



**DANUBIUS HOTELS  
GROUP**

**Documents  
of the Annual General Meeting  
of Danubius Hotels Nyrt.  
to be held on 26<sup>th</sup> April 2007**

Danubius Hotels Nyrt. consolidated B/S and P&L according to IFRS  
And not consolidated B/S and P&L according to the Hungarian Accounting Standards

**Date:**

**Thursday, 26<sup>th</sup> April 2007 at 10.00 a.m.**  
In case the Meeting has no quorum, it is held on  
Thursday, 26th April 2007 at 10.30 a.m.

**Place:**

**Danubius Hotel Gellért**  
(1111 Budapest, Szent Gellért tér 1.)  
**Tea Salon**

**Agenda:**

1. To submit and review the 2006 Balance Sheet
  - To receive the Board's report about the 2006 business activities
  - To receive the report of the Auditor on the 2006 B/S
  - To receive the report of the Supervisory Board on the 2006 operating activities and B/S
2. To pass decision on the 2006 profit allocation
3. To inform the Meeting about the 2007 business targets
4. To elect member of the Board of Directors \*
5. To elect members of the Audit Committee \*\*
6. To approve the new Articles of Association \*\*\*
7. To appoint the Auditor and approve his/her 2007 remuneration
8. To establish the remuneration of the members of the Board of Directors and the Supervisory Board

\*: The Board proposes the AGM to elect Alexei Schreier to be member of the Board of Directors.

\*\* : Pursuant to Act IV of 2006 on Joint Regulations on Business Associations our company has to set up an Audit Committee. Members are proposed to be from among members of the present Supervisory Board: Tibor Antalpéter, Dr. András Gálszécscy and Mrs Imre Surányi.

\*\*\*: Act CXLIV of 1997 on Joint Regulations on Business Associations was replaced by Act IV of 2006 on Joint Regulations on Business Associations which entered into effect on 1 July 2006, and the Articles of the company is submitted accordingly.



**DANUBIUS HOTELS  
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**AGENDA NR. 1**

**TO SUBMIT AND REVIEW THE 2006 BALANCE SHEET**

**REPORT OF THE BOARD OF DIRECTORS**

***on the consolidated financial statements prepared according to IFRS***

**Introduction – improvement in operating profit and profit before tax**

The Danubius Group produced HUF 47.3 billion revenue at consolidated level in 2006, exceeding the figure of the previous year by 11%. This was achieved with group level average rates of HUF 12,172 and group level occupancy of 67.7% which indicates that in line with our targets the company has raised the average rates (+16%) accompanied only by a moderate set back in occupancy (-2.2%). The HUF 2.7 billion operating profit shows 18% improvement.

The changes in the exchange rates had a significant impact on the group performance. On the one hand, the weakening of the forint against the euro had a positive effect on our Hungarian revenues – owing to offering rates in Euro –: the monthly average rates fluctuated significantly but showed weakening of the forint all along the year (1–13% against the euro). At the same time in case of the foreign subsidiaries the local currencies strengthened against the Euro. On the other hand, due to the consolidation of the foreign subsidiaries in forint the weakening of the forint compared to the local currencies influenced our profits.

Besides this, the year-end exchange rate applied when revaluating the loans did not deviate significantly from the previous year's, meaning that the accounted exchange rate difference shows HUF 158 m profit in 2006.

The consolidated profit before tax was HUF 1.8 billion in 2006, surpassing the previous year by 58% (+HUF 650 million). This is better than the 2005 result by HUF 113 million (+7.5%) even without the exchange rate differences.

The consolidated profit after tax of the Group was HUF 1.5 billion in 2006, +65% compared to the previous year.

Business in the Hungarian subsidiaries representing the majority shares in the group was hit by several unfavourable outside effects in the second half of the year. The news of the Budapest riots at the end of September and in October had a very detrimental effect on the country and hit tourism badly. Moreover, the new government programme introduced from September 2006 also adversely affected results. The increase of the VAT from 15% to 20% in prices of room-, food-, and certain health spa services caused 5% loss regarding our offered prices and contracted partners. The solidarity tax, the expected minimum tax and the changes in the taxes on contribution in kind as well as the increase of gas and electricity prices also burdened the company significantly.

**Changes within the Danubius Group**

There were no changes in the companies consolidated in the Danubius group in the year 2006.

In November 2005 Danubius Group acquired 1.75% shares of Smrdaky Local Government held in Slovenské Liečebné Kúpele Piestany a.s., and with that the share of the group increased to 89.96%. In December the Group increased its share in Preventív-Security Zrt., the company responsible for the security of the Hungarian hotels from 32.75% to 78.60% so this firm is consolidated from the end of December 2005, the effect of which is highlighted in our report.

The number of affiliated companies increased in August 2005 with CP Regents Park Two Limited in which Danubius acquired 25% interest and concluded a cooperation package agreement with its



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major shareholder CP Holdings Ltd. concerning Danubius Hotel Regents Park, London. The 2006 report already shows the balance of related management fee revenues and financial expenditures.

In the management of the company the following change took place: Sándor Betegh, former CEO retired on 1 March 2006 and was succeeded by Dr. Imre Deák. There was no change in the members of the Board, as the members with mandates expiring in 2006 have all been re-elected by the AGM for another five years.

In a recently announced new strategy the company has listed the hotels of Danubius into new brands as of 1 July 2006. Hotels with a health spa profile belong to Danubius Health Spa Resort while city hotels of a higher category are listed under the Danubius Hotels brand. Those in special historical buildings are also in a sub-brand called Classic Collection. The Member of Danubius Hotels Group category includes all other hotels belonging to the group and the internationally branded properties.

### Performance of major subsidiaries

According to the Hungarian national statistical data the number of hotel guest nights went down by 1.5%, this is made up of the 9.5% increase in domestic demand and the 8.2% decrease in foreign demand. The decrease in the number of German and British guest nights (-17% and -13%) was significant at national level as well as the growth in Russian and American guest nights (+30% and +5%). The occupancy achieved in the Danubius hotels continues to exceed the national average (65.1% against the national average of 47.5%) though this discrepancy can be attributed partly to the difference in portfolio. The changes of the occupancy in the four star segment were in line with the national trends, while in case of the five star Danubius hotels it was better and looking at the three star hotels it was worse as opposed to the national level. Danubius managed to raise its average rates to a greater extent (+19%) compared to the consumer price index of the industry issued by the Central Statistical Office (which is 106.1% related to accommodation services).

**Hungarian hotels of Danubius Group** achieved 65.1% occupancy in 2006, 4% lower than the previous year. The average rate was HUF 13,471, 19% higher compared to last year. The significant weakening of the forint had a positive effect on average rates, however, average rates calculated in EUR also increased a lot (by approx. 12%). Average spending also went up: calculated in HUF by 13%, while in EUR exceeding 5%.

The number of foreign guest nights dropped by 7%. The number of guest nights from the major sending countries - with the exception of the USA - showed a decrease: Germany -19%, Great Britain -17%, Italy -14%. The domestic stays went up by more than 5%.

The total revenue of Hungarian hotels was HUF 29.1 billion, showing an increase of 6%. This could be attributed to the significant increase of room revenues, unchanged F&B revenues and a moderate decrease of health spa and other income. Departmental costs went up by 4% while general costs by 7%. The increase of energy costs (+12%, meaning an additional cost of HUF 225 million) can be made responsible for 43% of the increase of general costs.

The gross operating profit (GOP) of Hungarian hotels went up by 8.2% to HUF 8.2 billion as opposed to 2005. This means that 38% of revenue surplus was realised as profit.

The Budapest hotels delivered an outstanding performance in 2005 in terms of volumes, however, this could not be repeated in 2006. The number of guest nights decreased by 8%, with Great Britain, Germany, Italy, Spain and Japan, making up almost half of this volume, dropping by 16%. From among the sending countries, demand for Budapest rose only from the USA (by 8%). These produced a 4.4% decrease in the occupancy of the Budapest hotels. The company managed to raise average rates in this market by 18%, which shows an increase exceeding 10% even in EUR. The revenue of the Budapest hotels was up by 6% while GOP indicates 7.3% surplus.



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In the country spa hotels the number of German and Austrian traditional spa guests continued to go down, however, domestic demand increased significantly (+16%), but this could unfortunately only compensate half of the traditional health spa turnover. So occupancy went down by 4%, but the company achieved almost 19% average rate increase compared to 2005. Alongside 3.7% increase of revenues, GOP went up by 2%.

**Czech hotels** achieved 76% occupancy in 2006, 4.8% lower compared to the previous year. The decrease was owing to the set back in German and domestic guest nights, which could not be compensated by the increase in Russian and Israeli demand. The average rates calculated in forint were HUF 16,064 in 2006, exceeding last year's by 8.8%. The Czech hotels contributed to the group performance by HUF 6.13 billion revenue and HUF 2.2 billion GOP.

The evaluation of the Czech hotels in forint is largely distorted by changes in the exchange rates: as compared to last year the HUF significantly weakened against the Czech crown (7.1%), the items calculated in forint show a more favourable picture in respect of revenues.

The revenues indicated in CzK – with the exception of F&B – went down by a total 2% compared to 2005, while operating and general costs both went up (by 3% and 6%) making GOP 12% lower than in the previous year.

In the **Slovakian hotels** the ongoing decrease in the number of German guest nights continued too (-14% compared to 2005). Upturn in domestic, Czech and Israeli demand could not balance, even together, the set back in the number of German guest nights. The total number of guest nights, however, remained the same. The performance of the Slovakian subsidiary was influenced partly by the fact that the Thermia Palace was closed during the entire year due to reconstruction works, partly because the evaluation in local currency and in forint shows a significant difference here too (the forint weakened against the Slovakian crown by 6.3%).

Occupancy went up by 4.1% to 76.8% and the average rate calculated in forint increased by 11% (to HUF 6,731). The Slovakian hotels contributed to the revenues by HUF 7.1 billion and increased group GOP by HUF 1.6 billion.

Revenues indicated in Slovakian crowns increased the most in the health spa area, revenues from room sales also increased while F&B was lagging behind the previous year. This means – in local currency – a 3% increase in revenues. The costs were lower by 7% – alongside decreasing departmental costs and increasing general costs – compared to 2005, which means that in Slovakian crowns 60% more GOP was produced compared to a year earlier.

