



**DANUBIUS HOTELS
GROUP**

DANUBIUS HOTELS RT.

2004

**CONSOLIDATED
FINANCIAL STATEMENTS**

ACCORDING TO IFRS

Danubius Hotel and Spa Rt. and Subsidiaries

**Consolidated
Financial Statements**

December 31, 2004
with Report of the Independent Auditor

Danubius Hotel and Spa Rt. and Subsidiaries
Financial Statements
For the year ended December 31, 2004

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Report of the Independent Auditor

To the Shareholders of Danubius Hotel and Spa Rt.

We have audited the accompanying consolidated balance sheet of Danubius Hotel and Spa Rt. and its subsidiaries (“the Group”) as of December 31, 2004 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of December 31, 2004, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Budapest,
March 18, 2005

KPMG Hungária Kft.

David Thompson
Partner

Danubius Hotel and Spa Rt. and Subsidiaries
Consolidated Balance Sheet
(All amounts in million HUF)

		At December 31,	
	Notes	2004	2003
Assets			
Cash and cash equivalents	3	2,396	3,768
Accounts receivable	4	1,695	1,467
Other receivables and prepayments	5	1,435	1,171
Income tax receivable	19	391	439
Inventory	6	844	566
Total current assets		6,761	7,411
Property, plant and equipment	7	65,573	62,476
Intangible assets	8	(1,857)	(2,471)
Other non-current assets	9	1,313	881
Deferred tax assets	19	402	432
Total non-current assets		65,431	61,318
Total assets		72,192	68,729
Liabilities and Shareholders' Equity			
Trade accounts payable		2,093	1,687
Advance payments from guests		366	240
Income tax payable		262	44
Other payables and accruals	11	2,535	2,034
Interest-bearing loans and borrowings	12	4,202	5,442
Provisions	10	709	701
Total current liabilities		10,167	10,148
Interest-bearing loans and borrowings	12	17,068	15,434
Deferred tax liabilities	19	1,541	1,801
Total non-current liabilities		18,609	17,235
Minority interests	13	2,896	2,462
Shareholders' Equity			
Share capital	14	8,285	8,285
Capital reserve		7,435	7,435
Treasury shares	14	(1,162)	(1,162)
Retained earnings		24,666	23,076
Translation reserve		1,296	1,250
Total shareholders' equity		40,520	38,884
Total liabilities and shareholders' equity		72,192	68,729

.....
Sándor Betegh, CEO

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János Tóbiás, CFO

Budapest, 18 March 2005

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

		Year ended December 31,	
	Notes	2004	2003
Revenue			
Rooms		18,591	17,355
Food and beverage		12,502	11,165
Spa		5,050	6,027
Other departmental revenues		2,398	1,987
Interest income		256	110
Other revenue	16	306	243
Total revenue	28	39,103	36,887
Costs and expenses			
Rooms		3,904	3,446
Food and beverage		9,183	8,203
Spa		2,168	1,994
Other departmental expenses		2,679	2,665
Administrative and general	17	14,166	12,986
Interest expense		838	806
Foreign currency loss / (gain)		(989)	1,325
Depreciation and amortisation		4,179	3,983
Other expenses	18	1,421	1,605
Total costs and expenses		37,549	37,013
Profit / (loss) before tax		1,554	(126)
Income tax (expense) / benefit	19	13	473
Net profit after tax		1,567	347
Minority interests	13	23	94
Net profit for the year		1,590	441
Earnings per share (expressed in HUF per share):	20	201	56

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

	<u>Note</u>	<u>Share Capital</u>	<u>Capital Reserve</u>	<u>Treasury Shares</u>	<u>Retained Earnings</u>	<u>Translation Reserve</u>	<u>Total</u>
December 31, 2002		<u>8,285</u>	<u>7,847</u>	<u>(1,574)</u>	<u>22,635</u>	<u>94</u>	<u>37,287</u>
Net profit for the year					441		441
Loss on treasury shares transactions	14		(412)	412			-
Translation of foreign subsidiaries						1,156	1,156
December 31, 2003		<u>8,285</u>	<u>7,435</u>	<u>(1,162)</u>	<u>23,076</u>	<u>1,250</u>	<u>38,884</u>
Net profit for the year					1,590		1,590
Translation of foreign subsidiaries						46	46
December 31, 2004		<u>8,285</u>	<u>7,435</u>	<u>(1,162)</u>	<u>24,666</u>	<u>1,296</u>	<u>40,520</u>

