	168	(1,444)	102	996	(178)
Effect of movements in exchange rates	-	-	-	-	-
Amortisation charge for year	-	-	11	103	114
Relating to disposals	-	-	-	(2)	(2)
Offset goodwill depreciation against cost	(168)	-	-	-	(168)
Derecognition of negative goodwill	-	1,444	-	-	1,444
December 31, 2005	-	-	113	1,097	1,210
Net book value:					
December 31, 2004	978	(3,651)	435	381	(1,857)
December 31, 2005	1,095	-	482	534	2,111

At 31 December 2005 intangible assets include HUF 462 million, net of amortisation (2004: HUF 435 million) for land usage rights relating to two hotels on Margaret Island held under licenses given by the Municipality of Budapest.

Positive goodwill relates to the following acquisitions:

	December 31,	
	2005	2004
Léčebné Lázně a.s.	565	565
Lángastronomia Kft. (see Note 26)	413	413
Preventiv-Security ZRt. (see Note 27)	117	-
Total positive goodwill	1,095	978

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

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8. Intangible assets (continued)

Negative goodwill related to the following acquisitions:

	December 31,	
	<u>2005</u>	<u>2004</u>
Hungar Hotels	-	2,993
Hotel Héliá	-	154
Gama 45 s.r.o.	-	407
Slovenské Liečebné Kúpele Piestany a.s.	-	1,541
Accumulated amortisation	-	<u>(1,444)</u>
Total negative goodwill	<u>-</u>	<u>3,651</u>

As of January 1, 2005 Danubius adopted IFRS 3 “Business Combinations” and derecognised the negative goodwill with a corresponding adjustment to the opening balance of retained earnings.

9. Investments in associates

	Country	Ownership	
		<u>2005</u>	<u>2004</u>
CP Regents Park Two Limited	United Kingdom	25%	-
Preventív-Security ZRt. (see Note 27)	Hungary	-	32.75%

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

The Company’s share of post acquisition total recognised loss in the above Associate for the year ended 31 December 2005 was HUF 12 million. Included in other revenue is a management support fee of HUF 54 million from this Associate for 2005. The interest expense was HUF 43 million on the loan received from CP Holdings Limited and a loan arrangement fee of HUF 36 million was paid to CP Holdings Limited.

Summary financial information on associate – 100 percent:

In thousand GBP	Assets	Liabilities	Equity	Revenues	Loss
2005					
CP Regents Park Two Limited	59,352	39,124	20,228	4,799	(178)

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10. Other non-current assets

	December 31,	
	2005	2004
Investments in non-consolidated subsidiaries	178	183
Loans given to employees	17	7
Long-term receivable	22	50
Restricted cash	-	1,031
Other investments, unquoted	18	11
	<u>235</u>	<u>1,282</u>

The non-consolidated subsidiaries are:

Name	Principal activity	2005		2004	
		Share %	Share %	Share %	Share %
Marcali Szálloda Kft.	Hotel	121	50.2	121	50.2
Kastélykert Kft.	Hotel	43	100	43	100
Hungaria Hotel und Reisen GmbH.	Travel agency	9	100	9	100
Sopron Szakképző Iskola	College	5	100	5	100
Nádor Konferenciaközpont	Conference organiser	-	100	3	100
Hotel Kastély Kft.	Hotel	-	50	2	50
		<u>178</u>		<u>183</u>	

The above subsidiaries are immaterial to the Group and have not been consolidated.

The long term receivable relates to proceeds from the sale of a hotel in Romania and is due in six instalments with the final instalment due on 1 October 2007. The long-term receivable is presented at discounted value.

As at 31 December 2004 other non-current assets included HUF 1,031 million cash held on deposit for the restricted purpose of financing reconstruction at Piestany. The restriction was cancelled in 2005 as part of the renegotiation of the bank loans.

11. Provisions

	Acquisition of Piestany	Retirement provision	Other	Total
Balance at 31 December 2004	610	54	45	709
Provision made during the year	26	200	-	226
Provision used during the year	-	(95)	-	(95)
Balance at 31 December 2005	<u>636</u>	<u>159</u>	<u>45</u>	<u>840</u>

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11. Provisions (continued)

In 2002 a provision for legal cases of HUF 621 million was provided at the acquisition of Piestany from which HUF 11 million was utilized in 2003 as a result of a lost legal case. In 2005 this provision increased by HUF 26 million due to the change of foreign exchange rates.

