

CONSOLIDATED BALANCE SHEETS

According to International Accounting Standards

All amounts in million HUF

| | Notes | At December 31, | |
|---------------------------------------------------|-----------|-----------------|---------------|
| | | 2001 | 2000 |
| Assets | | | |
| Cash and cash equivalents | 3 | 3,931 | 1,363 |
| Securities | 4 | – | 1,262 |
| Accounts receivable | 5 | 1,340 | 1,412 |
| Other receivables and prepayments | 6 | 1,217 | 1,064 |
| Inventory | 7 | 321 | 312 |
| Total current assets | | 6,809 | 5,413 |
| Fixed assets, net | 8 | 47,862 | 43,148 |
| Intangible assets, net | 9 | 1,561 | 1,717 |
| Other non-current assets | 10 | 369 | 270 |
| Deferred tax assets | 22 | 104 | 150 |
| Total non-current assets | | 49,896 | 45,285 |
| Total assets | | 56,705 | 50,698 |
| Liabilities and shareholders' equity | | | |
| Trade accounts payable | | 1,307 | 1,214 |
| Advance payments from guests | | 254 | 159 |
| Provisions | 11 | 419 | 74 |
| Other payables and accruals | 12 | 1,894 | 2,178 |
| Current portion of long-term debt | 14 | 2,408 | 2,763 |
| Total current liabilities | | 6,282 | 6,388 |
| Long-term debt | 14 | 11,328 | 8,007 |
| Deferred tax liabilities | 22 | 1,206 | 1,006 |
| Negative goodwill | 13 | 2,761 | 2,938 |
| Total non-current liabilities | | 15,295 | 11,951 |
| Minority interest | 15 | 399 | 641 |
| Shareholders' equity | | | |
| Share capital | 16 | 8,285 | 8,285 |
| Capital reserve | | 7,792 | 8,224 |
| Treasury shares | 16 | (1,536) | (1,985) |
| Retained earnings | | 19,730 | 16,892 |
| Translation reserve | | 458 | 302 |
| Total shareholders' equity | | 34,729 | 31,718 |
| Total liabilities and shareholders' equity | | 56,705 | 50,698 |

CONSOLIDATED STATEMENTS OF INCOME

According to International Accounting Standards

All amounts in million HUF

| | Notes | Year ended December 31, | |
|--------------------------------------------------------------|-------|-------------------------|---------------|
| | | 2001 | 2000 |
| Revenue | | | |
| Rooms | | 16,652 | 16,092 |
| Food and beverage | | 9,437 | 8,713 |
| Spa | | 3,375 | 2,646 |
| Interest income | | 187 | 216 |
| Other revenue | 19 | 2,547 | 2,602 |
| Total revenue | | 32,198 | 30,269 |
| Costs and expenses | | | |
| Rooms | | 2,849 | 2,388 |
| Food and beverage | | 6,221 | 5,678 |
| Spa | | 911 | 626 |
| Administrative and general | 20 | 12,230 | 10,779 |
| Interest expense | | 715 | 545 |
| Foreign currency loss/(gain) | | (124) | 656 |
| Depreciation | | 2,916 | 2,912 |
| Other expenses | 21 | 1,742 | 1,728 |
| Total costs and expenses before restructuring charges | | 27,460 | 25,312 |
| Restructuring charges | 11 | (361) | – |
| Income before minority interest and income tax | | 4,377 | 4,957 |
| Income tax expense | 22 | (1,104) | (915) |
| Income after tax | | 3,273 | 4,042 |
| Minority interest | 15 | (46) | (161) |
| | | | – |
| Net profit for the year | | 3,227 | 3,881 |
| Earnings per share (expressed in HUF per share): | 23 | 408 | 475 |

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

According to International Accounting Standards

All amounts in million HUF

| | Note | Share Capital | Capital Reserve | Treasury Shares | Retained Earnings | Translation Reserve | Total |
|-----------------------------------------------|------|------------------|--------------------|--------------------|----------------------|------------------------|--------|
| January 1, 2000 | | 9,076 | 7,280 | (1,703) | 13,400 | – | 28,053 |
| Employee shares conversion to ordinary shares | 16 | (791) | 791 | | | | – |
| Stock exchange costs of employee shares issue | | | (6) | | | | (6) |
| Tax effect of employee shares conversion | 17 | | (136) | | | | (136) |
| Net profit for the year | | | | | 3,881 | | 3,881 |
| Dividend proposed | | | | | (389) | | (389) |
| Gain on treasury shares transactions | 16 | | 282 | (282) | | | – |
| 1999 Dividend on treasury shares | | | 13 | | | | 13 |
| Translation of Czech subsidiaries | | | | | | 302 | 302 |
| December 31, 2000 | | 8,285 | 8,224 | (1,985) | 16,892 | 302 | 31,718 |
| Net profit for the year | | | | | 3,227 | | 3,227 |
| Dividend proposed | | | | | (389) | | (389) |
| Loss on treasury shares transactions | 16 | | (449) | 449 | | | – |
| 2000 Dividend on treasury shares | | | 17 | | | | 17 |
| Translation of Czech subsidiaries | | | | | | 156 | 156 |
| December 31, 2001 | | 8,285 | 7,792 | (1,536) | 19,730 | 458 | 34,729 |