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

	Note	Year ended December 31,	
		2004	2003
Cash flows from operating activities:			
Net profit for the year		1,590	441
Adjustments for:			
Income tax	19	(13)	(473)
Minority interest	13	(23)	(94)
Interest income		(256)	(110)
Interest expense		838	806
Depreciation and amortisation		4,179	3,983
Foreign exchange (gain) / loss		(989)	1,325
Gain on sale of fixed assets	16	(71)	(59)
Changes in assets and liabilities:			
Accounts receivable and other receivables		(105)	651
Inventory		(21)	(39)
Accounts payable and other current liabilities		1,025	(254)
Cash generated from operations		6,154	6,177
Interest paid		(866)	(830)
Corporate income tax paid		(247)	(523)
Net cash provided by operations		5,041	4,824
Cash flows from investing activities:			
Purchase of fixed assets and intangible assets		(6,048)	(3,684)
Acquisition of subsidiary, net of cash acquired	25	(1,807)	-
Interest received		278	70
Proceeds on sale of fixed assets		198	375
Increase in restricted cash		(465)	(381)
Other cash inflows/(outflows)		21	(198)
Net cash used in investing activities		(7,823)	(3,818)
Cash flows from financing activities:			
Net increase / (decrease) in long-term debt		1,358	(1,063)
Payment of finance lease liabilities		(120)	-
Sale of treasury shares		-	1,162
Purchase of treasury shares		-	(1,162)
Net cash provided by / (used in) financing activities		1,238	(1,063)
Increase / (decrease) in cash and cash equivalents		(1,544)	(57)
Cash and cash equivalents at beginning of year		3,768	3,825
Cash and cash equivalents at end of year, net	3	2,224	3,768

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

1. The Company and its recent history

Danubius Hotel and Spa Rt. ("Danubius" or "the Company") is a company limited by shares which is incorporated under the laws of the Republic of Hungary. The Company and its subsidiaries (the "Group") provide hospitality services in Hungary, Czech Republic, Slovakia and Romania, with an emphasis on 3, 4 and 5 star spa and city hotels. The Company's shares are listed on the Budapest Stock Exchange. At 31 December 2004, 53.4% of the Company's shares are owned by CP Holdings Limited, a UK private company, and companies controlled by CP Holdings Limited.

Danubius is a holding company. A wholly owned subsidiary, Danubius Szállodaüzemeltető és Szolgáltató Rt, owns and operates the Group's hotel properties in Hungary. On 23 September 2004 the formerly separate Hungarian property management company was merged at book value into this company which had previously been the Hungarian hotel operator company.

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

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

As at December 31, 2004 the Group owned an 87.10% effective interest (2003: 84.55%) in Slovenské Liečebné Kúpele Piestany a.s. ("Piestany"), a Slovakian hotel company with operations in Piestany and Smrdaky.

In 2004 Danubius acquired a 66.67% shareholding in Lángastronomia Kft, a company operating the Gundel and Bagolyvár restaurants in Budapest and wineries in the Tokaj and Eger regions (see note 25).

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

2. Significant accounting policies

Statement of Compliance

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

Basis of preparation

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

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

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

The Company has applied IFRS 3 "Business Combinations" and IAS 36 "Impairment of Assets" (revised 2004) in accounting for the acquisition of Lángastronomia Kft (see note 25).

The financial statements were authorised for issue by the Board of Directors on March 18, 2005.

Use of estimates and assumptions

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

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

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

2. Significant accounting policies (continued)

Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The consolidated financial statements include the financial statements of the Company and its significant subsidiaries after elimination of all material inter-company transactions and balances, including any unrealised gains.

Associates

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

Investments

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

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

2. Significant accounting policies (continued)

The Company's principal subsidiary companies are as follows:

Name	Principal Activity	Country of Incorporation	Group interest held at December 31, 2004	Group interest held at December 31, 2003
Danubius Szállodaüzemeltető és Szolgáltató Rt.	Hotel operator	Hungary	100%	100%
Hungária Szálloda-Ingatlankezelő Rt.	Property management	Hungary	(a)	99.9%
Lángastronomia Kft.	Restaurant operator	Hungary	66.67%	-
Léčebné Lázně a.s.	Hotel operator	Czech Republic	95.36%	95.36%
Gama 45 s.r.o	Hotel operator	Czech Republic	100%	100%
Slovenské Liečebné Kúpele Piestany a.s.	Hotel operator	Slovakia	87.10%	84.55%
Salina Invest SA	Holding company	Romania	56.43%	56.43%
SC Balneoclimaterica SA	Hotel operator	Romania	53.03%	53.03%

(a) Hungária Szálloda-Ingatlankezelő Rt was merged into Danubius Szállodaüzemeltető és Szolgáltató Rt. at 23 September 2004.