At December 31, 2004 retirement provisions comprised a provision of HUF 54 million for obligations related to termination and long service benefits agreed in 2003 for employees in Slovakia. In 2005 this retirement provision increased by HUF 200 million to cover the retirement benefits granted to certain members of management in Hungary. Out of the additional provision HUF 95 million was used in November 2005. At December 31, 2005 the other provision was HUF 45 million in respect of various legal cases.

12. Other payables and accruals

	December 31,	
	2005	2004
Payroll	643	685
Social security	439	408
Taxes payable	467	630
Accrued expenses	624	476
Other	543	336
	<u>2,716</u>	<u>2,535</u>

13. Interest-bearing loans and borrowings

	December 31,	
	2005	2004
<i>Non-current liabilities</i>		
Secured bank loans	17,430	16,753
Finance lease liabilities	179	315
	<u>17,609</u>	<u>17,068</u>

	December 31,	
	2005	2004
<i>Current liabilities</i>		
Current portion of secured bank loans	2,596	3,905
Bank overdrafts	37	172
Total current bank loans	<u>2,633</u>	<u>4,077</u>
Current portion of finance lease liabilities	136	125
	<u>2,769</u>	<u>4,202</u>

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13. Interest-bearing loans and borrowings (continued)

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

	December 31, 2005			December 31, 2004		
	Minimum Lease Payments	Interest	Principal	Minimum Lease Payments	Interest	Principal
Within 1 year	160	24	136	160	35	125
1 to 2 years	191	12	179	160	24	136
2 to 5 years			-	191	12	179
over 5 years			-	-	-	-
Total debt	351	36	315	511	71	440
Amounts due in less than one year	(160)	(24)	(136)	(160)	(35)	(125)
	191	12	179	351	36	315

The Group's bank loans fall due for repayment, as follows:

	December 31,	
	2005	2004
Within 1 year	2,633	4,077
1 to 2 years	3,358	3,209
2 to 5 years	9,209	9,534
over 5 years	4,863	4,010
Total debt	20,063	20,830
Amounts due in less than one year	(2,633)	(4,077)
	17,430	16,753

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13. Interest-bearing loans and borrowings (continued)

<i>Danubius Hotel and Spa Rt.</i>	December 31,	
	2005	2004
1. MKB long term Euro loans at interest rate of (3 months) EURIBOR + 0.75%, secured by mortgages on certain hotels in Hungary.	-	4,621
2. MKB long term Euro loans at interest rate of (3 months) EURIBOR + 0.95%, secured by mortgages on certain hotels in Hungary.	-	2,485
3. OTP long term Euro loan at interest rate of (3 months) EURIBOR + 0.95% secured by mortgages on certain hotels in Hungary.	-	10,094
4. MKB long term Euro loan at interest rate of (3 months) EURIBOR + 0.75%	-	844
5. Bank overdraft	37	114
6. OTP long term Euro loan at interest rate of (3 months) EURIBOR + 0,95% secured by mortgages on Hotel Erzsébet and Hotel Radisson SAS Béke	1,091	-
7. OTP long term Euro loan at interest rate of (3 months) EURIBOR + 0.95% secured by mortgages on Hotel Radisson SAS Béke, Hotel Astoria, Grand Hotel Hungária, Hotel Stadion, Hotel Aqua Hévíz, Thermal Hotel Hévíz	7,953	-
8. MKB long term Euro loan at interest rate of (3 months) EURIBOR + 0.95% secured by mortgages on Hotel Radisson SAS Béke, Hotel Astoria, Grand Hotel Hungária, Hotel Stadion, Hotel Aqua Hévíz, Thermal Hotel Hévíz	7,123	-
<i>Léčebné Lázně a.s.</i>		
1. ČSOB long term reconstruction Euro loan at interest rate of (3 months) EURIBOR + 0.95% secured by mortgages on hotels in the Czech Republic.	912	-
2. Komerční Banka overdraft secured by fixed assets and by blank bill of exchange	-	58
<i>Slovenské Liečebné Kúpele Piestany a.s.</i>		
1. Short term bank loan in SKK and Euro at interest rate of BRIBOR + 0.65%, secured by mortgages on land and buildings in Slovakia.	28	663
2. Long term bank loan in Euro at interest rate of BRIBOR + 1.3%, secured by mortgages on land and buildings.	2,347	1,359
<i>Sovata</i>		
Long term bank loan, at interest rate of (6 months) EURIBOR + 4.5%, secured by a first mortgage on Sovata Hotel and bank accounts of Balneoclimaterica with the Romanian Commercial Bank.	560	577
<i>Other bank loans</i>	12	15
Total debt	20,063	20,830