Evaluating the **Romanian hotels**, the difference in the statements made in forint and local currencies have to be taken into consideration here too, since the forint weakened against the Romanian lei by 9.1%.

The changes in demand are indicated by the fact that while the number of German guest nights dropped to its half and those of Hungarian guests went up only moderately, domestic and Moldavian guest nights increased to a large extent (+15% and +40%). The total number of guest nights was up by 11%, producing 54.4% occupancy in 2006, 5.6% more compared to the previous year. This could be achieved by HUF 6,692 average rate (+21%).

The contribution of the Romanian hotels to group revenues was HUF 1,3 billion, and HUF 504 m to the GOP. Revenues shown in local currency went up in all departments – in the health spa department to the greatest extent. Costs were controlled and the Sovata hotels achieved a GOP exceeding that of 2005 by 33%.

## **Consolidated Balance Sheet**

Total consolidated asset value amounted to HUF 85.1 billion as of 31 December 2006, HUF 5.9 billion higher compared to the end of previous period. The asset value of the first consolidated Preventív Security Zrt. and its subsidiaries was HUF 367 million at the end of the period.

Non-current assets reflect the reclassification of certain assets now held for sale. In spite of the upswing of turnover, current assets increased only by HUF 259 million, excluding the effect of reclassification. Accounts receivable increased by 5.9% that is well below the 10.6% increase of total revenue while cash and cash equivalents are 31% higher compared to the end of last year, mainly reflecting the effect of our year-end debt collection programme.

The amount of Property, plant and equipment increased by HUF 5.3 billion during the reported year in line with the sum of capitalised investments less amortisation. The investments in associated companies, amounted to HUF 1,715 million show the historic cost adjusted by share of earnings of the investment in CP Regents Park Two Ltd.

Total liabilities increased by HUF 3 billion, which is caused entirely by the increase of short-term liabilities. The amount of trade creditors went up by HUF 899 million due to an upswing in turnover and the construction in progress, as well as the consolidation of Preventív Group (HUF 121 million). The HUF 974 million increase in other payables and accruals includes HUF 350 million deferred revenue in respect of the sale of Hotel Esztergom, the growth of tax payment obligations (the larger part of which is owing to the increase of the VAT from 15 to 20% related to hotel and spa services as well as food turnover) and the increase of the liabilities of the Czech and Slovakian subsidiaries partly owing to the changes in the exchange rates.

The Group had EUR 80.5 million and GBP 5.1 million long-term loan on 31 December 2006. The GBP loan, borrowed from related parties and shown in a separate line, was spent on the financing of the share purchase in London. The long-term loans decreased by EUR 3.9 million in the last quarter due to the EUR 7.1 million repayments made, of which EUR 6.7 million was provided by the Hungarian entities, and the EUR 3.2 million new borrowings drawn down by the Slovakian company to finance the construction of Thermia Palace. Even though the EUR/HUF exchange rate has fluctuated extremely over the year, the year-end FX rate did not deviate significantly compared with the prior year.

The value of shareholders' equity went up by HUF 2.9 billion as the result of the HUF 1,450 million increase of translation reserve due to the significant exchange rate fluctuations between the Hungarian forint, the Czech and Slovak crown and the Romanian lei and net after tax profit retained to the business. The parent company mitigates its interest exposure by means of hedging instruments the effect of which is included in the hedging reserve in accordance with IAS 39.

## Consolidated Statement of Income

Starting from 2006 companies not pursuing hotel operation activities represent a larger proportion in the consolidation and for this reason costs are shown in the statement of income in a new structure by cost types. In order to allow for comparison with the previous period, we publish the figures of the Q1-Q4 2005 already in this structure, and show the differences in the chart below:

	January to December 2005	
	By place of cost structure	By type of cost structure
Cost of room sales	4,114	
Cost of food and beverage sales	10,319	
Cost of spa sales	2,254	
Cost of other minor department sales	2,837	
Administrative and general costs	15,328	
Other expenses	1,321	2,106
Depreciation	4,324	4,324
Material expenses and services used		18,088
Personnel expenses		16,066
Change in inventories of finished goods and work in progress		(50)
Work performed by the entity and capitalised		(37)
<b>Total operating expenses</b>	<b>40,497</b>	<b>40,497</b>

Last year other expenses showed exclusively taxes and loss of value of doubtful debts, while the year under review includes other items as well. The majority of the difference is caused by the fact that the Slovakian company has indicated earlier the non-refundable VAT by departmental units, however, the present report shows all the taxes among other expenses.

The revenues and costs of foreign subsidiaries are reported in forint but owing to the already mentioned – in certain cases significant – exchange rate movements this may deviate largely from the evaluation in their own currencies.

The involvement of Preventív Security Zrt. and its subsidiaries into the consolidation resulted in HUF 1,031 million surplus revenue and the total costs and expenses also increased. At profit before tax level it contributed to the performance of the group by a total of HUF 64 million.

Although the favourable trends experienced in the first three quarter stopped mainly due to the strengthening of HUF against EUR and the potential market damages caused by the political situation, the full year revenue exceeded last year's figures by 10.6%. In spite of the 10.1% increase of total operating expenses this revenue increase contributed to a 18.4% operating profit increase.

Danubius Group recognised HUF 47.3 billion revenue in the period between January - December 2006. This exceeds the prior year's figure by 4.5 billion (10.6%). This growth includes the first consolidated Preventív data as well as the net profit from the sale of the Gösser Brasserie in Keszthely (HUF 195 million) shown on the other revenues row. During the whole year the weak forint had a positive effect on the increase of revenues, on the one hand owing to the direct impact on average rates, on the other hand because this region (especially Hungary) became cheaper for foreign travellers.

The HUF consolidated revenues of major departmental units increased. Revenue on room sales went up by 11.8%, which in Forint terms increased, in respect of all geographical markets. F&B revenue at consolidated level was up only by 1.4% compared to last year owing to an increase reported from the Czech and Romanian subsidiaries parallel to Hungarian stagnation and Slovakian fall back. Spa revenues were not favourable in the Hungarian hotels that are still strongly dependent



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on the German market but went up substantially in Piestany and Sovata. The HUF 322 million increase of other revenues is due to the one off item of the net profit from the already mentioned sale of the Gösser Brasserie and a HUF 163 million reversal of Piestany legal provision.

Total costs and expenses at consolidated level were up by HUF 4.1 billion (10.1%) compared to the similar period last year that is, excluding Preventív Group's first consolidation effect of HUF 964 million, well below the increase of revenue. The value of material type expenditures was above the previous period by approx. HUF 2.1 billion, an increase of 11.6%, of which HUF 432 million was attributed to the increase of energy costs in Forint terms. The average increase of personnel type expenditures was 8.2% at group level, of which only 5.9% increase belongs to the Hungarian operation, while a significant increase was experienced in the Slovakian and Czech companies. Simultaneously, the group average headcount was reduced by 2% to 5 513 employees by the end of 2006. Other expenditures increased by HUF 409 million mainly due to the increase of revenue proportionate – mostly local – taxes. The amount of Depreciation, amortisation and impairment exceeded the previous year figure by 6.1% due to the extensive capital expenditure projects in the Czech and Slovakian subsidiaries.

The group achieved an operating profit of HUF 2.7 billion in the year ended 31 December 2006, 18.4% higher (HUF 421 million) year to date. The Romanian subsidiary reported an outstanding increase (HUF 182 million operative profit against last year's HUF 4 million operative loss), the Hungarian operation also produced above the average increase.

In terms of geographical segment ratios there were no significant changes in HUF revenues compared to the previous year, however the Hungarian and Romanian companies produce a greater proportion of operating profit:

Q1-Q4 2006 data	Revenues	Operating profit
Hungarian companies	68.8%	77.6%
Czech companies	13.2%	17.0%
Slovakian company	15.3%	-1.3%
Romanian company	2.7%	6.7%
Total	100.0%	100.0%

Profit before tax shows a less favourable picture than the operating profit, although the HUF 1.32 billion foreign exchange rate loss (the majority of which was unrealised) recognised in the first three quarter flash report disappeared by the end of December and turned to FX gain of HUF 158 million. The interest expenses increased by HUF 240 million to HUF 1,083 million, mainly due to the higher amount of average outstanding Loan and increase of EURIBOR prime rate.

Based on the above the consolidated profit before tax was HUF 1.8 billion in 2006 compared to last year's HUF 1.1 billion.

The consolidated profit after tax of the Group was HUF 1.5 billion in 2006, +65% (HUF +573 million) compared to the previous year.

### Reconstruction works, renewals

In 2006 the company spent a total of HUF 2.31 billion on reconstruction works in our **Hungarian hotels**. We continued the already launched room refurbishments and paid special attention to investments aiming at streamlining the use of energy as well as the security technical and fire protection developments observing the changes of the mandatory stipulations. In addition we focused on technical planning works establishing the development concepts of the future.



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In Danubius Hotel Astoria, the refurbishment of the room levels in the historical wing was completed. The reconstruction of the Café Mirror restaurant and the main kitchen was carried out, and the floodlight illuminating the entire historical wing was also completed. With the lobby and entrance renewal project starting in the near future, the three-year complete reconstruction project of the hotel will come to an end.

In Hotel Budapest we have refurbished the rooms and apartments on two hotel levels and installed new fire alarm system in the common areas, simultaneously to which the chimneys have been renewed and a new water softener system installed.

A new restaurant was built in Best Western Hotel Hungaria by connecting the former restaurant and brasserie, which – in addition to the newly introduced buffet breakfast choice – assures a more effective serving of breakfast for hotel guests. The partial refurbishment of one room level has already been completed and the fire alarm system has been extended.

In Hotel Stadion the reconstruction of the function room level was completed and the guest elevators were renewed. Through the renewal of the five conference rooms and connecting common areas new possibilities were opened up for the hotel in organising events. The swimming pool was fitted with equipment designed to provide currents for swimming and the sauna was replaced.

The overall refurbishment of 45 rooms on the second guest floor was completed in DHSR Helia and a water softening equipment servicing the entire building was installed.

The lobby and the Ybl room in Danubius Grand Hotel Margitsziget were rearranged and modernised: the front office desk and the marble floor were renewed and the lights were replaced. The main terrace on the first floor was equally redone.