CONSOLIDATED STATEMENTS OF CASH FLOWS

According to International Accounting Standards

All amounts in million HUF

| | Note | Year ended December 31, | |
|--------------------------------------------------|------|-------------------------|-----------------|
| | | 2001 | 2000 |
| Cash flows from operating activities: | | | |
| Income before minority interest and income taxes | | 4,377 | 4,957 |
| Adjustments for: | | | |
| Interest income | | (187) | (216) |
| Interest expense | | 715 | 545 |
| Depreciation and amortisation | | 2,739 | 2,734 |
| Unrealised foreign exchange (gain)/loss on loans | | (654) | 192 |
| Gain on sale of fixed assets | | (9) | (9) |
| Changes in assets and liabilities: | | | |
| Accounts receivable and other receivables | | (86) | 11 |
| Inventory | | (9) | (3) |
| Accounts payable and other current liabilities | | 249 | 383 |
| Cash generated from operations | | 7,135 | 8,594 |
| Interest paid | | (725) | (490) |
| Corporate income tax paid | | (851) | (1,170) |
| Net cash flow provided by operations | | 5,559 | 6,934 |
| Cash flows from investing activities: | | | |
| Purchase of fixed assets | | (7,334) | (5,423) |
| Cash acquired on purchase of subsidiaries | | – | 99 |
| Cash paid on acquisition of subsidiaries | 29 | (288) | (5,929) |
| Adjustment of negative goodwill (Gama 45 s.r.o.) | | – | (86) |
| Interest received | | 195 | 268 |
| Cash outflow from other non-current assets | | (99) | (149) |
| Net decrease in securities | | 1,262 | 942 |
| Proceeds on sale of fixed assets | | 25 | 32 |
| Net cash flow used in investing | | (6,239) | (10,246) |
| Cash flows from financing activities: | | | |
| Net increase of long-term debt | | 3,620 | 4,220 |
| Net cash flow effect of employee shares issue | | – | (142) |
| Sale of treasury shares | | 1,536 | 1,985 |
| Purchase of treasury shares | | (1,536) | (1,985) |
| Dividend paid | | (389) | (336) |
| Dividend on treasury shares | | 17 | 13 |
| Net cash flow provided by financing | | 3,248 | 3,755 |
| Increase in cash and cash equivalents | | 2,568 | 443 |
| Cash and cash equivalents at beginning of year | | 1,363 | 920 |
| Cash and cash equivalents at end of year | | 3,931 | 1,363 |

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 incorporated under the laws of the Republic of Hungary. The Company and its subsidiaries (the 'Group') provide hospitality services in Hungary and the Czech Republic, with an emphasis on 4- and 5-star spa and city hotels. The Company's shares are listed on the Budapest Stock Exchange. Currently 53.4% of the Company's shares are owned by CP Holdings Limited, a UK private company, and companies controlled by CP Holdings Limited.

Danubius operated as a self-administered state owned enterprise (Danubius Hotel and Spa Company) until 31st July 1991. Effective 31st July 1991, Danubius was transformed into a company limited by shares and ownership passed to the State Property Agency („ÁPV Rt."). In November 1992, a portion of Danubius' shares was publicly sold and such shares were listed for trading on the Budapest Stock Exchange.

In January 1997 Danubius acquired from ÁPV Rt. 85% of the shares of Hungária Szálloda Rt. ('HungarHotels'), a company incorporated under the laws of Hungary, which also operated in the hotel industry. Danubius acquired a further 14.78% of HungarHotels' shares from an employee consortium in September 1997.

The Group was reorganised on 1st January 1999. Danubius became a holding company with two principal subsidiaries, a hotel operator and a property management company.

The Company acquired a 100% shareholding in Gama 45 s.r.o. (which owns a hotel in Marienbad, Czech Republic) from Československá obchodní banka in December 1999.

In April 2000 Danubius acquired a 64.98% stake in Léčebné Lázně SA, a Czech hotel company having operations in Marienbad. Subsequently Danubius has acquired an additional 30.38% stake (in several instalments in 2000). As at 31st December 2001 Danubius owned a 95.36% interest in Léčebné Lázně SA (see Note 28).

In September 2001 a consortium in which Danubius holds a 20% interest, won a privatisation tender to acquire a 82.17% share in a hotel and real estate complex in Sovata, Romania (see Note 10).

2. Significant accounting policies

Basis of preparation

The Company and its subsidiaries maintain their official accounting records and prepare financial statements for domestic purposes in accordance with national accounting regulations in Hungary and the Czech Republic as appropriate. The accompanying consolidated financial statements have been prepared in accordance with International Accounting Standards ('IAS') adopted by the International Accounting Standards Board (IASB), and interpretations issued by the Standing Interpretation Committee of the IASB and, as a consequence, reflect adjustments not recorded in the Hungarian and Czech statutory records of the respective group companies.

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. In connection with the transformation of the state enterprise into a limited liability company at 31st July 1991 the Company revalued fixed assets and other non-current assets to their estimated market values at that date, based on independent valuations. These amounts became the accounting and tax bases.

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

Use of estimations and assumptions

Preparation of financial statements in accordance with IAS requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities, and of income and expenses in the reporting period. Actual results may differ from these estimates.

Basis of consolidation

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

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.

The Company's principal subsidiary companies at 31st December 2001 are as follows:

| Name | Principal Activity | Country of Incorporation | Shares held at 31st December 2001 | Shares held at 31st December 2000 |
|----------------------------------------------------|---------------------|--------------------------|-----------------------------------|-----------------------------------|
| Hungária Szálloda-Ingatlankezelő Rt. | Property management | Hungary | 99.9% | 99.9% |
| Danubius Szállodaüzemeltető és Szolgáltató Rt. | Hotel operator | Hungary | 100% | 100% |
| Hullám Közös Vállalat | Hotel operator | Hungary | 100% | 100% |
| Danubius Béta Hotels Kft. | Hotel operator | Hungary | 100% | 100% |
| HungarHotels Tours Kft. | Travel agency | Hungary | 100% | 100% |
| Hotelreservierung und Reiseservice für Ungarn GmbH | Travel agency | Germany | 100% | 100% |
| Léčebné Lázně SA | Hotel operator | Czech Republic | 95.36% | 90.06% |
| Gama 45 s.r.o. | Hotel operator | Czech Republic | 100% | 100% |
| Preventív Rt. | Security services | Hungary | 51% | 51% |

Foreign currency transactions

Transactions in foreign currency are translated into the local currency of operation at the rate of exchange prevailing at the date of the transaction. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into the local currency of operation at the year end rates of exchange. The resulting foreign currency exchange gains and losses are recognised in the statement of income.