LIBOR was 2.486%, EURIBOR was 2.488% and BRIBOR was 3.74% at December 31, 2005.

(LIBOR was 2.154%, EURIBOR was 2.174% and BRIBOR was 6.06% at December 31, 2004.)

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14. Minority Interests

	December 31,	
	2005	2004
Lángastronomia Kft.	504	469
Preventív-Security ZRt.	29	-
Léčebné Lázně a.s.	447	417
Slovenské Liečebné Kúpele Piestany a.s.	1,133	1,321
Salina Invest SA and SC Balneoclimaterica SA	698	689
	<u>2,811</u>	<u>2,896</u>
	December 31,	
	2005	2004
Opening balance at 1 January	2,896	2,462
Income attributable to minority shareholders	64	(23)
Translation of foreign subsidiaries	2	-
Share in subsidiary purchased from minority shareholders	(172)	(5)
Minority share in subsidiary acquired	29	462
Dividend paid by subsidiaries to minority shareholders	(8)	-
Closing balance at 31 December	<u>2,811</u>	<u>2,896</u>

In 2005 Preventív-Security ZRt. was consolidated as the Group's interest in that company increased from to 32.75% to 78.6%. (see Note 27).

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

In 2004 a controlling interest was acquired in Lángastronomia Kft (see Note 26).

15. Share Capital

	December 31,	
	2005	2004
Ordinary shares	<u>8,285</u>	<u>8,285</u>

The registered share capital at December 31, 2005 consists of 8,285,437 (2004: 8,285,437) authorised, issued and fully paid ordinary shares, each of par value HUF 1,000.

At December 31, 2005, the Company owned 374,523 of its own shares (Treasury shares) which cost HUF 1,162 million (2004: 374,523 shares, which cost HUF 1,162 million).

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16. 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, 2005 is HUF 20,932 million (2004: HUF 21,904 million).

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

17. Other revenue

	<u>2005</u>	<u>2004</u>
Gain on sale of fixed assets	121	71
Proceeds from insurance claims	40	35
Other revenue	95	200
	<u>256</u>	<u>306</u>

18. Administrative and general expenses

	<u>2005</u>	<u>2004</u>
Payroll and related costs	6,008	5,491
Utility costs	3,390	2,829
Maintenance expenses	1,588	1,603
Management fees to CP Holding (related party)	315	310
Management fees to hotel chains (Hilton, Radisson SAS)	140	123
Marketing expenses	655	672
Bank and insurance fees	459	523
Commissions and discounts provided	81	52
Professional and membership fees	289	292
Telecommunication charges	198	194
Rental expense	405	547
Security costs	260	250
Miscellaneous expenses	1,540	1,280
	<u>15,328</u>	<u>14,166</u>

The group had 5,620 employees as at 31 December 2005 (5,608 as at 31 December 2004).