In DHSR Bük we continued to renew the health spa department (including the periodic replacement of the thermal pool covers and the thermal water distant pipe) and to partially refurbish 40 rooms and bathrooms on the second floor. We have improved the sound system in the conference rooms and we replaced the furniture and carpets in the lobby.

In DHSR Sárvár the rearranging of the spa department and renewing the massage and mud treatment areas were completed and a new state-of-the-art fitness centre was created.

“All inclusive” services were on offer in Hotel Marina in Balatonfüred in this year’s main season, which required the transformation and renewal of the F&B units and the installation of electric guest check in and control system.

Refurbishment of 12 guest rooms started on the first floor of Hotel Palatinus in Pécs.

The major capital expenditure of the year 2006 in **Marienbad** was carried out in Centralní Lázně: the reconstruction and refurbishment of 107 rooms, the restaurants, kitchen and balneo area together with the renovation of the façade. In Hotel Svoboda 14 new room units were built in addition to the refurbishment of 21 guest rooms. The preparation of the swimming pool project in Hotel Hvezda is in process. The documentations for the refurbishment of Hotel King Edward (presently out of use) and the corridor between the Centralní Lázně and Nové Lázně are ready and were handed in to the authorities for approval. Roof repairs on the main Kolonada and energy saving projects were also carried out and the Arnika area was upgraded into a garden landscape. The company spent a total of CzK 204 million (HUF 1.90 billion) on reconstruction and renewal works in 2006.

In **Piestany and Smrdaky** SKK 543 million (HUF 3.86 billion) was spent on reconstructions and refurbishments in 2006, mainly on works carried out on the Thermia Palace and the Irma Health Spa. The hotel was opened in December under the name Danubius Health Spa Resort Thermia Palace, the third five star spa hotel in the Danubius group and the very first one in Slovakia. The connected Irma bath was also completed.

Looking at our investments in Slovakia the company performed the obligation for reconstruction to the tune of SKK 700 million due till 31 December 2006 undertaken in the privatisation contract signed at the time of the acquisition of SLKP. The process of submitting the necessary documentation to the Slovakian Privatisation and Asset Management Agency was started and the guarantee registered at the time of undertaking the above obligation is expected to be cancelled in 2007.



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In **Sovata** a fitness room was built in the health spa department in Hotel Sovata. The buffet on the Medve Lake beach was rebuilt and the connecting changing cabins were renewed. We also started changing the roof on the lake spa pavilion. The renewal of the guest elevators in Hotel Bradet was completed.

The increasing performance of the Romanian subsidiary enhances the chance of continuing the reconstruction programme, therefore we started to elaborate the mid-term development plans.

The refurbishment of 87 rooms and bathrooms was launched in the **London based Danubius Hotel Regents Park**.

### **Ownership structure and Stock Exchange trading**

On 31<sup>st</sup> December 2006, 53.401% of the subscribed capital made up of 8 285 437 ordinary shares is owned by domestic and foreign investments of CP Holdings Ltd., of which shares over 5% are owned by Interag Zrt. (29.378%), CP Holdings Ltd. (17.907%) and Israel Tractors (6.116%).

The mandatory joint public offer submitted by CP Holdings Ltd., Israel Tractors and Equipment Co. Ltd. and Interag Holding Zrt. (the „Bidders”) on 8 August 2006 was closed on 4 October 2006. The Bidders have become, in the course of the public purchase offer, owners of 448 pcs of shares representing 0.0054% of the registered capital of Danubius Hotel and Spa Public Limited Company, as a result of which have 53.401% control of the company.

Foreign financial investors own a further 32.76% of the shares of which ownership of the Citibank and Deutsche Bank custodians exceeds 5% (representing 5.57% and 6.70%). The shares of the employees of the company represent 0.24%, and the company continues to own 4.52% own shares. Domestic private persons, institutions and pension funds own 9.08% of the equities.

A total of 6 325 deals were made for 1 502 821 shares of Danubius Hotels Nyrt. to the tune of HUF 8.99 billion in 2006 producing an average share price of 5 980 HUF/share, alongside 5 000 HUF/share minimum and 6 990 HUF/share maximum price. The rate value was 84% higher compared to the previous year. The major part of the growth (78%) is owing to the 65% increase in the number of pieces while the lesser part (22%) to the 11% increase of rates.



**DANUBIUS HOTELS  
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**Danubius Hotels Nyrt. BALANCE SHEET – 31 December 2006**  
consolidated, audited, according to IFRS

<b>Assets</b>	<b>2005</b>	<b>2006</b>	<b>Index</b>
<b>HUF 000 000</b>	<b>31st Dec</b>	<b>31st Dec</b>	<b>%</b>
Cash and cash equivalents	2 363	3 087	130.6%
Accounts receivable	1 889	2 000	105.9%
Other receivables and prepayments	1 678	1 142	68.1%
Inventory	884	844	95.5%
Assets held for sale		535	
<b>Total current assets</b>	<b>6 814</b>	<b>7 608</b>	<b>111.7%</b>
Property, plant and equipment	67 687	72 947	107.8%
Intangible assets	2 111	2 147	101.7%
Investments in associates	1 763	1 715	97.3%
Other investments, including derivatives	235	92	39.1%
Deferred tax assets	554	571	103.1%
<b>Total non-current assets</b>	<b>72 350</b>	<b>77 472</b>	<b>107.1%</b>
<b>Total assets</b>	<b>79 164</b>	<b>85 080</b>	<b>107.5%</b>

<b>Liabilities</b>	<b>2005</b>	<b>2006</b>	<b>Index</b>
<b>HUF 000 000</b>	<b>31st Dec</b>	<b>31st Dec</b>	<b>%</b>
Trade accounts payable	2 327	3 226	138.6%
Advance payments from guests	433	518	119.6%
Income tax payable	215	61	28.4%
Other payables and accruals	2 716	3 690	135.9%
Interest-bearing loans and borrowings	2 769	3 940	142.3%
Provisions	840	868	103.3%
<b>Total current liabilities</b>	<b>9 300</b>	<b>12 303</b>	<b>132.3%</b>
Interest-bearing loans and borrowings	17 609	17 471	99.2%
Loan from related party	1 828	1 866	102.1%
Deferred tax liabilities	1 524	1 631	107.0%
<b>Total non-current liabilities</b>	<b>20 961</b>	<b>20 968</b>	<b>100.0%</b>
<b>Total liabilities</b>	<b>30 261</b>	<b>33 271</b>	<b>109.9%</b>
Share capital	8 285	8 285	100.0%
Capital reserve	7 435	7 435	100.0%
Treasury shares	(1 162)	(1 162)	100.0%
Translation reserve	2 400	3 850	160.4%
Hedging reserve		8	
Retained earnings	29 134	30 543	104.8%
<b>Attributable to equity holders of the parent</b>	<b>46 092</b>	<b>48 959</b>	<b>106.2%</b>
<b>Minority interests</b>	<b>2 811</b>	<b>2 850</b>	<b>101.4%</b>
<b>Total shareholders' equity</b>	<b>48 903</b>	<b>51 809</b>	<b>105.9%</b>
<b>Total liabilities and shareholders' equity</b>	<b>79 164</b>	<b>85 080</b>	<b>107.5%</b>



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**Danubius Hotels Nyrt. STATEMENT OF INCOME – Year 2006**  
consolidated, audited, according to IFRS

HUF 000 000	2005	2006	Index %
Room revenue	20 462	22 885	111.8%
Food and beverage revenue	14 371	14 571	101.4%
Spa revenue	5 242	5 890	112.4%
Other departmental revenue	2 279	2 220	97.4%
Revenue from wineries	175	163	93.1%
Revenue from security services	-	1 008	
Other income	256	578	225.8%
<b>Total operating revenue and other income</b>	<b>42 785</b>	<b>47 315</b>	<b>110.6%</b>
Cost of goods purchased for resale	335	398	118.8%
Raw material costs	8 702	9 428	108.3%
Services used	9 051	10 354	114.4%
<b>Material expenses and services used</b>	<b>18 088</b>	<b>20 180</b>	<b>111.6%</b>
Wages and salaries	10 975	11 880	108.2%
Other personnel expenses	1 232	1 347	109.3%
Taxes and contributions	3 859	4 161	107.8%
<b>Personnel expenses</b>	<b>16 066</b>	<b>17 388</b>	<b>108.2%</b>
Depreciation and amortisation	4 324	4 587	106.1%
Other expenses	2 106	2 515	119.4%
Changes in inventories of finished goods and work in progress	(50)	(5)	10.0%
Work performed by the entity and capitalised	(37)	(59)	159.5%
<b>Total operating expenses</b>	<b>40 497</b>	<b>44 606</b>	<b>110.1%</b>
<b>Profit from operations</b>	<b>2 288</b>	<b>2 709</b>	<b>118.4%</b>
Interest income	57	43	75.4%
Interest expense	(843)	(1 083)	128.5%
Unrealised foreign currency gain / (loss)	(379)	158	
<b>Financial income / (loss)</b>	<b>(1 165)</b>	<b>(882)</b>	
Share of profit / (loss) of associates	6	(48)	
<b>Profit before tax</b>	<b>1 129</b>	<b>1 779</b>	<b>157.6%</b>
Current tax expense	431	262	60.8%
Deferred tax expense / (benefit)	(183)	63	
<b>Profit for the year</b>	<b>881</b>	<b>1 454</b>	<b>165.0%</b>



**DANUBIUS HOTELS  
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**Danubius Hotels Nyrt. BALANCE SHEET – 31 December 2006**  
not consolidated, audited, according to the Hungarian Accounting Standards

