

Opinion  
of The Board of Directors of  
**Danubius Szálloda és Gyógyüdülő Nyilvánosan  
Működő Részvénytársaság**

on the Mandatory Public Offer to purchase all of its ordinary  
registered shares made by

**CP Holdings Ltd.  
Israel Tractors Ltd and  
Interag Holding Zrt.**

as Bidders

**Budapest, August 31. 2006**

The Board of Directors of Danubius Szálloda és Gyógyüdülő Nyilvánosan Működő Részvénytársaság (seat: 1051 Budapest, Szent István tér 11.) (the "**Company**") in accordance with Section 73/A (4) and Appendix 9 of the Capital Markets Act of Hungary of 2001 (the "Tpt.") is issuing the opinion set forth below with regards to the public offer submitted by CP Holdings Ltd. (12 York Gate, London NW1 4QS, United Kingdom), Israel Tractors and Equipment Co. Ltd. (4 Ramot Yam, Herzelia, Israel) and Interag Holding Zrt. (1051 Budapest, Szent István tér 11., Hungary) (the „Bidders”) to purchase all registered ordinary shares of the Company which are not held by any of the Bidders:

**1. The Company’s name and seat:**

Danubius Szálloda és Gyógyüdülő Nyilvánosan Működő Részvénytársaság  
(1051 Budapest, Szent István tér 11.)

**2. Summary of the Public Offer**

On August 8, 2006, the Bidders submitted the Offer to the Supervision for approval and simultaneously sent it to the Board of Directors of the Company. The Offer was published in the daily newspaper Magyar Tőkepiac, the website of Magyar Tőkepiac ([www.magyarতোkepiac.hu](http://www.magyarতোkepiac.hu)) and the website of the Budapest Stock Exchange ([www.bet.hu](http://www.bet.hu)). The Operational Plan regarding the future operations of the Company prepared by the Bidders as well as the Bidders’ Business Report can be viewed at the Accepting Premises of HVB Bank Hungary Zrt. (the "**Broker**"), listed in the Offer.

The Offer Price for the Company’s shares is 5,825 HUF, that is five thousand eight hundred and twenty five forints.

According to the conditions set forth in the Public Offer, the Bidders shall pay the Offer Price within 5 work days after the Closing Day, with the Broker’s assistance, for all shares validly offered during the Offer Period, regardless of their quantity. The Share Transfer Agreement will be executed on the Closing Day between the Bidders and the Accepting Shareholders appointed in accordance with the allocation described in section II./2.1. of the Offer.

The Offer Price will be paid exclusively in Hungarian forints.

The Offer Price will be transferred to the bank account of the Accepting Shareholder at his/her local bank as per his/her instructions included in the Form of Acceptance. In accordance with Clause II/2.4 of the Offer the Bidders shall pay for all the costs of the transfer of the Offer Price to the bank account of the Accepting Shareholder. All other costs and fees incurred at the Broker or the shareholder’s bank in connection with the Offer shall be paid by Accepting Shareholder.

The Offer Period shall be the period of 30 (thirty) days commencing on the 2<sup>nd</sup> (second) day following the date of publication of the Offer at the Publication Places after its approval by the Supervision.

The Offer has been approved by the Supervision on August 30, 2006 by its resolution No. **E-III/26.061-1/2006.**

**3. Declaration of the Company’s Board Members with regards to their management positions in the Bidders and their influence over the Bidders, or entities having influence over the Bidders or other relationship with these entities**

The Company’s Board of Directors hold the following positions in the Bidders and they have direct influence over the Bidders:

<b>Company Board member</b>	<b>The Bidder’s name</b>	<b>Position in the Bidder</b>
Sir Bernard Schreier	CP Holdings Ltd., Israel Tractors and Equipment Co. Ltd.	Chairman and Chief Executive Officer Chairman
John E. Smith	CP Holdings Ltd. Interag Holding Zrt.	Joint Managing Director Member of the Supervisory Board
Robert Levy	CP Holdings Ltd., Israel Tractors and Equipment Co. Ltd.	Joint Managing Director Board Member
Iris Gibbor	CP Holdings Ltd.	Director

The influence the Company’s directors may exercise in the Bidders and in companies that are controlling the Bidders are summarized below:

Sir Bernard Schreier owns 5% of CP Holdings Ltd and is a trustee of two trusts each owning 25% of CP Holdings Ltd.

Israel Tractors and Equipment Co. Ltd. is indirectly controlled by CP Holdings through Kenyon Phillips Acquisition LLC – an entity registered in the United States and owned by CP Holdings (100%). Kenyon Phillips Acquisition LLC owns 100% of IT.

Interag is indirectly controlled by CP Holdings through: (i) Investor Holding Zrt. – a company incorporated in Hungary—and owned by Kenyon Phillips Acquisition LLC (98%), CP Holdings (1.8%) and other private individuals and companies – which owns 78.86% of Interag, (ii) Kenyon Phillips Acquisition LLC – as described above – which owns 12.53% of Interag and (iii) Israel Tractors and Equipment Co. Ltd. – as described above – which owns 1.28% of Interag.

Sir Bernard Schreier is the Chairman of Investor Holding Zrt., Mr. Levy is on its Board of Directors.