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19. Other expenses

	<u>2005</u>	<u>2004</u>
Local taxes	756	713
Other taxes	357	386
Doubtful debt and other provisions	<u>208</u>	<u>322</u>
	<u><u>1,321</u></u>	<u><u>1,421</u></u>

20. Income tax

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

	<u>2005</u>	<u>2004</u>
Current tax	431	358
Deferred tax	<u>(183)</u>	<u>(371)</u>
	<u><u>248</u></u>	<u><u>(13)</u></u>

The deferred tax charge / (benefit) comprises:

	<u>2005</u>	<u>2004</u>
Origination and reversal of temporary differences	(169)	(148)
Reduction in tax rate	-	(143)
Benefit of tax losses recognized	<u>(14)</u>	<u>(80)</u>
	<u><u>(183)</u></u>	<u><u>(371)</u></u>

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20. Income tax (continued)

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

	2005	2005	2004	2004
Profit before tax and minority interest		1,129		1,554
Income tax using the Hungarian corporation tax rate	16.0%	181	16.0%	249
Effect of different tax rates in foreign jurisdictions		88		47
Non-deductible expenses		52		35
Tax exempt revenues		(12)		(23)
Tax incentives not recognised in the income statement		(61)		(25)
Effect of tax losses utilised / (deferred)		13		(207)
Effect of tax rate changes (decreases) in foreign jurisdictions		(31)		(143)
Others		18		54
		248		(13)

Deferred tax assets and liabilities

Deferred tax assets and liabilities as at 31 December 2005 and 31 December 2004 are attributable to the following:

	Assets		Liabilities	
	2005	2004	2005	2004
Property, plant and equipment	50	89	1,428	1,408
Repairs and maintenance provision	-	-	255	390
Legal provisions	121	115	-	-
Other items	117	45	-	-
Tax loss carry forwards	424	410	-	-
	712	659	1,683	1,798
Offset of assets and liabilities within individual legal entities	(159)	(257)	(159)	(257)
	553	402	1,524	1,541

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

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

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20. Income tax (continued)

The tax value of the losses carried forward at 31 December 2005 will expire as follows, if not previously utilised: HUF 19 million, 1 January 2008, HUF 214 million, 1 January 2009, HUF 30 million 1 January 2010. HUF 161 million can be carried forward indefinitely.

Current corporate income tax receivables

Corporate income taxes receivables include overpayments of HUF 189 million (2004: HUF 391 million) as a result of advance payments required by the tax authorities for certain group companies in 2005, based on the actual income taxes paid for 2004.

21. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to ordinary shareholders of HUF 817 million in 2005 (2004: HUF 1,590 million) and the weighted average number of ordinary shares outstanding during 2005 of 7,910,914 (2004: 7,910,914).

	December 31,	
	2005	2004
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	817	1,590
Earnings per share (HUF/share)	<u>103</u>	<u>201</u>

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:

	December 31,	
	2005	2004
Less than one year	115	132
More than one year	-	-
	<u>115</u>	<u>132</u>

The Group leases its head office from a related party under an operating lease which has a twelve month notice period.

During the year ended 31 December 2005 HUF 405 million was recognised as an expense in the income statement in respect of operating leases (2004: HUF 453 million).

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22. Operating leases (continued)

Leases as lessor

The group has no significant non-cancellable operating or finance lease rental receivables as at 31 December 2005 and 31 December 2004.

23. Commitments

The Group plans to spend approximately HUF 2.6 billion on hotel refurbishment and construction in 2006.

At the acquisition of Piestany, the Group committed to a SKK 700 million (HUF 4,459 million) reconstruction program on hotel buildings by 2006. The remaining amount of the commitment at 31 December 2005 is SKK 308 million (HUF 2,057 million). In 2004 other non-current assets included restricted cash of HUF 1,031 million in respect of this commitment. In 2005 the restriction was cancelled on the renegotiation of the Company's bank loans.

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

24. Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 December 2005.

25. Pension Plans

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

The Group has a defined contribution pension plan in addition to the State plan, which is available for all Hungarian employees after six months employment. The group pays contributions equal to 5% of the salary of employees who are members of the fund. The contribution expense in 2005 was HUF 239 million (2004: HUF 234 million). The assets of the fund are held in separate trustee administered funds and are not included in these financial statements.

On February 1, 2004 the Group formed a Health Fund, which is available for all Hungarian employees after six months employment. The group pays contributions equal to 1% of the salary plus HUF 4,000 per month for employees who decided to become members of the fund. The total contribution expense in 2004 was HUF 188 million (2004: HUF 166 million).

The assets of the fund are held in separate trustee administered funds and are not included in these financial statements.

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

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26. Acquisition of Lángastronomia Kft.