ASSETS	2006		2006		LIABILITIES	HUF million
	1 Jan	31 Dec	1 Jan	31 Dec		
<b>Invested assets</b>	<b>54 772,664</b>	<b>53 820,429</b>	<b>37 515,985</b>	<b>38 587,539</b>		<b>Own capital</b>
<b>Intangible assets</b>	<b>286,560</b>	<b>311,765</b>	8 285,437	8 285,437		Subscribed capital
Cap.value of transformation			374,523	374,523		From this: repurchased share
Cap.value of exper., developm.						Not yet paid subscrib. capital
Intangible assets	0,002		7 138,139	7 138,139		Capital reserve
Intellectual products	227,508	311,765	21 903,664	20 931,388		Profit reserve
Goodwill			1 161,021	1 161,021		Tied-up reserve
Advance payment for intang.a.	59,050					Revaluation reserve
Revaluation of intang.assets			-972,276	1 071,554		Profit per balance sheet
<b>Tangible assets</b>	<b>6 875,373</b>	<b>6 668,354</b>	<b>140,000</b>	<b>175,000</b>		<b>Provisions</b>
Real estates and rel.	6 767,746	6 579,160	140,000	175,000		Provision for possible losses
Techn. equipments, machines	73,035	62,549				Provision for possible liability
Other equipments, accessoire	19,763	14,650				Other provisions
Breeding stock			<b>18 660,136</b>	<b>18 042,224</b>		<b>Liabilities</b>
Capital projects	14,829	11,995	<b>0,000</b>	<b>0,000</b>		<b>Subordinated liabilities</b>
Advance payments for projects						Subord. liab.to daughter co
Revaluation of tangible assets						Subord. liab.to other investm.
<b>Financial investments</b>	<b>47 610,731</b>	<b>46 840,310</b>				Other subordinated liabilities
Shares in daughter co-s	40 823,567	41 034,904	<b>15 722,231</b>	<b>13 407,273</b>		<b>Long term liabilities</b>
Loans to daughter co-s	6 770,515	5 788,786				Long term loans
Other investments	15,217	15,217				Convertible bonds
Loans given to other investm.						Liability from bond issue
Other long term loans	1,432	1,403				Project loans
Long term securities			15 722,231	13 407,273		Other long term loans
Revaluation of financ. investm.						Long t. liab. to daughter co-s
<b>Working assets</b>	<b>1 661,543</b>	<b>3 059,504</b>				Long t. liab. to other investm.
<b>Stocks</b>	<b>0,006</b>	<b>2,388</b>				Other long term liabilities
Raw materials			<b>2 937,905</b>	<b>4 634,951</b>		<b>Short term liabilities</b>
Intermed. & semi-finished prod				200,000		Short term credits
Livestocks						From this: convertible bonds
Finished goods			2 309,767	3 031,000		Short term loans
Goods	0,006	2,388	11,712	5,342		Advance paym. from debtors
Advance payments for stocks			107,106	104,077		Creditors
<b>Receivables</b>	<b>441,868</b>	<b>1 719,760</b>				Bills of exchange
Debtors	10,152	34,383	356,457	1 053,368		Short t. liab. to daughter co-s
Amounts owned by daugh.co-s	158,692	1 652,596	0,342	0,096		Short t liab. to other investm.
Amounts owned by other inv.	12,848	12,848	152,521	241,068		Other short term liabilities
Bills of exchange			<b>203,504</b>	<b>106,015</b>		<b>Accruals</b>
Other receivables	260,176	19,933				Accrual of revenues
<b>Securities</b>	<b>1 161,021</b>	<b>1 161,021</b>	202,034	102,491		Accrual of costs and expend.
Shares in daughter co-s			1,470	3,524		Deferred revenues
Other investments						
Treasury shares	1 161,021	1 161,021				
Short term securities						
<b>Total cash and bank</b>	<b>58,648</b>	<b>176,335</b>				
Cash at hand	0,643	0,926				
Bank deposits	58,005	175,409				
<b>Accruals</b>	<b>85,418</b>	<b>30,845</b>				
Accruals of revenues	54,903	0,077				
Accruals of costs and expend.	30,515	30,768				
Deferred expenditures						
<b>TOTAL ASSETS</b>	<b>56 519,625</b>	<b>56 910,778</b>	<b>56 519,625</b>	<b>56 910,778</b>		<b>TOTAL LIABILITIES</b>



**DANUBIUS HOTELS  
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**Danubius Hotels Nyrt. STATEMENT OF INCOME – Year 2006**  
not consolidated, audited, according to the Hungarian Accounting Standards

HUF million

	2005	2006	index
<b>Net domestic sales revenue</b>	<b>2 890,003</b>	<b>3 532,135</b>	<b>122,2%</b>
<b>Cap.value of own performance</b>			
<b>Other income</b>	<b>8,368</b>	<b>149,152</b>	
<i>From this: rewritten loss of value</i>			
Raw material costs	29,396	27,011	91,9%
Value of services used	906,840	989,931	109,2%
Value of other services	48,374	23,731	49,1%
Purchase price of goods sold			
Value of services sold	463,890	210,704	45,4%
<b>Material-type expenditures</b>	<b>1 448,500</b>	<b>1 251,377</b>	<b>86,4%</b>
Salaries and wages	831,038	872,098	104,9%
Other payments for personnel	147,122	202,713	137,8%
Contribution to salaries and wages	305,361	339,129	111,1%
<b>Total payroll and related costs</b>	<b>1 283,521</b>	<b>1 413,940</b>	<b>110,2%</b>
<b>Depreciation</b>	<b>391,572</b>	<b>425,215</b>	<b>108,6%</b>
<b>Other expenditures</b>	<b>268,997</b>	<b>383,532</b>	<b>142,6%</b>
<i>From this: loss of value</i>			
<b>Operating profit</b>	<b>-494,219</b>	<b>207,223</b>	
Dividend and profit sharing receiv.	18,095	1 405,761	
<i>From this: mother - daughter</i>	<i>11,164</i>	<i>1 405,761</i>	
Exchange gain on sale of shares			
<i>From this: mother - daughter</i>			
Interest, exch.gain of inv.fin.assets		188,722	
<i>From this: mother - daughter</i>		<i>188,722</i>	
Other interests received	285,117	275,433	96,6%
<i>From this: mother - daughter</i>	<i>279,427</i>	<i>727,611</i>	<i>260,4%</i>
Other financial income	364,479	252,423	69,3%
<b>Financial income</b>	<b>667,691</b>	<b>2 122,339</b>	<b>317,9%</b>
Exchange loss of inv.financial asset		188,722	
<i>From this: mother - daughter</i>		<i>188,722</i>	
Interests payable	613,601	858,778	140,0%
<i>From this: mother - daughter</i>	<i>0,820</i>	<i>38,404</i>	
Loss of value of share, sec., deposit			
Other financial expenditures	606,101	176,272	29,1%
<b>Financial expenditures</b>	<b>1 219,702</b>	<b>1 223,772</b>	<b>100,3%</b>
<b>Financial profit or loss</b>	<b>-552,011</b>	<b>898,567</b>	
<b>Profit from ordinary activities</b>	<b>-1 046,230</b>	<b>1 105,790</b>	
Extraordinary income	278,486	3,074	
Extraordinary losses	190,697	37,310	
<b>Extraordinary profit or loss</b>	<b>87,789</b>	<b>-34,236</b>	
<b>Profit before tax</b>	<b>-958,441</b>	<b>1 071,554</b>	
Taxes payable	13,835		
<b>Profit after tax</b>	<b>-972,276</b>	<b>1 071,554</b>	



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**AGENDA NR. 2**

**TO PASS DECISION ON THE 2006 PROFIT ALLOCATION**

The Board of Directors of Danubius Hotels Nyrt. does not recommend the payment of dividend to the burden of the 2006 profit, as it intends to continue the utilisation of its sources for capital investments that are indispensably required for us to successfully meet the market challenges and hold our ground amongst fierce competition.

**AGENDA NR. 3**

**TO INFORM THE MEETING ABOUT THE 2007 BUSINESS TARGETS**

The 2007 plans are based on the assumption that in all countries where Danubius operates hotels, over and above the changes already known at the time of the planning, the business environment remains stable. At the same time we did not reckon with any significant changes in the market trends. These assumptions are especially important given the tense political situation in Hungary in recent months.

The new strategy introduced last year focuses on the improvement of quality, which continues to be a priority in all fields of operation. Strong emphasis is put on the development of guest relations in 2007. The Internet allows us to reach our guests directly without agents, therefore it is our intention to make some changes to our web page and introduce certain new features in the course of the year facilitating direct connections and sales. We will continue building out the central reservation system and applying our loyalty program re-named Danubius EuroPoints in our foreign hotels as well.

The exchange rate of the Forint has been fluctuating in Hungary strongly during 2006, which had a positive effect on our - especially main season - profits and this contributed to the remarkable growth of our average rates in 2006. However, in 2007 we are likely to face adverse exchange rate changes. The VAT rate was raised from 15% to 20% in the new government program introduced in September 2006. Our company is applying the new market prices as of 1<sup>st</sup> April, prior to which in several business deals with previously fixed rates we had no opportunity to compensate the effect of the VAT increase in our rates. When determining the rate increase we had to bear in mind that – even keeping our net prices unchanged – owing to the increase in VAT our guests have to pay more for our services. For the above reasons our plan is to keep average rates at the 2006 level.

In terms of volume, however, growth seems reasonable: we are forecasting 67% occupancy in our hotels in Hungary, around 2% higher compared to the prior year.

This year we will implement a special programme for our spa hotels – the Danubius Health Spa Resort brand – that suffered from increased competition in recent years. We are aiming at putting a stop to the continuous decreasing of the number of German guest nights via product development, active promotion and by reaching the guests directly. On the domestic market we are reckoning with the strengthening of demand partly owing to the long weekends connected to national holidays. In addition to this we are striving to utilise the possibilities offered by the Russian and Israeli markets. According to our plans we will be able to increase average rates this year by a couple of percent in our spa hotels, alongside a moderate increase of occupancy.

On the Budapest market we plan to achieve a growth in volumes in the business segment by intensive, pro-active sales. Due to the aftermath of the September-October turbulences last year, some conferences and events were cancelled in the first months but there are signs of a significant recovery on this market from the second quarter. The drop in the number of flight connections has a



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negative impact on the number of leisure guests; this shortfall can be especially felt on the British market. At the same time by raising prices in the group leisure segment we are aiming to decrease the ratio of this segment.

In the Czech hotels we have to take into account the lessening of the number of German guests and domestic guests financed from the health insurance system for 2007 too. To compensate this set back the Czech hotels focus primarily on marketing activities in the Central-Eastern European countries, concentrating especially on the acquisition of business via the Internet. Consequently, we expect a decrease in occupancy but we are targeting to maintain the level of revenue per available room. Calculating in Czech crowns we are expecting a stagnation of revenues and the increase of operating profit, despite the increasing pressure on the cost of labour power.