Financial statements of foreign operations

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

Foreign currency transactions

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

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

2. Significant accounting policies (continued)

Property, plant and equipment

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

Depreciation

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

Refurbishment

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

Leased assets

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

Intangible assets

Goodwill

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

Danubius Hotel and Spa Rt. and Subsidiaries
Notes to the Consolidated Financial Statements

(All amounts in million HUF)

2. Significant accounting policies (continued)

Negative goodwill

Negative goodwill arising on an acquisition which occurred prior to 31 March 2004 represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition.

To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the weighted average useful life of those assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the income statement.

The carrying amount of negative goodwill is deducted from the carrying amount of intangible assets.

Negative goodwill arising on an acquisition on or after 31 March 2004 is recognised directly in profit or loss.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Goodwill arising in respect of business combinations which occurred prior to 31 March 2004 is amortised from the date of initial recognition on a straight-line basis over 20 years and negative goodwill is amortised over 20 and 30 years depending on the useful life of the underlying hotel assets; other intangible assets are amortised from the date they are available for use.

Other Intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses (see below). Where the Group has the legal right to use a particular property the value of these rights is amortised over the term for which the Group holds the rights, including property rights on Margaret Island, Budapest, which are being amortised over 100 years.

Debt securities

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

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

2. Significant accounting policies (continued)

Inventory

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

Cash and cash equivalents

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

Trade and other receivables

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

Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Provisions

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

Trade and other payables

Trade and other payables are stated at their cost.

Interest-bearing loans

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

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

2. Significant accounting policies (continued)

Repurchase of share capital

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

Revenue recognition

Goods sold and services rendered

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

Rental income

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

Operating lease payments

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

Finance lease payments

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

Interest Income

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

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

2. Significant accounting policies (continued)

Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not provided for temporary differences on goodwill not deductible for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Pension Plan

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

Fair value of financial instruments

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

Segment reporting

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

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

3. Cash and cash equivalents

	December 31,	
	2004	2003
Cash in hand and at bank	2,363	3,727
Marketable securities	33	41
Cash and cash equivalents	2,396	3,768
Overdraft (see Note 12)	(172)	-
Cash and cash equivalents in the statement of cash flows	<u>2,224</u>	<u>3,768</u>

4. Accounts receivable

	December 31,	
	2004	2003
Trade receivables	2,036	1,851
Allowance for doubtful receivables	(341)	(384)
	<u>1,695</u>	<u>1,467</u>

5. Other receivables and prepayments

	December 31,	
	2004	2003
Receivables from non-consolidated subsidiaries	29	36
Prepayments and accrued income	605	696
VAT receivables	383	61
Other receivables	418	378
	<u>1,435</u>	<u>1,171</u>

6. Inventory

	December 31,	
	2004	2003
Food and beverages	289	232
Wine in barrels	203	-
Materials	284	318
Goods for resale	68	16
	<u>844</u>	<u>566</u>

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

7. Property, plant and equipment

	Land	Buildings and improvements	Furniture, fittings and Equipment	Capital projects in Progress	Total
Cost/Valuation:					
December 31, 2003	9,470	68,688	16,887	405	95,450
Acquisitions through business combinations	10	1,496	227	-	1,733
Effect of movements in exchange rates	(14)	(300)	(34)	(2)	(350)
Additions	75	3,226	1,218	1,397	5,916
Disposals	(50)	(145)	(292)	(12)	(499)
December 31, 2004	9,491	72,965	18,006	1,788	102,250
Depreciation:					
December 31, 2003	-	20,362	12,612	-	32,974
Effect of movements in exchange rates	-	(161)	(12)	-	(173)
Depreciation charge for year	-	2,604	1,646	-	4,250
Disposals	-	(94)	(280)	-	(374)
December 31, 2004	-	22,711	13,966	-	36,677
Net book value:					
December 31, 2003	9,470	48,326	4,275	405	62,476
December 31, 2004	9,491	50,254	4,040	1,788	65,573

The net book value of property, plant and equipment pledged was HUF 27,382 million as at 31 December 2004 (HUF 28,266 million as at 31 December 2003). Further information about assets pledged as security for mortgages is given in note 12.