Financial statements of foreign operations

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to HUF at foreign exchange rates ruling at the balance sheet date. 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.

Fixed assets

Depreciation

Fixed assets are stated at 1991 valuation or at cost, if acquired subsequently, less accumulated depreciation. Depreciation is provided using the straight-line method. The depreciation rates used by the Group are 3.3% to 5% for buildings and leasehold improvements and 14.5% to 33% for machinery and equipment (see "Change in accounting estimate" section of this Note).

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, including property rights on Margaret Island which are being amortised over 100 years.

Refurbishment

Significant refurbishment costs are capitalised and depreciated in accordance with the policy for buildings.

Investments

Investments in which the Company has greater than 20% ownership but less than 50% (associated companies) are accounted for under the equity method. Other investments are carried at cost, less provision for any permanent diminution in value.

Goodwill

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 is stated at cost less accumulated amortisation. Goodwill is amortised over 20 years. Negative goodwill arising on acquisition of subsidiaries is shown as deferred income and amortised over 20 years on a straight-line basis.

Inventory

Inventory is stated at the lower of cost and net realisable value. The cost of inventory is determined on the average cost basis.

Cash and cash equivalents

Cash equivalents are liquid investments with original maturities of three months or less.

Impairment

The carrying amounts of the Group's 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.

Provisions

A provision is recognised in the balance sheet when the Company 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.

Restructuring provisions

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Restructuring provisions include only the additional costs associated with implementing the restructuring plan, not ongoing operating costs.

Revenue recognition

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

Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax. 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. Currently enacted tax rates are used to determine deferred income tax.

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.

Change in accounting estimate

In 2001 the Company changed its accounting estimate in respect of depreciation rates for its Hungarian hotel buildings from an average rate of 6% to 3.5%–5% based on the technical condition of each hotel property. The change in the accounting estimate resulted in decrease of approximately HUF 392 million depreciation charge for the year.

Segment reporting

Segment information is presented in respect of the Company's business segments. The primary format, business segments, is based on the Company's management and internal reporting structure and consists of the following segments: hotel operations, property management and other services. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Group operations are also presented in respect of geographical areas.

Reclassifications

Certain reclassifications have been made of comparative 2000 amounts to conform to the 2001 presentation. The principal change is that total 2000 revenues and costs are each HUF 1109 million less in these financial statements than as previously reported as discounts given have been netted of against revenues and costs.

3. Cash and cash equivalents

| | December 31, | |
|--------------------------|--------------|-------|
| | 2001 | 2000 |
| Cash in hand and at bank | 3,359 | 1,175 |
| Marketable securities | 572 | 188 |
| | 3,931 | 1,363 |

4. Securities

In 2000 these comprised Hungarian state treasury bonds with maturity between three months and one year (2001: nil).

5. Accounts receivable

| | December 31, | |
|------------------------------------|--------------|-------|
| | 2001 | 2000 |
| Trade receivables | 1,573 | 1,556 |
| Provision for doubtful receivables | (233) | (144) |
| | 1,340 | 1,412 |

6. Other receivables and prepayments

| | December 31, | |
|------------------------------------------------|--------------|-------|
| | 2001 | 2000 |
| Receivables from non-consolidated subsidiaries | 276 | 42 |
| Prepayments and accrued income | 546 | 502 |
| Taxes receivable | 176 | 233 |
| Other receivables | 439 | 399 |
| Provision for other receivables | (220) | (112) |
| | 1,217 | 1,064 |

Receivables from non-consolidated subsidiaries include a short-term loan of HUF 200 million provided to Marcali Szálloda Kft. (see Note 10).

7. Inventory

| | December 31, | |
|--------------------|--------------|------|
| | 2001 | 2000 |
| Food and beverages | 209 | 214 |
| Materials | 112 | 98 |
| | 321 | 312 |

8. Fixed assets, net

| | Land | Buildings and improvements | Furniture, fittings and equipment | Capital projects in progress | Total |
|---------------------------------------|-------|----------------------------|-----------------------------------|------------------------------|--------|
| Cost/Valuation: | | | | | |
| January 1, 2001 | 5,886 | 41,678 | 8,183 | 1,321 | 57,068 |
| Effect of movements in exchange rates | 11 | 188 | 27 | 4 | 230 |
| Additions | 10 | 6,178 | 1,863 | (775) | 7,276 |
| Disposals | – | (45) | (87) | – | (132) |
| December 31, 2001 | 5,907 | 47,999 | 9,986 | 550 | 64,442 |
| Depreciation: | | | | | |
| January 1, 2001 | – | 8,411 | 5,509 | – | 13,920 |
| Effect of movements in exchange rates | – | 52 | 22 | – | 74 |
| Depreciation charge for year | – | 1,652 | 1,050 | – | 2,702 |
| Disposals | – | (42) | (74) | – | (116) |
| December 31, 2001 | – | 10,073 | 6,507 | – | 16,580 |
| Net book value: | | | | | |
| December 31, 2000 | 5,886 | 33,267 | 2,674 | 1,321 | 43,148 |
| December 31, 2001 | 5,907 | 37,926 | 3,479 | 550 | 47,862 |

HUF 4000 million of the additions in 2001 relates to the renovation of the Thermal Hotel Margaret Island, Budapest which was completed during the year.