In July 2004 Danubius acquired a 49% interest in Lángastronomia Kft., a company owning and operating the Gundel Restaurant and its related businesses (the Bagolyvár Restaurant, wineries in Tokaj and Eger). Subsequently in September 2004, Danubius acquired a further 17,67% interest in Lángastronomia Kft.

Lángastronomia Kft has been consolidated since October 1, 2004. In the 3 months to 31 December 2004 Lángastronomia Kft contributed HUF 13 million to the consolidated net profit for the year.

The effect of the acquisition on the consolidated financial statements was:

Balance sheet at acquisition

Property, Plant and Equipment	757
Fair value adjustment to Property, Plant and Equipment	976
Deferred tax liability on fair value adjustment	(156)
Cash and cash equivalents	218
Inventories and Receivables	540
Loans	(688)
Other short term liabilities	(261)
<i>Net identifiable assets and liabilities</i>	<u><u>1,386</u></u>
Danubius Group share of net assets (66.67%)	924
Goodwill on acquisition (see note 8)	<u>413</u>
Net purchase consideration	1,337
Add: Waiver of intercompany loans	<u>688</u>
Total purchase consideration, paid in cash	2,025
Less: Cash acquired	<u>(218)</u>
Net cash outflow	<u><u>1,807</u></u>

Other than the property, plant and equipment as disclosed above, the carrying amounts of the assets and liabilities of Lángastronomia Kft immediately prior to the acquisition corresponded to their fair values.

The goodwill arising on the acquisition of Lángastronomia Kft is attributable mainly to the expected future earnings of the Gundel restaurant business which does not meet the criteria for recognition as an intangible asset at the date of acquisition.

At 31 December 2004 and 2005, Danubius determined that there is no impairment of the investment in Lángastronomia Kft. The recoverable amount of the investment is determined on the basis of value in use which is higher than the net book value.

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27. Acquisition of Preventív-Security ZRt.

At December 31, 2004 the Company owned a 32.75% share in Preventív-Security ZRt. (included in investments in associates). On December 29, 2005 a further 45.85% share was acquired. The total purchase price for the 45.85% share was HUF 108 million of which HUF 94 million was paid in 2005 and HUF 14 million is payable in 2006. Preventív-Security ZRt. has been consolidated as of December 31, 2005 and HUF 18 million income from associate was recorded to the consolidated net profit for the year. If the acquisition had occurred on January 1, 2005 the Group revenues would have been higher by HUF 1,304 million and net profit would have been higher by HUF 26 million.

The effect of the acquisition on the consolidated financial statements was:

Consolidated Balance sheet at acquisition

Property, Plant and Equipment	49
Goodwill	71
Intangible assets	1
Cash and cash equivalents	12
Inventories and Receivables	198
Loans	(46)
Other short term liabilities	(150)
<i>Net identifiable assets and liabilities</i>	<u><u>135</u></u>
Danubius Group share of net assets acquired (45.85%)	62
Goodwill on acquisition	46
Total purchase consideration	<u>108</u>
less: consideration payable in 2006	<u>14</u>
Purchase consideration paid in 2005	94
Less: Cash acquired	<u>(12)</u>
Net cash outflow	<u><u>82</u></u>

The carrying amounts of the assets and liabilities of Preventív-Security ZRt. and its subsidiaries immediately prior to the acquisition corresponded to their fair values.

Goodwill has arisen on the acquisition of Preventív-Security ZRt. because its security services contracts are short term contracts and do not meet the criteria for recognition as an intangible asset at the date of acquisition.

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28. Related Party Transactions

Transactions with related parties are summarised as follows:

	<u>2005</u>	<u>2004</u>
Management fee to CP Holdings	315	310
Interest to CP Holdings	43	-
Loan arrangement fee to CP Holdings	36	-
Management support fee from CP Regents Park Two Ltd.	(54)	-
Rental fee to Interag Rt.	134	149
Services provided by Interag Rt.	5	5
Service provided to Interag Rt.	-	(1)
Service provided by Investor Rt.	13	13
Service provided to Investor Rt.	-	(2)
Service provided by Preventív-Security ZRt.	260	250

Related party receivables and payables are not significant as at December 31, 2005, with the exception of the loan amounting to HUF 1,828 million (GBP 5.1 million less loan arrangement fee of GBP 0.1 million to CP Holding) from CP Holding (see Note 9).