Slovakian hotels equally forecasted a downturn in the number of guests financed by the health insurance system, but we are expecting the stabilisation of the German and Austrian markets. Forecasts show a moderate demand from the Arab countries and Israel, while the new Russian interest promises significant growth.

We have opened the first five-star spa hotel in Slovakia in December, the Thermia Palace. The services of the hotel are in line with expectations of quality-focused guests of more spending power, due to which the prices of the new hotel are much higher compared to the company average, substantially improving the performance of the Slovakian subsidiary.

Romania joined the European Union, which, added to the general political and economic advantages inherent, will have a positive impact on the performance of our hotels. The domestic market is expected to continue its upturn and the strengthening of the business segment will help moderate the strong seasonality characteristic in Sovata. Owing to product developments carried out in the wellness-fitness area, we are expecting a growth of demand in this field too. The 2006 performance was outstanding and revenues are expected to continue increasing in 2007 too.

The required volume will be achieved in the case of the London hotel in 2007 too, due to the market conditions, the key task here is revenue management. We would like to increase the ratio of individual, direct bookings in this hotel too, simultaneously we aim to keep the existing major partners and raising the ratio of events connected to room sales.

In the course of our investment program in Hungary, reconstructions will be continued in a low-key manner to maintain the quality level of the hotels. The capital reconstruction programs involving Danubius Hotel Gellért and Hotel Nádor in Pécs will enjoy priority. In both cases preparations for a final decision as well as the planning procedures and examination of the return of different financing possibilities are in the pipeline. In Marienbad in the Czech Republic, the building of a new swimming pool in Hotel Hvezda and a corridor connecting Hotel Centralni Lázně with Nové Lázně will be the two major projects. Looking at the Piestany subsidiary, Danubius has met its reconstruction obligations undertaken in the privatisation agreement but refurbishment works aiming at the maintenance of the hotels will be ongoing in the coming years too. In Romania in order to meet the requirements set by business guests, we are envisaging to build meeting and function rooms. The wellness capacity will be increased and since the appearance of a value minded guest circle is to be expected, we started to work out plans for the complete reconstruction and increasing of quality of Hotel Bradet. In the London based hotel, room refurbishments are in process.

The changes of the EUR rate have a substantial effect on the operations of the Danubius Group. At the time of planning we were reckoning with the moderate strengthening of the Czech and Slovakian crowns and the Romanian lei and we applied 258 forint/euro rate, which, in the light of the current exchange rate, could be an optimistic assumption for the main season. Under these terms we forecasted consolidated revenues to exceed last year's by 5% and a 15 – 20% increase of operating profit is expected alongside strict control of operating costs.

**AGENDA NR. 4**

**TO ELECT MEMBER OF THE BOARD OF DIRECTORS**

The Board proposes the AGM to elect Alexei Schreier to be member of the Board of Directors.

**AGENDA NR. 5**

**TO ELECT MEMBER OF THE AUDIT COMMITTEE**

Pursuant to Act IV of 2006 on Joint Regulations on Business Associations our company has to set up an Audit Committee.

Members are proposed to be from among members of the present Supervisory Board:

Tibor Antalpéter, Dr. András Gálszécsey and Mrs Imre Surányi.

## **AGENDA NR. 6**

### **TO APPROVE THE NEW ARTICLES OF ASSOCIATION**

Act CXLIV of 1997 on Joint Regulations on Business Associations was replaced by Act IV of 2006 on Joint Regulations on Business Associations which entered into effect on 1 July 2006, and the Articles of the company is submitted accordingly.

#### **ARTICLES OF ASSOCIATION**

The text of the Statutes of Association of Danubius Hotel and Spa Public Limited Company (hereafter: Company), prepared pursuant to Act IV. of the Joint Regulations on Business Associations (Gt.) adopted by resolution no. .... at the General Meeting held on 26<sup>th</sup> April 2007:

#### **I. Firm name, seat, type of operation of the company**

##### **1.1. Firm name of the company:**

**Firm name of the company in Hungarian:**

Danubius Szálloda és Gyógyüdülő Nyilvánosan Működő Részvénytársaság

**Firm name of the company in English:**

Danubius Hotel and Spa Public Limited Company

**Firm name of the company in German:**

Danubius Hotel und Kurhotel Offene Aktiengesellschaft

**Abbreviated name of the company:**

Danubius Hotels Nyrt.

##### **1.2. Registered seat of the company:**

1051 Budapest, Szent István tér 11.

##### **1.3. Registered locations of the company:**

Danubius Information Office  
1052 Budapest, Szervita tér 8.

##### **1.4. Based on Paragraph (1) of Section 172 of the Gt. the company operates as a public company.**

#### **II. Duration of the company, scope of activities**

2.1. The company was established for an indefinite period of time. The company was founded as the general legal successor of Danubius Szálloda és Gyógyüdülő Vállalat on 31 July 1991.

2.2. According to the object clause in effect from 1 January 2003 the scope of activities of the company is:

5510'03 Hotel services (main activity)  
5523'03 Providing other commercial accommodation  
5530'03 Restaurant and confectionery catering  
5540'03 Other public sales catering  
5551'03 Operating staff canteen  
6330'03 Organisation of travels  
6713'03 Other financial services not classified otherwise  
7020'03 Property rent, management  
7210'03 Hardware advising  
7230'03 Data processing

7260'03 Other activities related to information technology  
7412'03 Other accounting activities  
7414'03 Management consulting  
7487'03 Other economic services not classified otherwise  
8512'03 Out-patient service  
8514'03 Other human medical services  
9261'03 Operating of sports grounds, stadiums  
9262'03 Other sports activities  
9272'03 Other free-time activities not classified otherwise

### **III. Registered Capital of the Company, Shares**

- 3.1. The registered capital of the company is HUF 8,285,437,000 (in letters: HUF eight billion two hundred and eighty five million - four hundred and thirty seven thousand) which consist of 8,285,437 pieces of registered, dematerialised ordinary shares with the identical face value of HUF 1,000 embodying identical rights. The share capital of the company is exclusively made up of cash contributions, which was entirely placed at the disposal of the company.
- 3.2. The shares are securities embodying membership rights. Shares of the company may exclusively be produced as dematerialised shares, on which data stipulated by the Gt. and related legal regulations have to be shown.
- 3.3. Pursuant to the regulations of the Act CXX of 2001 (hereafter as Tpt.) the issuer of dematerialised shares shall attach a single written instrument – that does not qualify as a financial instrument – with each security that is to contain:
- a/ all material particulars of the security as is prescribed by law, with the exception of the name of its holder,
  - b/ the instruction for issue,
  - c/ the aggregate face value of the entire series in issue,
  - d/ the number and face value of securities issued,
  - e/ the authorised signatures of two members of the Board of Directors of the company.
- 3.4. The company places the document issued based on item 3.2. in the Central Clearing House and simultaneously commissions the Clearing House to produce the security.

### **IV. Register of Shareholders**

- 4.1. The board of directors shall keep a register of the shareholders, including holders of interim shares, holding registered shares or their proxies in which the following shall be recorded: the name (company), and address (registered seat) of the shareholder or its proxy or the joint representative in case of jointly owned shares, the number of shares and interim shares by series of shares, (the degree of its ownership share) as well as any other data specified by law or articles of association of the company. Deleted data of the Register of Shareholders have to remain determinable.

The board of directors may commission the services of a clearing-house, central depository, investment firm or financial institution for keeping the register of shareholders. A notice on the outsourcing of these activities and the name of the service provider shall be published in the Company Gazett, the papers and the home page of the company.

- 4.2. When the acquisition of shares in the company is subject to approval by the authorities, the proxy must be recorded in the share register exclusively together with the shareholder or with the owner (ultimate beneficiary) of secondary securities issued on the shares of the company.
- 4.3. Persons may not be entered into the register of shareholders who so requested, or who have acquired their shares in violation of the regulations on the transfer of shares set forth by law or the articles of association.
- 4.4. Registration into the register of shareholders shall not be denied – with exceptions set forth in item 4.3. – if the share transfer took place in line with the regulations of the law.

## **V. Rights and obligations of the shareholder, the transfer of the shares**

5.1. In line with the conditions set forth in the Gt., the Tpt. and the present Articles shareholders shall have

### 5.1.1. the right to

- a/ participate, to request information, to make remarks and proposals at the general meeting and if holding shares with voting rights, to vote
- b/ exercise any rights in possession of the ownership certificate issued by the security account keeper,
- c/ receive a share (dividend) from the company's taxed profit of the year under review ordered to be distributed by the General Meeting established in accordance with the Accounting Act – with the exception of capital decrease - and from the taxed profit supplemented by available profit reserves in the percentage consistent to the face value of their shares,
- d/ transfer their shares,
- e/ receive a share in proportion to the face value of their shares from the assets remaining after settlement of all debts in the event of termination of the company without legal successor, unless otherwise provided by law,
- f/ exercise minority rights for shareholders representing at least five percent of the votes,
- g/ an access to the register of shareholders and to request a copy of a part related to them from the Board of directors or its representative, which the keeper of the register of the shareholders is obliged to provide within five days.

### 5.1.2. the obligation to

- a/ pay the entire face value of their shares and the issue value and provide contribution in kind,
- b/ notify the Hungarian Banking and Capital Market Supervision and the Board of directors about the acquisition of influencing interest in line with the Tpt. and the decrease of its degree,

## 5.2. Own shares

The company shall not be entitled to subscribe shares of their own issue, the total face value of the shares acquired during its operation and the own shares in its possession cannot exceed jointly ten percent of the capital at the same time. Voting rights shall not be attached to the own shares acquired by the company, and such shares shall not count for the purpose of a quorum or in connection with pre-emptive subscription rights.

## 5.3. The transfer of the shares

5.3.1. Purchase and transfer of the dematerialised share is to take place exclusively through debit and credit on the securities account, according to the Tpt and legal stipulations related to securities accounts.

5.3.2. The person is to be considered owner of the share – unless otherwise proved – on the account of whom the share is registered.

5.3.3. The transfer of the registered share is only valid and the shareholders rights can only be exercised vis-a-vis the company if the shareholder (or proxy) has been previously entered into the register of shareholders.