Information about assets pledged as security for mortgages is given in note 14.

9. Intangible assets, net

| | Goodwill | Property usage rights | Software and other intangibles | Total |
|------------------------------|----------|-----------------------|--------------------------------|-------|
| Cost | | | | |
| January 1, 2001 | 733 | 538 | 816 | 2,087 |
| Additions | – | – | 58 | 58 |
| December 31, 2001 | 733 | 538 | 874 | 2,145 |
| Depreciation: | | | | |
| January 1, 2001 | 22 | 48 | 300 | 370 |
| Amortisation charge for year | 36 | 6 | 172 | 214 |
| December 31, 2001 | 58 | 54 | 472 | 584 |
| Net book value: | | | | |
| December 31, 2000 | 711 | 490 | 516 | 1,717 |
| December 31, 2001 | 675 | 484 | 402 | 1,561 |

The goodwill of HUF 711 million represents the excess of the acquisition cost of Léčebné Lázně SA over the fair value of its net identifiable assets acquired; net of accumulated amortisation (see Note 28).

At 31st December 2001 intangible assets include HUF 484 million, net of amortisation, (2000: HUF 490 million) relating to land usage rights of the two hotels on Margaret Island held under licenses given by the Municipality of Budapest.

10. Other non-current assets

| | December 31, | |
|---------------------------------------------|--------------|------|
| | 2001 | 2000 |
| Investment in non-consolidated subsidiaries | 175 | 166 |
| Investment in Salina Rt. | 130 | – |
| Loans given to Danube Travel Ltd. | 8 | 51 |
| Loans given to employees | 43 | 45 |
| Other investments, unquoted | 13 | 8 |
| | 369 | 270 |

The book values of the non-consolidated subsidiaries are:

| Name | Principal activity | 2001 | | 2000 | |
|--------------------------------|--------------------|------|--------|------|--------|
| | | NBV | Share% | NBV | Share% |
| Danube Travel Ltd. | Travel agency | – | | 61 | 100 |
| Marcali Szálloda Kft. | Hotel | 121 | 50 | 51 | 50 |
| Kastélykert Kft. | Hotel | 43 | 100 | 43 | 100 |
| Hungaria Hotel und Reisen GmbH | Travel agency | 9 | 100 | 9 | 100 |
| Hotel Kastély Kft. | Hotel | 2 | 50 | 2 | 50 |
| | | 175 | | 166 | |

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

Danube Travel Ltd.

Danube Travel Ltd. is a travel agency company incorporated in England. The investment in Danube Travel Ltd. was written down to nil in 2001.

Marcali Szálloda Kft.

In 1999 the Company contributed an amount of HUF 51 million in cash to Marcali Szálloda Kft. ('Marcali') and the local municipality of Marcali contributed land valued at HUF 49 million. Marcali plans to construct a spa hotel. In 2001 the shareholders increased the share capital of Marcali.

The Company also had a short-term loan outstanding to Marcali of HUF 200 million as of 31st December 2001 (see Note 6).

Kastélykert Kft.

Kastélykert Kft. owns a residence in Bük, which is subject to administrative restrictions as it is a historical building. Kastélykert Kft. currently is a non-operational company.

Salina Rt. (Sovata)

Salina Rt. is a company registered in Rumania in which Danubius holds a 20% interest. Salina Rt. was established by a consortium of Hungarian investors to bid in a privatisation tender to acquire a 82.17% share in a hotel and real estate complex in Sovata, Rumania. The property can accommodate approximately one thousand guests in its hotel facilities, and includes other real estates such as a spa centre and 20 years rights to use the adjoining Salt Lake Bear.

In September 2001 Salina Rt. won the tender and is committed to invest USD 5.1 million in Sovata within 2 years. It is planned that Danubius will operate the hotel properties in Sovata. In 2001 no significant transactions took place regarding this investment other than the acquisition and it is recorded at cost.

11. Provisions

| | Restructuring | Other | Total |
|--------------------------------|---------------|-------|-------|
| Balance at 1st January 2001 | – | 74 | 74 |
| Provision made during the year | 311 | 39 | 350 |
| Provision used during the year | – | (5) | (5) |
| Balance at 31st December 2001 | 311 | 108 | 419 |

In November 2001 the Board of Directors approved a restructuring of the Hungarian operations entailing a reduction in management and other positions. The total estimated restructuring charges were HUF 361 million (severance costs and related contributions) and a provision of HUF 311 million was established for unpaid severances at 31st December 2001. The

estimated restructuring costs are based on a detailed plan agreed between management and employees' representatives. The restructuring is expected to be completed by 30th June 2002.

12. Other payable and accruals

| | December 31, | |
|-------------------|--------------|-------|
| | 2001 | 2000 |
| Payroll | 372 | 374 |
| Social security | 232 | 203 |
| Taxes payable | 385 | 472 |
| Dividends payable | 389 | 389 |
| Accrued expenses | 463 | 506 |
| Other | 53 | 234 |
| | 1,894 | 2,178 |

13. Negative Goodwill

Negative goodwill relates to the following acquisitions:

| | December 31, | |
|--------------------------|--------------|-------|
| | 2001 | 2000 |
| HungarHotels | 2,993 | 2,993 |
| Hotel Hélia | 154 | 154 |
| Gama 45 s.r.o. | 407 | 407 |
| Accumulated amortisation | (793) | (616) |
| | 2,761 | 2,938 |

14. Long-term debt

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

| | December 31, | |
|-----------------------------------|--------------|---------|
| | 2001 | 2000 |
| Within 1 year | 2,408 | 2,763 |
| 1 to 2 years | 1,855 | 2,273 |
| 2 to 5 years | 8,111 | 3,981 |
| Over 5 years | 1,362 | 1,753 |
| Total debt | 13,736 | 10,770 |
| Amounts due in less than one year | (2,408) | (2,763) |
| | 11,328 | 8,007 |