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

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

Transactions with key management personnel

Total remuneration is included in personal expenses:

	<u>2005</u>	<u>2004</u>
Directors	142	181
Executive officers	95	91
Total	<u>237</u>	<u>272</u>

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29. Financial instruments

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

Currency risk

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

The Group had loans of EUR 80 million (2004: EUR 82.3 million), GBP 5.1 million (2004: nil GBP), ROL nil million (2004: ROL 92,641 million), CZK nil million (2004: CZK 7.1), nil USD (2003: nil USD) and SKK 4 million (2004: nil SKK) outstanding at 31 December 2005 (see Note 13).

Management periodically reviews the merits of entering into foreign currency hedging contracts or other derivative products, but has not entered into any such contracts.

Interest rate risk

Interest rates on loans are listed in Note 13.

Management has not entered into any interest rate hedging contract as management believes the contracted interest rates are favourable for the Company.

Credit risk

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

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30. Segment reporting

Geographical segments

December 31, 2005

	Operations in Hungary	Operations in Czech Republic	Operations in Slovakia	Operations in Romania	Elimination	Consolidated
Revenue	29,977	5,570	6,317	978	-	42,842
Inter-segment revenue	407	126	-	-	(533)	-
Total revenue	30,384	5,696	6,317	978	(533)	42,842
Profit/(loss) per segment	474	710	(206)	(108)	(53)	817
Cost to acquire fixed assets	2,732	1,153	1,353	44	-	5,282
Depreciation and amortisation	2,309	739	1,077	199	-	4,324
Current assets	4,208	1,636	647	278	45	6,814
Non-current assets	65,318	11,975	15,642	1,262	(21,847)	72,350
Current liabilities	6,510	980	1,534	231	45	9,300
Non-current liabilities	14,425	4,413	2,347	494	(718)	20,961
Minority interest	533	447	1,133	698	-	2,811
Net assets	48,058	7,771	11,275	117	(21,129)	46,092

December 31, 2004

	Operations in Hungary	Operations in Czech Republic	Operations in Slovakia	Operations in Romania	Elimination	Consolidated
Revenue	27,013	5,131	6,119	840	-	39,103
Inter-segment revenue	311	126	-	-	(437)	-
Total revenue	27,324	5,257	6,119	840	(437)	39,103
Profit/(loss) per segment	1,250	386	(18)	(24)	(4)	1,590
Cost to acquire fixed assets	3,097	1,102	1,779	70	-	6,048
Depreciation and amortisation	2,614	535	836	194	-	4,179
Current assets	4,466	1,421	1,016	215	(357)	6,761
Non-current assets	60,711	10,812	14,892	1,393	(22,377)	65,431
Current liabilities	6,870	1,310	2,121	223	(357)	10,167
Non-current liabilities	13,553	3,889	1,359	526	(718)	18,609
Minority interest	469	417	1,321	689	-	2,896
Net assets	44,285	6,617	11,107	170	(21,659)	40,520

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

30. Segment reporting (continued)

Business segments

Management considers hotel and hospitality operations as the only business segment, therefore all amounts included in the financial statements are part of that segment. (The security business became a subsidiary only on 31 December 2005 and its assets are not material in the context of the Group).

31. 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 utilization of tax loss carry forwards. The utilization of certain amounts of such tax loss carry forwards is subject to statutory limitations and is dependent on the amount of future taxable income.

The Group recognizes deferred tax assets relating to tax loss carry forwards based on estimated future taxable income. If the future taxable income is significantly less than the amount estimated, the difference may impact the amount of the deferred tax asset.

Impairment of property, plant and equipment and intangible assets

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

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

Depreciation

Property, plant and equipment and intangible assets are recorded at cost and are depreciated or amortized on a straight-line basis over their estimated useful lives. The determination of the useful lives of assets is based on historical experience with similar assets. The appropriateness of the estimated useful lives is reviewed annually. Due to the significant weight 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.

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31. Key sources of estimation uncertainty (continued)

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.