5.3.4. In the event if the extent of acquisition of participating interest reaches 5 (five) percent in the company determined by the Tpt., the shareholder shall notify the Hungarian Banking and Capital Market Supervision and the Board of directors within 2 (two) calendar days and initiate the publication of the announcement without delay. The shareholder has the same announcement and publication obligations in all subsequent share acquisitions in 5 (five) percent stages (10, 15, 20 % etc.)

Any acquisition of participating interest above fifty percent shall be notified and published only when the extent reaches 75% - 80% - 85% and 90% and upon any additional increase of 1% thereafter.

5.3.5 The above written regulations for announcement and publication also apply if the shareholders influence reduces to the extent set in item 5.3.4.

5.3.6 In determining the extent of interest, direct and indirect control, the interest held by persons acting in concert and the interest of close relatives shall be applied concurrently.

Where a participating interest is acquired by persons acting in concert, the obligation of notification and publication applies to all parties concerned.

## **VI. General Meeting**

6.1. The general meeting is the supreme body of the company limited by shares, which consists of all shareholders.

6.2. The types of general meeting, the method of convening it and its place:

6.2.1. The general meeting may be convened as an ordinary or extraordinary general meeting. The general meeting may exclusively be held in a traditional way, holding of a conference general meeting is not allowed by present articles.

The annual general meeting has to be held no later than 30 April every year.

In case of need extraordinary general meeting can be convened any time.

An extraordinary general meeting has to be convened any time if:

- initiated by the board of directors, the supervisory board,
- a request is submitted in writing - indicating the reasons and objectives - to the board of directors by the shareholders representing at least five percentage of the votes,
- the company limited by shares is obliged by the Court of registration,
- the company limited by shares has terminated payments and its assets do not cover the debts,
- the shareholder's equity of the company decreased to two-thirds of the registered capital due to losses,
- the party acquiring participating interest initiates it following the procedure of public purchase offer,
- in any other case stipulated by the Gt.

6.2.2. The Board of directors approves the place of the general meeting.

### **6.3. Convening the general meeting**

6.3.1. The shareholders are invited to the general meeting by means of announcement published at least 30 (thirty) days in advance of the first day of the general meeting in the newspapers set for this purpose.

If an extraordinary general meeting is called in consequence of the shareholders' opinion relating to a public takeover offer for the shares of the company or at the request of the person having acquired participating interest upon the successful conclusion of the public takeover offer, the general meeting shall be convened by way of announcement in the newspapers of the company at least 15 days in advance of the date of the general meeting.

Such announcement shall contain the following:

- the name and registered seat of the company,
- the place and time of the general meeting,
- the procedure of holding the general meeting,
- the agenda of the general meeting
- the conditions for exercising voting rights, as stipulated in the articles of association,
- the place and time of the reconvened general meeting in the event of failure to have quorum

6.3.2. If the general meeting fails to have quorum the reconvened general meeting shall be held after a period of between three – twenty one days have lapsed.

#### 6.4. The quorum of the general meeting

The general meeting has quorum if shareholders or their proxy authorised in a public or private document with full probative force representing more than half of the votes embodied by shares with voting rights are present.

If the general meeting fails to have quorum, the repeated general meeting convened for the date and place designated in the announcement shall have quorum in the issues of the original agenda irrespective of the number of those present.

In issues not included in the published agenda the general meeting may only pass decision if all shareholders are present and consent unanimously to their being put on the agenda.

#### 6.5. The procedure of holding the general meeting, the participation at the general meeting and the extent of voting right.

6.5.1. The chairman of the general meeting is assigned by the board of directors. Followings belong to the scope of task of the chairman of the general meeting:

to examine the voting rights of the participants of the general meeting, to establish if the general meeting has quorum, if it fails to have quorum the chairman postpones the general meeting till the date determined in the announcement made for the general meeting. The chairman shall propose the persons to be assigned chairman of the vote counting committee and the person confirming the minutes, he shall chair the meeting according to the agenda indicated in the announcement, he shall put motion to the vote and set forth the result as well as pass the resolution of the general meeting.

6.5.2. The shareholder may exercise his general meeting rights personally or through a properly authorised representative or a proxy if he has been entered into the share register of the company till the 3<sup>rd</sup> (third) working day prior to the day of the general meeting

There is no need for the shareholder to present the owner's certificate issued – for the practise of the participation rights at the general meeting – by the securities accounts-keeper, the shareholder verification is established by the Tpt.

The company requests Keler Zrt. to establish the shareholders' verification on the 5<sup>th</sup> (fifth) working day - as record date - prior to the general meeting with the aim of establishing the shareholders' or proxy's entitlement.

The keeper of the register of shareholders deletes all data available in the register of shareholders' valid at the time of establishing the shareholders' verification, simultaneously registers all data he gained access to as a result of establishing the shareholders' verification. The keeper of the register of shareholders is obliged to act as all deleted data can be determined.

6.5.3. The shareholder may exercise his general meeting rights personally or through a properly authorised representative or a proxy.

Authorisations for representation may be valid for one general meeting or a fixed period of time not to exceed twelve (12) months. This validity shall cover general meetings re-convened due to lack of a quorum.

Authorisations shall be submitted to the company in the form of an authentic instrument or private document representing conclusive evidence.

6.5.4. Members of the board of directors, executive employees of the company, members of the supervisory board or the auditor may not serve as representatives.

6.5.5. Every share of 1000 forint nominal value entitles to one vote.

6.5.6. Resolutions are passed at the general meeting by casting the votes.

## 6.6. The sphere of authority of the general meeting

### 6.6.1. Issues falling within the exclusive competence of the general meeting:

- a) decisions to approve and modify the articles of association unless stipulated otherwise by the Gt.
- b) decision on changing the form of operation of the Company,
- c) decision on the transformation and termination of the Company without legal successor,
- d) election and removal of members of the board of directors, the supervisory board and the auditor and establishing their remuneration,
- e) approval of the annual report on the balance according to the Accounting Act, including the report on Corporate Governance and the decision on the allocation of profit after tax,
- f) decision to pay interim dividends, if not stipulated otherwise by the Gt.
- g) alteration of the rights attached to various series of shares and the conversion of categories or classes of shares,
- h) decision to issue convertible bonds, or bonds with subscription rights, unless otherwise stipulated by the Gt.
- i) decision to increase the share capital unless otherwise stipulated by the Gt,
- j) decision to decrease the share capital unless otherwise stipulated by the Gt,
- k) decision to abolish pre-emptive subscription right
- l) decision on the authorisation of the board of directors -including conditions- related to the acquisition of own shares excluding the fact if the acquisition of the shares is forced upon the company to avoid facing direct severe damage unless otherwise stipulated by the Gt,
- m) decision on the introduction of the company on the stock exchange or its withdrawal,
- n) decision on taking steps for the disturbance of the procedure of making a public purchase offer (Gt. Section 305)
- o) decision on the acceptance of a public purchase offer made for the own share,
- p) election of the members of the audit board,
- q) decision on all issues that fall into the exclusive competence of the general meeting according to the company act (Gt.) or the articles of association.

6.6.2. The general meeting may only pass a resolution that culminates in the delisting of the equities from the Product List (based on item 6.6.1.m.), including decisions triggering a sanction to remove the security series from the Product List if any investor(s) made a previous commitment to make a bid in respect of the delisting as provided in the regulations of the Budapest Stock Exchange for Listing, Continued Trading and Disclosure.

6.6.3 Where an amendment to the articles is adopted in connection with the implementation of a general meeting resolution to increase or reduce the share capital, the approval of the general meeting for the amendment of the articles shall be considered granted when the resolution to increase or reduce the share capital is adopted.

## 6.7. The voting ratio necessary for passing a resolution

6.7.1. The general meeting passes its resolutions – unless otherwise stipulated by the law or the articles – by a simple majority of votes.

6.7.2. The general meeting passes a resolution in connection with the following issues by at least three/quarter majority of the votes:

- a) establishing and modifying the articles,
- b) modifying the form of operation of the company
- c) decision on the transformation of the company and its termination without legal succession,
- d) changing the rights attached to certain share series and transformation of certain types of shares, classes of shares,
- e) decision on the reduction of the share capital unless – otherwise stipulated by the Gt.
- f) decision for taking measures to intervene in a public takeover bid (Gt. Section 305)

#### 6.8. Attendance sheet, minutes

The shareholders present at the general meeting shall be entered into an attendance sheet which shall contain the name (company) and domicile (registered office) of the shareholder or its representative, the quantity of shares, and the number of the votes he is entitled to and any changes during the general meeting in the persons of those present.

The attendance sheet may be made out mechanically - in the event of vote counting by computer - in which case each and every attendance sheet has to be attached indicating the above data and signed by the share-owner or his representative.

The attendance sheets shall be signed by the chairman of the general meeting and the keeper of the minutes.

6.9. A minutes shall be kept about the general meeting. The minutes contains the name and registered seat of the company, the method, place and time of the general meeting, the name of the chairman, keeper of the minutes, the person confirming the Minutes, the official vote counters, the key events taken place at the general meeting, the proposals made, the draft resolutions, the number of votes cast for and against draft resolutions, and the number of abstentions.

The minutes shall be signed by the keeper of the minutes and the chairman and shall be confirmed by a shareholder being present and elected as the person in charge thereof.

### **VII. The Board of Directors**

#### 7.The executive management

7.1. The executive management body of the company is the board of directors. The management of the company is controlled by one– tier system.

7.1.1. Members of the board are qualified executive officers of the company.  
The members of the board must be natural persons.

The members of the board must discharge their duties relating to the company's internal affairs and its bodies and other officers in person, no representation is allowed.

7.1.2. The members of the board may not serve in this position under contract of employment.

7.1.3. The provisions of this Act relating to company law shall apply in connection with the rights and obligations of the members of the board in this capacity, whereas any matter not regulated as per the above shall be governed by the provisions of the Civil Code relating to personal service contracts.

7.1.4. A senior officer shall become member of the board in another business association pursuing similar major activities to that of the company with previous consent of the board.

#### 7.2. The appointment, remuneration and termination of the mandate of the members of the board of directors

7.2.1. The board of directors consists of maximum eleven (11) and minimum three (3) members. They are elected by the general meeting for the period till the day of annual general meeting to be held in the fifth year from the day of election but no later than the 30<sup>th</sup> day in April of the fifth year.

The appointment to board member enters into effect upon acceptance by the person under review.