Mrs. Iris Gibbor, Sir Bernard Schreier’s daughter, owns 25% of CP Holdings Ltd. A trust for the benefit of Mrs. Gibbor’s children, owns an additional 25% of the Company.

There is no other relevant relationship between the Bidders, or entities having influence in the Bidders, and the Company’s directors.

#### **4. The Company's Ownership Structure**

The Company's registered capital is 8,285,437,000 HUF, that is eight billion two hundred and eighty-five million four hundred and thirty-seven thousand forints, which represents 8,285,437 ordinary shares, with a face value of 1,000 forints each.

53.4% (that is 4,424,053) of the Company's shares representing direct and indirect influence in the Company is controlled by the Bidders. Not considering the Company's own shares the Bidders control 55.93% of the voting rights in the Company. The table below shows the % ownership and direct influence (voting rights) of the Bidders, and other shareholders having an interest over 5% in the Company<sup>1</sup>.

<b>Name</b>	<b>Number of registered shares</b>	<b>Stake (%)</b>	<b>Voting rights (%)</b>
Interag Holding ZRt.	2,434,092	29.38	30.77
CP Holdings Ltd.	1,483,264	17.90	18.75
British Empire Securities and General Trust Plc. <sup>2</sup>	521,203	6.29	6.59
Israel Tractors and Equipment Co. Ltd	506,697	6.12	6.41

The difference between the percentages of the share ownership and the voting rights is due to the Company's own - non-voting - shares of 374,523.

#### **5. The Offer's effect on the Company's employees**

The increase of the Bidders' influence through this Offer will not have an effect on the Company's employees since the Bidders already control 53.4% of the Company's shares and the Bidders have always been active participants in the Company's decisions. The Bidders do not plan significant changes in the positions and present conditions of the Company's employees and management team. The Bidders believe that the current Offer will not affect the present conditions of employment at the Company. The Bidders also anticipate no changes at the Company's sites as a result of the Offer.

#### **6. The independent financial consultant.**

The Board of Directors has retained Liffey Tanácsadó Kft.-t (the sole licensee of Horwath International in Hungary & Russia to undertake hotel, tourism and leisure sector consulting work) as the independent financial consultant pursuant to section 73/A.§ (5) of the Tpt. to evaluate the Offer from financial standpoint. The Board of Directors is of the view that no conflict of interest exists in connection with the independent financial consultant, which restricts the ability of the independent financial consultant to provide an unbiased view from financial standpoint regarding the Offer.

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<sup>1</sup> Pursuant to the book of shares dated on Jun 30, 2006

<sup>2</sup> It does not belong to the Bidders

The Liffey Tanácsadó Kft. (the sole licensee of Horwath International in Hungary & Russia to undertake hotel, tourism and leisure sector consulting work) acting as an independent financial consultant declared in its opinion, that it appears that the Offer Price per share, specified in the Offer dated 8 August 2006, falls within a reasonable range of values for the Company at the date of the valuation, without regard to any changes in the circumstances of the Company following the completion of the Public Offer.

The opinion of the independent financial consultant is available at the place of the inspection of the opinion of the Board of Directors and will be published on the website of the Budapest Stock Exchange ([www.bet.hu](http://www.bet.hu)) and the Company ([www.danubiushotels.com](http://www.danubiushotels.com)).

#### **7. The opinion held by the Company's employees with regards to the Offer**

The Board of Directors has sent the Offer to the Workers' Council at the Company and the Management Committee of the Union. The Workers' Council and the Management Committee of the Union support the Offer and they wish to further strengthen the relationship with the current management, which is characterized by good cooperation.

The opinion of the Workers' Council and the Management Committee of the Union is available at the place of the inspection of the opinion of the Board of Directors and will be published on the website of the Budapest Stock Exchange ([www.bet.hu](http://www.bet.hu)) and the Company ([www.danubiushotels.com](http://www.danubiushotels.com)).

#### **8. Taking into account the information in sections 1-7 the Company's Board of Directors recommends to the shareholders of the Company to accept the Bidders' Offer.**

The Company's Board of Directors recommends that shareholders take into account the following matters in addition to other matters mentioned in this report:

The Bidders are currently the majority shareholders of the Company. As in the past, the Bidders plan to play a decisive role in the Company's future operations as well. With the exception of a few decisions, requiring the approval of 75% of the Company's shareholders, the Bidders can make decisions at General Meetings alone, which they have done a number of times in the past with a view to increase shareholder value.

In the past the Company did not, or only occasionally, paid out dividends and the management's intention is to continue this policy and does not recommend the payment of significant dividends in order to reserve these funds for major capital intensive developments and reconstruction works. The majority shareholders have supported this strategy.

Taking all these facts into account, the Board of Directors, with the abstention of the chairman of, and two Board members delegated by, CP Holdings Ltd. and without votes against, resolved that the Offer Price has been formulated in accordance with the relevant legal provisions, is in line with the valuation of the Company and recommends to the Company's shareholders to accept the Offer.

However, we recommend the shareholders of the Company to consult an independent investment consultant and to take into consideration the share price on the stock exchange before accepting the Offer.

Budapest, August 31. 2006

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dr. Imre Deák  
Board Member

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János Tóbiás  
Board Member