Outstanding loans include the following:

| | December 31, | |
|---------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| | 2001 | 2000 |
| Danubius Hotel and Spa Rt. | | |
| 1. HVB short-term DEM loan at interest rate of LIBOR + 0.75-0.95%, secured by mortgages on the Bük and Sárvár hotels. | – | 2,042 |
| 2. MKB long-term Euro loan at interest rate of LIBOR + 0.75%, secured by mortgages on the Budapest Hilton. | 1,260 | 1,355 |
| 3. MKB long-term USD loan at interest rate of LIBOR + 0.75%, secured by mortgages on the Budapest Hilton. | 1,840 | 1,887 |
| 4. MKB long-term Euro loan at interest rate of EURIBOR + 0.75%, secured by mortgages on the Budapest Hilton. | 1,260 | 1,355 |
| 5. K&H long-term Euro loan, interest rate of EURIBOR + 0.75%, secured by mortgages on the Hotel Radisson SAS Béke and Hotel Flamenco. | 2,094 | – |
| 6. MKB long-term Euro loan at interest rate of EURIBOR + 0.75%, secured by mortgages on the Budapest Hilton and Budapest hotels. | 1,889 | – |
| 7. MKB long-term Euro loan at interest rate of EURIBOR + 0.75%, secured by mortgages on the Budapest Hilton and Grand Hotel Hungária. | 1,232 | – |
| Danubius Szállodaüzemeltető és Szolgáltató Rt. | | |
| K&H Bank long-term Euro loan, interest rate of LIBOR + 1.25% secured by mortgage on the Hotel Hélia. | 630 | 1,017 |
| Hungária Szálloda-Ingatlankezelő Rt. | | |
| K&H long-term Euro loan, interest rate of EURIBOR + 0.75%, secured by mortgages on the Hotel Radisson SAS Béke and Hotel Flamenco. | 2,833 | 1,997 |
| Léčebné Lázně SA | | |
| Komerční banka long-term loan in Euro at average interest rate of 6%, secured by mortgages on buildings. | 491 | 830 |
| Other bank loans | 207 | 287 |
| Total debt | 13,736 | 10,770 |

LIBOR was 1.91% and EURIBOR was 3.32 % at 31st December 2001.

15. Minority Interest

| | December 31, | |
|--------------------------------------|--------------|------|
| | 2001 | 2000 |
| Hungária Szálloda-Ingatlankezelő Rt. | 6 | 6 |
| Preventív Rt. | 32 | 20 |
| Léčebné Lázně SA | 361 | 615 |
| | 399 | 641 |

| | December 31, | |
|-----------------------------------------------------------------------|--------------|------|
| | 2001 | 2000 |
| Opening balance | 641 | 6 |
| Income attributable to minority shareholders | 46 | 161 |
| Share in subsidiary acquired from minority shareholders (see Note 28) | (288) | – |
| Minority share in subsidiaries acquired | – | 474 |
| | 399 | 641 |

16. Share Capital

| | December 31, | |
|-----------------|--------------|-------|
| | 2001 | 2000 |
| Ordinary shares | 8,285 | 8,285 |

Registered share capital at 31st December 2001 consists of 8,285,437 (2000: 8,285,437) authorised and issued ordinary shares, each of par value HUF 1000.

In accordance with requirements under the terms of the Company's privatisation in 1991 and a shareholders' resolution passed at the Annual General Meeting in April 1998, a refund received from ÁPV Rt. was applied by the Company to subscribe for an issue of special Employee shares. The Employee share issue increased the Company's share capital by HUF 1076 million in 1999, which was funded as to 90% from the capital reserve of the Company and 10% by employees' cash contributions. In April 2000, the Annual General Meeting of the Company approved the conversion of the Employee shares into Ordinary shares based on the weighted average price of the Ordinary shares on the Budapest Stock Exchange during the month preceding this decision. At the conversion 3.77 Employee shares were equivalent to one Ordinary share. The share capital was decreased by HUF 791 million against the capital reserve.

At 31st December 2001, Danubius owned 374,523 of its own shares (Treasury shares) which cost HUF 1536 million (2000: 374,523 shares, which cost HUF 1985 million). These shares are shown as a component of shareholders' equity. The Hungarian Companies Act requires Treasury shares to be sold within one year from the date of purchase. The loss of HUF 449 million on treasury shares sold and subsequently repurchased in 2001 was recorded as a decrease in capital reserve (2000: gain of HUF 282 million).

17. Capital Contribution

In accordance with the Hungarian Privatisation Act of 1989 which allowed 20% of the proceeds of certain shares sold by ÁPV Rt. to be paid to the Company as a capital contribution the Company received HUF 1076 million in 1997. The Company was required to issue shares to the employees from this amount (see Note 16). In addition to the capital contribution, the Company received HUF 831 million (HUF 681 million net of tax) late payment interest determined by reference to the date of the shares sold by ÁPV Rt. The Company received legal advice that the late payment interest received during 1997 must be included in the employee share issue. Consequently, in 1998 the HUF 681 million after tax late payment interest was transferred to the capital reserve.

In 2000 the market value of ordinary shares provided to employees at employee share conversion was approximately HUF 1.6 billion excluding the tax liability on employee share conversion (total of HUF 968 million employee share increase from capital reserve plus late payment interest of HUF 681 million net of tax). The tax liability on employee share conversion of HUF 136 million was charged to the capital reserve.

18. Retained Earnings

Dividends are available for payment from the Company's retained earnings calculated according to Hungarian Accounting Law. The amount available for distribution as dividends at 31st December 2001 is HUF 19,955 million.