The board of directors has presently eleven (11) members:

Sir Bernard Schreier

mother's name:

address:

Katzwiener Anna

18 Lodge Road, St. John's Wood, London, NW8 7JT, GB



**DANUBIUS HOTELS  
GROUP**

Betegh Sándor mother's name: address:	Béldi Erzsébet 1126 Budapest, Fodor utca 29/A.
John E. Smith mother's name: address:	Sybil Jones 10 Bearswood End Beaconsfield Bucks HP9 2NR, GB
Robert Levy mother's name: address:	Evelyn Goldberg 50/1 Belsize Square London NW3 4HN, GB
dr. Deák Imre mother's name: address:	Gertner Etel 7635 Pécs, Erdész u. 53.
dr. Fluck István mother's name: address:	Kedvessy Hilda 1112 Budapest, Eper u. 20.
Tóbiás János mother's name: address:	Csikai Éva 1136 Budapest, Tátra u. 4.
László József mother's name: address:	Rausch Teréz 1016 Budapest, Naphegy u.33.
Iris Gibbor mother's name: address:	Lily Geckt 5. Hall Road London NW8 9PE GB.
Ing. Lev Novobilsky mother's name: address:	Mary Carrick 35301 Mariánské Lázně, Školní náměstí 581/9 A, CZ
Alexei Schreier mother's name: address:	Anna Plochova Flat 4, 2 Green Street, London, W1K 6RL, GB

7.2.2. The remuneration of members of the board are established by the general meeting.

All certified travelling, accommodation and other charges occurring in connection with the obligations related to this office shall be refunded.

7.2.3. The members of the board can be re-elected and re-called by the general meeting without obligation for justification at any time.

The contract of a member of the board shall terminate:

- a) upon expiration of the term of appointment,
- b) upon removal of the member of board,
- c) upon occurrence of any statutory grounds for disqualification,
- d) upon resignation,
- e) upon death of the member of board,
- f) in any other case specified in another Act.

The members of the board may resign their office any time. However, if so required by any vital interest of the company, such resignation shall only take effect on the sixtieth day after the announcement thereof, unless the general meeting has already provided or could have provided for the election of a new member beforehand.

Until the resignation takes effect, the member of the board shall participate in making any urgent decisions and taking any urgent measures.

### 7.3. Sphere of competence and tasks of the board of directors

The board of directors is the executive organ of the company, it represents the company vis-a-vis third persons as well as before the court and other authorities, it establishes the working organisation of the company, it determines the business activity, authorises the employees of the company for signing in the name of the company and exercises all those rights which do not belong to the exclusive sphere of authority of the general meeting.

The board of directors exercises employer rights vis-a-vis the CEO and deputy CEO-s. Any other employer rights vis-a-vis other employees of the company belong to the authority of the CEO.

The Board of Directors shall elect a chairman and deputy-chairman from among its members.

#### 7.3.1. In addition to the above mentioned following tasks belong to the sphere of competence of the board of directors:

- a) to determine the place and date of the general meeting, and to elect the person of the chairman of the general meeting,
- b) to submit the report prepared based on the Accounting Act and the proposal for the allocation of the profit after tax,
- c) to issue instructions, recommendations relating to objectives of practical business policy and economy,
- d) to conclude, to amend, and to terminate each contract exceeding the value limit of HUF 100,000,000, (in letters: HUF One hundred million),
- e) to decide on the participation in an economic company over the value limit of HUF 50,000,000, (in letters: HUF Fifty million),
- f) to exercise employer's rights vis-a-vis the president, and vice presidents,
- g) to purchase and sell real estates,
- h) to approve the organisational regulations and the rules of procedure,
- i) to authorise entitlement to representation to employees of the company,
- j) to conclude a contract concerning the keeping of the share register,
- k) to take care of the proper keeping of the business books of the company,
- l) to prepare a report relating to the management, the financial situation and the business policy of the company at least once a year for the general meeting and once in three months for the supervisory board,
- m) to meet announcement and extraordinary announcement obligations vis-a-vis the Budapest Stock Exchange and the Hungarian Banking and Capital Market Supervision with the contents set and till the date determined by the provisions of the law,
- n) to announce any modification of data registered into the company registry or any other data subscribed by law to the court of registration,
- o) to purchase or alienate own shares based on the authorisation of the general meeting,
- p) to acquire own shares to avoid any serious damage the company is directly facing.

The board of directors is entitled to acquire own shares exclusively based on the authorisation of the general meeting in case of a public purchase offer made – in line with a separate law - for the shares of the company.

The board of directors publishes major data of the statement prepared based on the Accounting Act, the report of the board of directors and the report of the supervisory board as well as a summary about the proposals of the issues included on the agenda of the general meeting and the proposals for decision at least fifteen days prior to the general meeting, in line with the provisions related to the disclosure of announcements of the company.

### 7.4. The operation of the board of directors

#### 7.4.1. The board of directors shall exercise its rights and perform its duties as an independent body.

The rules of procedure approved by the board of directors shall provide for the division of tasks and competence among the members of the board.

- 7.4.2. The board shall normally have a meeting each month but at least once in a quarter. The board is convened by the chairman in his absence by his deputy.
- 7.4.3. Invitation to the board meeting shall be posted at least eight (8) days prior to the meeting. In special cases the meeting may be convened personally or per telephone.
- 7.4.4. The board of directors has a quorum if more than half of the board members are present. The decisions of the Board are passed by a simple majority vote cast. In the event of tie vote the voice of the chairman shall have a decisive power.
- 7.4.5. Each or any member of the board may participate at the board meeting by way of video-conference system or any other telecommunication system enabling all participants to hear what is said. A board member participating in such a way must be considered present and has the right to vote.
- 7.4.6. The Board may pass its decision also without holding a meeting, if all of its members approve or refuse in writing the motion sent to them.
- 7.4.7. A Minutes has to be kept about all the board meetings including the place and time of the meeting, the names of the participants, the agenda of the meeting, the essence of the debate, the motions tabled, the poll and the possible no votes.
- 7.4.8. The members of the Board are obliged to manage the company with extraordinary diligence as expected from persons bearing such an office, setting priority to the interests of the company.

### **VIII. The Supervisory Board**

#### **8.1. Appointment, remuneration and termination of mandate of members of the supervisory board**

- 8.1. 1. The supervisory board of the company consist of 3-15 persons elected for the period till the day of annual general meeting to be held in the fifth year from the day of election but no later than the 30<sup>th</sup> day in April of the fifth year.

Should the annual average of the number of full-time employees employed at the company exceed two-hundred, the representatives of the employees shall comprise one-third of the members of the supervisory board.

The appointment to supervisory member enters into effect upon acceptance by the person under review. The remuneration of the supervisory members is established by the general meeting.

- 8.1.2. The majority of the members of the supervisory board have to be independent persons. The member of the supervisory board is qualified independent if he has no other legal relationship with the company than the supervisory membership.

Members of the supervisory board:

Antalpéter Tibor  
mother's name:  
address:

Dobai Viktória  
1025 Budapest, Kavics u.11.

Surányi Imréné  
mother's name:  
address:

Montag Irén  
2310 Szigetszentmiklós, Horgász u.2.

Dr. Boér Gábor  
mother's name:  
address:

Veres Rozália  
1025 Budapest, Cseppkő u.36.

Dr. Gálszécsy András

mother's name:

address:

Rozsnyay Olga

1031 Budapest, Rozália u. 35.

8.1.3. The member of the supervisory board can be re-elected and re-called by the general meeting without obligation of justification at any time.

To the appointment and recalling of employee representatives the provisions of the Gt. shall apply.

8.1.4. The appointment of the member of the supervisory board shall terminate if:

The contract of the supervisory board terminates:

- a) upon expiration of the term of appointment,
- b) upon removal of the member of the supervisory board,
- c) upon occurrence of any statutory grounds for disqualification,
- d) upon resignation,
- e) upon death of the member of the supervisory board,
- f) in any other case specified in another Act.

The members of the supervisory board may resign their office any time. However, if so required by any vital interest of the company, such resignation shall only take effect on the sixtieth day after the announcement thereof, unless the general meeting has already provided or could have provided for the election of a new member beforehand.

Until the resignation takes effect, the member of the supervisory board shall participate in making any urgent decisions and taking any urgent measures.

8.2. The sphere of authority and tasks of the supervisory board:

The supervisory board:

- a) may request information from the executive and senior officers of the company which is to be submitted to the board of directors in writing, to which the board is obliged to reply within 15 days of receipt,
- b) reviews all vital business reports included on the agenda of the general meeting and all proposals concerning matters belonging to the extraordinary sphere of authority of the general meeting.  
The general meeting may only pass decision related to the reports according to the Accounting Act and allocation of the profit after tax having received the written report of the supervisory board.
- c) has the books and documents of the company review by an expert if necessary,
- d) if, according to the judgment of the supervisory board the activity of the management is contrary to the law, the article or the resolutions of the general meeting or otherwise infringes upon the interests of the company or its shareholders, calls the extraordinary meeting of the company and proposes its agenda, Members of the supervisory board may attend sessions of the general meetings in an advisory capacity.

8.3. The operation of the Supervisory board

8.3.1. The supervisory board acts as an independent body and elects a chairman from among its members.

The members of the supervisory board shall act in person, representation on the supervisory board is not allowed.

8.3.2. The meeting of the supervisory board is convened by the chairman.

The chairman is obliged to convene the meeting even if a request is submitted to the chairman in writing indicating the reasons and purpose by any member of the supervisory board.

8.3.3. The supervisory board shall establish its rules of procedure by itself, subject to approval by way of a resolution passed by the general meeting.

## **IX. The Audit Committee**

9.1. The general meeting of the company elects an audit committee from three independent persons of the supervisory board for a period equal to the period of the supervisory board membership.

9.2. The task of the audit committee is especially:

- to form an opinion on the annual report prepared according to the Accounting Act,
- to recommend the person and remuneration of the auditor,
- to prepare the contract to be concluded with the auditor,
- to monitor compliance with the qualification requirements and with the regulations on conflict of interest in connection with the auditor,
- to discharge the duties relating to cooperation with the auditor and where necessary tabling recommendations to the supervisory board for taking measures,
- to analyse the financial reporting system and making recommendations when any action is deemed necessary,
- to assist the work of the supervisory board so as to exercise proper control of the financial reporting system.

9.3. The members of the audit committee:

Antalpéter Tibor  
mother's name: Dobai Viktória  
address: 1025 Budapest, Kavics u.11.

Surányi Imréné  
mother's name: Montag Irén  
address: 2310 Szigetszentmiklós, Horgász u.2.

Dr. Gálszécsy András  
mother's name: Rozsnyay Olga  
address: 1031 Budapest, Rozália u. 35.

9.4. The audit committee elects a chairman from among its members.

9.5. The audit committee establishes its rules of procedure on its own, which is approved by the supervisory board.

## **X. The Auditor of the company**

### **10.1. Appointment of the auditor**

10.1.1. The auditor is elected by the general meeting for a period of one (1) business year until the day of the approval of the report prepared in line with the Accounting Act but no later than 30 April.

Simultaneously, the general meeting shall define the contents of the essential elements of the contract to be concluded with the auditor.

10.1.2. Persons included in the register of auditors in accordance with the relevant regulations may be elected as an auditor.

Where the general meeting selects a legal person to audit the company's accounting documents, this legal person shall be required to designate the person, member, executive officer or employee who will be personally responsible for carrying out the audits.

In the event of any extended absence of the designated auditor, a substitute auditor may be appointed.

10.1.3. The auditor may not be founder, shareholder, executive officer, supervisory board member of the company, or their close relative (Section 685 of the Civil Code), domestic spouse, nor an employee of the company during the life of their relationship and three (3) years after termination of such capacity.

10.1.4. An auditor's appointment shall be considered accepted upon the auditor's signature of a personal service contract with the company's management within ninety days of the date of appointment. Failure to sign the contract within the above time limit shall terminate the auditor's appointment, following which the general meeting is to appoint another auditor.

10.2. The present auditor of the company is:

KPMG Hungária Könyvvizsgáló, Adó-és Közgazdasági Tanácsadó Korlátolt Felelőségű Társaság  
1139 Budapest, Váci út 99.  
registration number at chamber: 000202  
Registration number: 01-09-063183

Appointed auditor:  
Szabó Péter (mother's name: Kovács Róza)  
1028 Budapest, Kisasszony u. 9.  
registration number at chamber: 00530

10.3. The sphere of authority and tasks of the auditor

a) The auditor shall be responsible for carrying out the audits of the accounting documents as specified in the Accounting Act, including to determine whether the annual report filed by the company as prescribed in the Accounting Act is in conformity with the legal requirements and whether it provides a true and fair view of the company's assets and liabilities, financial position and profit and loss and report to the general meeting about the above listed. Without listening to the report of the auditor the general meeting may not pass a resolution on the accounting report.

b) With a view to carrying out his duties the auditor may inspect the books of the company, may request information from the executive offers and employees of the company and may examine the bank accounts, client accounts, the accounting system and contracts of the company.

c) If the auditor ascertains or otherwise learns that a considerable decrease in assets of the company is probable or perceives any other issue which entails the liability of the executive officers or supervisory board members as set forth in this Act, he shall request that the general meeting be convened. If the company's general meeting is not convened or the general meeting fails to adopt the decision required by the legal regulations, the auditor shall inform the competent court of registry vested with judicial supervisory competence.

## **XI. Payment of dividend**

11.1. The annual general meeting decides upon the allocation of costs based on the proposal of the board of directors previously approved by the supervisory board.

If based on its decision a payment of dividend shall take place the general meeting shall decide the extent of the dividend to be paid, the record date of the shareholder verification to be prepared for the dividend payment and the starting day of the dividend payment.

11.2. Shareholders' are entitle to dividends who have been registered into the Register of Shareholders on the record date announced by the company for the verification of shareholders and data about them needed for the payment of dividends determined in the legal regulations are available.

11.3. A least 10 working days have to pass between the first appearance of the announcement about the general meeting's resolution on the payment of dividend and the starting day of the dividend payment.

11.4. At least 5 working days have to pass between the date of the general meeting and the record date of the shareholders verification regulated by Keler Zrt. in connection with the payment of dividend.

11.5. Any dividend payable on the company's own shares shall be taken into account as profit reserve.

## **XII. Increase of Registered Capital**

12.1. Registered capital may be increased:

- a) by the issue of new shares,
- b) from the assets not comprising part of the share capital,
- c) by the issue of employees' shares,
- d) by the issue of convertible bonds, as conditional upon the increase of the share capital.

The types and methods of increasing the share capital may be decided on and implemented at the same time.

12.2. The increase of share capital by way of the public issue of new shares may be effected in exchange for cash contributions only.

### 12.3. Sphere of authority issues related to capital increase

12.3.1. The general meeting passes resolution on the increase of capital based on the proposal submitted by the board of directors, or the board of directors based on the authorisation drafted in the general meeting's resolution.

If the general meeting authorises the board of directors to increase the share capital, the amount limit (approved share capital) by which the board of directors is allowed to increase the share capital over a period of max. five years has to be specified in the authorisation.

The authorisation granted by the general meeting relates to all forms and methods of capital increase contained in Subsections (1) and (2) of Section 248 of the Gt.

The authorisation granted to the board of directors for the increase of share capital also constitutes an entitlement and obligation for the board of directors to adopt decisions relating to the increase of share capital, which otherwise fall within the competence of the general meeting by law or according to the articles including the amendment of the articles that becomes necessary upon the increase of share capital.

12.3.2. Where a company has issued shares of different types or classes following is required for the increase of the share capital or the temporary passing over of the sphere of authority related to the increase of capital as a pre-condition for the resolution adopted by the general meeting to take effect: the holders of types or classes of shares which are directly affected by the capital increase, or the holders of shares which are deemed affected by the articles of association, both present at the general meeting, have to also give their separate consent to the increase of share capital or the passing over of the sphere of authority by three-quarter majority, by series of shares. In the course of this, provisions – with the exception of the exclusion of voting rights related to own shares – in connection with the limitation or termination of voting rights attached to the shares may not be applied.

This rule will be applied also in the case of the general meeting's resolution authorising the board of directors for a capital increase.

### 12.4. Preferential right for subscription

Where the share capital is increased by way of a cash infusion, within the company's shareholders first the holders of shares belonging to the same series of issue, and then the holders of convertible bonds and the holders of bonds with subscription rights in tandem shall be granted preferential rights - in this sequence - for the subscription of shares subject to the conditions laid down in the Articles of association.

By publishing an announcement the company shall notify its shareholders and the holders of convertible bonds and bonds with subscription rights concerning their options and the procedure to exercise the preferential right for the subscription of shares, including the face value or issue price of shares which may be acquired, and the first and last days of the period (at least 15 days) during which such right can be exercised.

The company shall also supply information concerning the exercise of preferential subscription rights by electronic means at the request of the shareholder conveyed through electronic mail.

#### 12.5. Private issue of shares

The general meeting may decide to entitle exclusively persons or shareholders set in the resolution of the general meeting concerning the capital increase for registering new shares issued.

If persons or shareholders determined by the general meeting have not registered any shares equalling the registration minimum till the closing day of registration, the capital increase is to be considered abortive.

#### 12.6. Increase of share capital to the burden of its assets other than the share capital

The company may transfer all or part of its assets other than the share capital to increase the share capital, if, according to the balance sheet of the annual report prepared for the previous financial year in line with the Accounting Act or to the interim balance sheet of the current year there are sufficient funds available for the capital increase, and if the company's share capital will not exceed its equity capital adjusted in accordance with the Accounting Act.

The shares embodying the increased share capital shall be conveyed to the company's shareholders free of charge, in proportion to the face value of their shares.

### **XIII. Reduction of share capital**

13.1. The company may reduce the share capital, in the cases defined in this Act reduction of the share capital is mandatory.

Where reduction of the share capital is prescribed mandatory by the Law, the decision for conditional reduction of share capital – depending on the successful completion of the capital reduction procedure – shall be made by the court of registry within 15 days at the company's request.

The board of directors shall inform the shareholders concerning the final court decision no later than the next general meeting.

13.2. Where a company has issued shares of different types or classes following is required for the decrease of the share capital as a pre-condition for the resolution adopted by the general meeting to take effect: the holders of types or classes of shares which are directly affected by the capital decrease, or the holders of shares which are deemed affected by the articles of association, both present at the general meeting, have to also give their separate consent to the decrease of share capital by three-quarter majority, by series of shares. In the course of this, provisions – with the exception of the exclusion of voting rights related to own shares – in connection with the limitation or termination of voting rights attached to the shares may not be applied.

### **XIV. Representation and Procuration**

14.1. Procuration is effected when those authorised for procuration jointly attach their signatures to the pre-written, printed or pre-stamped name of the company.

14.2. Authorised for representation and procuration are:

- a) two members of the Board of Directors jointly,
- b) two employees jointly authorised for procuration by the Board,
- c) one member of the Board of Directors with an employee jointly authorised for procuration.

### **XV. Termination of the company limited by shares**

15.1. The company terminates if:

- a) the general meeting decides on its termination without legal succession,
- b) the general meeting decides on its termination with legal succession (reorganisation),

- c) it is declared terminated by the court of registration due to the reasons determined in the Ctv.,
- d) the court terminates it by way of liquidation.

15.2. The company shall be deemed terminated upon cancellation from the register of companies.

#### **XIV. Miscellaneous provisions**

16.1. The Company shall publish its announcements on the web page [www.bet.hu](http://www.bet.hu) of the Budapest Stock Exchange and among company information on the company's web page [www.danubiushotels.com](http://www.danubiushotels.com). Reference to the announcement papers of the company in present Articles or any other statutes means the web page [www.bet.hu](http://www.bet.hu) of the Budapest Stock Exchange and the company's web page [www.danubiushotels.com](http://www.danubiushotels.com).

16.2. For the issues not regulated in present Article the provisions of Act IV. of 2006 on business associations (Gt.) and Act CXX of 2001 on the capital market (Tpt.) shall apply.

16.3. Should any dispute arise in connection with or out of this Article between the Company and its shareholders or among the shareholders, the parties shall try to settle it in an amicable way. For the event that their efforts fail to bring any positive result, the parties stipulate the exclusive jurisdiction of the Arbitration acting alongside the Hungarian Chamber of Commerce.

Budapest, 26 April 2007

Countersigned by:

.....  
Dr. Mária Szabó Dr. Gerelyes  
company solicitor  
Bp. 26 April 2007