If dividends are paid to non-resident shareholders, a withholding tax of up to 20% must be paid. The rate payable is dependent on the country of residence of the shareholder. The withholding tax is also payable by resident citizen shareholders (resident legal entities are exempt).

19. Other revenue

This comprises:

| | 2001 | 2000 |
|----------------------------------|-------|-------|
| Rental income | 469 | 481 |
| Telecommunications | 251 | 319 |
| Travel agency revenue | 361 | 297 |
| Income from other hotel services | 390 | 214 |
| Security services | 217 | 38 |
| Profit on sale of treasury bonds | 2 | 454 |
| Negative goodwill amortisation | 178 | 178 |
| Gain on sale of fixed assets | 10 | 9 |
| Other financial income | 189 | 353 |
| Other revenue | 480 | 259 |
| | 2,547 | 2,602 |

20. Administrative and general expenses

| | 2001 | 2000 |
|--------------------------------------------------------|--------|--------|
| Payroll and related costs | 5,214 | 4,788 |
| Utility costs | 1,441 | 1,289 |
| Maintenance expenses | 1,168 | 831 |
| Management fees to CP Holdings Limited (related party) | 303 | 294 |
| Management fees to hotel chains (Hilton, Radisson SAS) | 320 | 336 |
| Marketing expenses | 436 | 450 |
| Bank and insurance fees | 333 | 327 |
| Commissions | 115 | 105 |
| Professional and membership fees | 501 | 336 |
| Telecommunication charges | 366 | 405 |
| Rental expense | 365 | 276 |
| Security costs | 246 | 197 |
| Miscellaneous expenses | 1,422 | 1,145 |
| | 12,230 | 10,779 |

21. Other expenses

| | 2001 | 2000 |
|--------------------------------------------------------------|-------|-------|
| Local taxes | 564 | 599 |
| Tourism contribution tax | 462 | 486 |
| Property taxes | 186 | 175 |
| Doubtful debt and other provisions (excluding restructuring) | 231 | 64 |
| Other | 299 | 404 |
| | 1,742 | 1,728 |

22. Income Taxes

| | 2001 | 2000 |
|-------------------------------|-------|------|
| Current tax expense | 858 | 959 |
| Deferred tax expense/(income) | 246 | (44) |
| Income tax expense | 1,104 | 915 |

A reconciliation of the difference between the Company's income tax and the tax at the statutory tax rate, is shown in the following table:

| | 2001 | 2000 |
|--------------------------------------------------|-------|-------|
| Income before tax and minority interest | 4,377 | 4,957 |
| Statutory tax rate (%) | 18 | 18 |
| Theoretical tax | 788 | 892 |
| Changes in tax burden as a result of: | | |
| Differences in tax rates in Czech | (37) | (18) |
| Net effect of deferred tax of Czech subsidiaries | 127 | (26) |
| Other differences | 226 | 67 |
| Income tax expense | 1,104 | 915 |

Hungarian operations

The corporate income tax rate in Hungary for 2001 was 18% (2000: 18%). The current tax expense was HUF 635 million (2000: HUF 767 million). In 2000 the tax effect of temporary differences were not significant, therefore no deferred tax was accounted for. In 2001 a deferred tax liability of HUF 118 million was provided for a temporary difference arising on the year end valuation of the foreign currency loans. In the statutory accounts the foreign currency gain is accrued in accordance with Hungarian Accounting Law, whereas the gain is recorded in the income statement for IAS reporting.

Czech operations

The corporate income tax rate in the Czech Republic for 2001 was 31% (2000: 31%). The current tax expense of Léčebné Lázně SA was HUF 223 million (2000: HUF 192 million). No current tax expense was charged by Gama 45 s.r.o. as it utilised tax loss carry-forwards. The deferred tax expense of HUF 128 million is attributable to the movements in temporary differences during the year.

Deferred tax assets and liabilities

Deferred tax assets and liabilities as at 31st December 2001 and 31st December 2000 are attributable to the following:

| | Assets | | Liabilities | |
|----------------------------------------------------|--------|------|-------------|-------|
| | 2001 | 2000 | 2001 | 2000 |
| Czech subsidiaries | | | | |
| Property, plant and equipment | 27 | 27 | 13 | 24 |
| Provision for fixed assets | 25 | – | – | – |
| Fair value adjustment on lands and hotel buildings | – | – | 776 | 800 |
| Provisions for receivables | 12 | 10 | – | – |
| Repairs and maintenance provision | – | – | 296 | 173 |
| Employee benefits | 9 | 15 | – | – |
| Tax value of loss carry-forwards | 25 | 85 | – | – |
| Other items | 6 | 13 | 3 | 9 |
| | 104 | 150 | 1,088 | 1,006 |
| The Company | | | | |
| Exchange gain on loans | – | – | 118 | – |
| | 104 | 150 | 1,206 | 1,006 |

In 2000 a fair value adjustment of HUF 2.6 billion was made to the fixed assets (primarily land and hotel buildings) of LÉČEBNÉ LÁZNĚ SA, reflecting the difference between the historical cost of these assets and their value at acquisition by the Group. The deferred tax liability related to this fair value adjustment (31% on the revaluation surplus) was also provided for (see Note 28).

LÉČEBNÉ LÁZNĚ SA recorded a provision for repairs and maintenance of CZK 124 million (HUF 955 million) in its Czech statutory accounts as at 31st December 2001 related to the future repair expenses of its premises, in accordance with Czech accounting and tax legislation. This provision was reversed in consolidation to comply with IAS and the respective deferred tax liability of HUF 296 million was set up.

23. Earnings per share

The calculation of basic earnings per share is based on the net income attributable to ordinary shareholders of HUF 3227 million (2000: HUF 3881 million) and the weighted average number of ordinary shares outstanding during the period of 7,910,914 (2000: 8,174,457).

| | December 31, | |
|--------------------------------------------------------|--------------|-----------|
| | 2001 | 2000 |
| Issued ordinary shares at the beginning of the year | 8,285,437 | 8,000,000 |
| Own shares held at the beginning of the year | (374,523) | (374,523) |
| Qualifying ordinary shares at beginning of the year | 7,910,914 | 7,625,477 |
| Effect of employee shares issued | – | 358,688 |
| Effect of employee shares converted to ordinary shares | – | 190,292 |
| Weighted average number of ordinary shares | 7,910,914 | 8,174,457 |
| Net profit for the year in million HUF | 3,227 | 3,881 |
| Earnings per share (HUF/share) | 408 | 475 |

24. Commitments

The Company plans to spend approximately HUF 2.4 billion on hotel refurbishment and construction for the Hungarian operations and LÉČEBNÉ LÁZNĚ SA plans to spend approximately HUF 1.2 billion (CZK 154 million) for the Czech operations.

25. Contingent Liability

In 1997, the Company was reviewed by the tax and the social security authorities. The authorities claimed HUF 76 million additional tax and the social security was due, including penalties (and including HUF 17 million VAT which may be recovered). The company has challenged the findings of the review and in 1997 raised a provision of HUF 24 million. In 2001 the claim was reduced to HUF 51 million and there was no change in the amount of the provision.

26. Legal matters

Prior to May 1995 Hotel Gellért was managed by the Company based on a verbal agreement with ÁPV Rt. as the ownership rights to the hotel was not clear. On 15th May 1995 the Courts decided that the ownership right to the hotel was due to the Company and the Company paid HUF 1419 million to ÁPV Rt. The Land Registration Office was unable to complete the registration of the legal ownership right as the Gellért hotel and Gellért spa are built on the same land as the spa owned by Budapest Gyógyfürdői és Hévízei Rt. (Budapest Spa). Budapest Spa is challenging the validity of a contract between the Company and ÁPV Rt. in the Courts, as a prepurchase right of Budapest Spa relating to Gellért hotel was not taken into consideration. There has been no change in the status of this litigation in 2001.

27. Pension Plan

The Company's employees participate in State pension plans to which employers and employees pay contributions. The pension liability resides with the State both in Hungary and Czech Republic.

Danubius has a pension plan in addition to the State plan, which is available for all Hungarian employees after one half-year's employment. The contribution expense was HUF 199 million (2000: HUF 188 million). The contribution is paid on 5% of the employee salary. The assets of the fund are held in separate trustee administered funds and are not included in these financial statements.

28. Acquisition of Léčebné Lázně SA

In May 2000 Danubius acquired a 64.98% stake in Léčebné Lázně SA. Danubius purchased an additional 3.08% of the shares in several instalments between May and November 2000 and acquired a further 22% stake after a public offer in December 2000. Danubius's share holding amounted to 90.06% at 31st December 2000.

The share acquisitions were primarily financed by bank loans. The cash outflow on the Léčebné Lázně SA acquisition amounted to HUF 6100 million in 2000, which consisted of the purchase consideration and acquisition costs less cash acquired.

Léčebné Lázně SA was consolidated from 1st June 2000 and the consolidated financial statements included seven months operations for 2000.

There was a fair value adjustment of HUF 2600 million made to the fixed assets (primarily land and hotel buildings) of the subsidiary at the date of acquisition by the Group, based on an internal valuation analysis supported by an external UK property specialist. The respective deferred tax liability on this fair value adjustment (31% on revaluation surplus) also was accounted for. The acquisition resulted in goodwill of HUF 733 million, which will be amortised over twenty years on the straight-line basis.

In 2001 Danubius acquired an additional 5.3% shares in Léčebné Lázně SA. Danubius's share holding amounted to 95.36% at 31st December 2001.

29. Related Party Transactions

The Group transactions with related parties are summarised as follows:

| | 2001 | 2000 |
|----------------------------------|------|------|
| Management fee to CP Holdings | 303 | 294 |
| Rental fee to Interag Rt. | 157 | 165 |
| Services provided by Interag Rt. | 42 | 46 |
| Service provided to Interag Rt. | (20) | (11) |
| Service provided by Investor Rt. | 11 | 15 |
| Service provided to Investor Rt. | (15) | (8) |

Related party receivables and payables are not significant as at 31st December 2001.

30. Segment reporting

Business segments

| | Hotel Operation | Property Management | Other Services | Elimination | Consolidated |
|---------------------------|--------------------|------------------------|-------------------|-------------|--------------|
| Revenue | 31,657 | 91 | 450 | – | 32,198 |
| Inter-segment revenue | 158 | 5,601 | 3,595 | (9,354) | – |
| Total revenue | 31,815 | 5,692 | 4,045 | (9,354) | 32,198 |
| Profit (loss) per segment | 337 | 2,916 | (26) | – | 3,227 |
| Current assets | 5,272 | 1,666 | 6,654 | (6,783) | 6,809 |
| Non-current assets | 11,254 | 29,462 | 36,957 | (27,777) | 49,896 |
| Current liabilities | 5,632 | 2,951 | 2,043 | (4,344) | 6,282 |
| Non-current liabilities | 1,445 | 2,338 | 8,225 | 3,287 | 15,295 |
| Minority share | 368 | – | 31 | – | 399 |
| Net assets | 9,081 | 25,839 | 33,312 | (33,503) | 34,729 |

Inter-segment revenue consists of property rental fees paid by hotel units to the property management segment and re-invoicing of fixed assets purchased by the Company on behalf of property and hotel management segments. Current assets and current liabilities primarily consist of inter-company rental fees. Non-current assets elimination is basically the equity consolidation. The Czech subsidiaries are included in the Hotel operation segment (see Geographical segments for details).

Geographical segments

| | Operations in Hungary | Operations in Czech Republic | Elimination | Consolidated |
|-------------------------|--------------------------|---------------------------------|-------------|--------------|
| Revenue | 26,941 | 4,976 | – | 31,917 |
| Inter-segment revenue | 281 | – | – | 281 |
| Total revenue | 27,222 | 4,976 | – | 32,198 |
| Profit per segment | 2,570 | 657 | – | 3,227 |
| Current assets | 5,170 | 1,639 | – | 6,809 |
| Non-current assets | 49,859 | 7,121 | (7,084) | 49,896 |
| Current liabilities | 4,035 | 1,447 | 800 | 6,282 |
| Non-current liabilities | 15,096 | 1,095 | (896) | 15,295 |
| Minority interest | 37 | 362 | – | 399 |
| Net assets | 35,861 | 5,856 | (6,988) | 34,729 |

Eliminations basically include the equity consolidation and the loan provided to Gama 45 s.r.o.

31. Financial instruments

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

Currency risk

The Company's sales prices are primarily quoted in Euro (formerly in Deutschmarks) or US dollars and income is received in foreign currency or Hungarian forints.

The Group had loans of USD 6.6 million and EURO 45.5 million outstanding at 31st December 2001 (see Note 14).

Management has not entered into foreign currency hedging contracts or other derivative products, in respect of its foreign currency revenues or liabilities.

Interest rate risk

Interest rates on loans are listed in Note 14. Management did not enter 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 major Hungarian banks and the provision for doubtful receivables reflects credit risk on trade receivables. The Company has no significant concentrations of credit risk.

32. Subsequent Events

In January 2002 Léčebné Lázně SA, with the support of Danubius, submitted a bid for a 67% stake in the Slovakian spa Slovenske Liecebne Kupele Piestany. In March 2002 an informal notice was received that the Group's bid is likely to be successful.

CONSOLIDATED BALANCE SHEET (HAS)

According to the Hungarian Accounting Standards

All amounts in HUF 000

| ASSETS | December 31, 2000 | December 31, 2001 |
|------------------------|----------------------|----------------------|
| Fixed assets | 44,060,737 | 48,798,642 |
| Intangible assets | 488,979 | 426,726 |
| Tangible assets | 43,282,439 | 47,990,562 |
| Financial investments | 289,319 | 381,354 |
| Working capital | 7,037,068 | 7,836,751 |
| Stocks | 311,528 | 323,137 |
| Receivables | 2,143,084 | 2,068,172 |
| Securities | 3,362,998 | 2,107,537 |
| Total cash and bank | 1,219,458 | 3,337,905 |
| Accruals | 621,415 | 600,061 |
| TOTAL ASSETS | 51,719,220 | 57,235,454 |

| LIABILITIES | December 31, 2000 | December 31, 2001 |
|-------------------------------------|----------------------|----------------------|
| Own capital | 33,931,655 | 35,667,128 |
| Subscribed capital | 8,285,437 | 8,285,437 |
| Capital reserve | 7,138,139 | 7,138,139 |
| Profit reserve | 12,601,056 | 13,846,894 |
| Tied-up reserve | | 1,535,544 |
| Profit as per balance sheet | 3,511,335 | 1,896,568 |
| Change in subsidiaries' own capital | 1,844,027 | 2,676,438 |
| Share of externalities | 551,661 | 288,108 |
| Reserves | 244,734 | 437,337 |
| Liabilities | 16,931,297 | 19,681,330 |
| Long-term liabilities | 11,319,564 | 14,552,030 |
| Short-term liabilities | 5,611,733 | 5,129,300 |
| Accruals | 611,534 | 1,449,659 |
| TOTAL LIABILITIES | 51,719,220 | 57,235,454 |

CONSOLIDATED STATEMENT OF PROFIT AND LOSS (HAS)

According to the Hungarian Accounting Standards

All amounts in HUF 000

| | 2000 | 2001 | Index % |
|----------------------------------------|------------------|------------------|-------------|
| Net sales revenue | 30,584,028 | 31,991,753 | 104.6 |
| Cap value of own performance | 186 | 595 | 319.9 |
| Other income | 987,901 | 492,841 | 49.9 |
| Material-type expenditures | 11,276,879 | 12,356,492 | 109.6 |
| Total payroll and related costs | 9,963,338 | 10,785,283 | 108.3 |
| Depreciation | 2,895,312 | 2,804,667 | 96.9 |
| Other expenditures | 2,287,012 | 2,256,964 | 98.7 |
| OPERATING PROFIT | 5,149,574 | 4,281,783 | 83.1 |
| Revenues from financial activities | 904,237 | 709,679 | 78.5 |
| Financial transaction expenditures | 955,251 | 1,692,906 | 177.2 |
| Financial profit or loss | -51,014 | -983,227 | |
| Profit from ordinary activities | 5,098,560 | 3,298,556 | 64.7 |
| Extraordinary income | 105,333 | 10,933 | 10.4 |
| Extraordinary loss | 149,406 | 111,562 | 74.7 |
| Extraordinary profit or loss | -44,073 | -100,629 | |
| PROFIT BEFORE TAX | 5,054,487 | 3,197,927 | 63.3 |
| Taxes payable | 1,021,376 | 864,943 | 84.7 |
| PROFIT AFTER TAX | 4,033,111 | 2,332,984 | 57.9 |
| Profit reserves used for dividends | | 6,004 | |
| Minority stake | 132,360 | 52,763 | 39.9 |
| Dividend payable | 389,416 | 389,657 | 100.1 |
| NET PROFIT AS PER BALANCE SHEET | 3,511,335 | 1,896,568 | 54.0 |