As of 30 September 2004, Danubius updated the estimated depreciation rates of buildings in the merged Hungarian hotel operating company. As a result of this change the 2004 depreciation charge decreased by HUF 79 million.

The Group leases air conditioning equipment under a finance lease agreement. At the end of the lease the Group has the option to purchase the equipment at a beneficial price. At 31 December 2004, the net carrying amount of the leased equipment was HUF 469 million (2003: nil). The leased equipment secures lease obligations (see note 12).

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

8. Intangible assets

	Goodwill	Negative goodwill	Land usage rights	Software and other intangibles	Total
Cost					
December 31, 2003	733	(5,095)	537	1,252	(2,573)
Acquisitions through business combinations	413	-	-	-	413
Effect of movements in exchange rates	-	-	-	-	-
Additions	-	-	-	132	132
Disposals	-	-	-	(7)	(7)
December 31, 2004	1,146	(5,095)	537	1,377	(2,035)
Depreciation:					
December 31, 2003	132	(1,216)	89	893	(102)
Effect of movements in exchange rates	-	-	-	-	-
Amortisation charge for year	36	(228)	13	108	(71)
Relating to disposals	-	-	-	(5)	(5)
December 31, 2004	168	(1,444)	102	996	(178)
Net book value:					
December 31, 2003	601	(3,879)	448	359	(2,471)
December 31, 2004	978	(3,651)	435	381	(1,857)

At 31 December 2004 intangible assets include HUF 435 million, net of amortisation (2003: HUF 448 million) for land usage rights relating to two hotels on Margaret Island held under licenses given by the Municipality of Budapest.

Positive and negative goodwill relates to the following acquisitions:

	December 31,	
	2004	2003
Léčebné Lázně a.s.	733	733
Lángastronomia Kft. (see note 25)	413	-
Accumulated amortisation	(168)	(132)
Total positive goodwill	<u>978</u>	<u>601</u>
Hungar Hotels	2,993	2,993
Hotel Héla	154	154
Gama 45 s.r.o.	407	407
Slovenské Liečebné Kúpele Piestany a.s.	1,541	1,541
Accumulated amortisation	(1,444)	(1,216)
Total negative goodwill	<u>3,651</u>	<u>3,879</u>

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

9. Other non-current assets

	December 31,	
	2004	2003
Investments in non-consolidated subsidiaries	183	186
Investments in associates	31	31
Loans given to employees	7	8
Long-term receivable	50	75
Restricted cash	1,031	566
Other investments, unquoted	11	15
	<u>1,313</u>	<u>881</u>

The non-consolidated subsidiaries are:

Name	Principal activity	2004		2003	
		Share %	Share %	Share %	Share %
Marcali Szálloda Kft.	Hotel	121	50.2	121	50.2
Kastélykert Kft.	Hotel	43	100	43	100
Hungaria Hotel und Reisen GmbH.	Travel agency	9	100	9	100
Sopron Szakképző Iskola és Kollégium Alapítvány	College	5	100	5	100
Danubius Rendezvényszervező Kft.	Agency	-	-	3	100
Nádor Konferenciaközpont	Conference	3	100	3	100
Hotel Kastély Kft.	Hotel	2	50	2	50
		<u>183</u>		<u>186</u>	

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

Investments in associates represent a 32.75% share in Preventív Rt. a company which provides security services to the Group in Hungary.

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

As at 31 December 2004 other non-current assets includes HUF 1,031 million (as at 31 December 2003 HUF 566 million) cash held on deposit for the restricted purpose of financing reconstruction at Piestany (see note 22).

Danubius Hotel and Spa Rt. and Subsidiaries
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10. Provisions

	Acquisition of Piestany	Other	Total
	<u> </u>	<u> </u>	<u> </u>
Balance at 31 December 2003	610	91	701
Provision made during the year	-	12	12
Provision used during the year	-	4	4
Balance at 31 December 2004	<u>610</u>	<u>99</u>	<u>709</u>

In 2002 a provision for legal cases of HUF 621 million was provided at the acquisition of Piestany from which HUF 11 million was utilized in 2003 as a result of a lost legal case.

At December 31, 2004 other provisions comprise a provision of HUF 48 million for obligations related to termination and long service benefits agreed in 2003 for employees in Slovakia and HUF 51 million in respect of various legal cases.

11. Other payables and accruals

	December 31,	
	2004	2003
	<u> </u>	<u> </u>
Payroll	685	543
Social security	408	324
Taxes payable	630	346
Accrued expenses	476	636
Other	336	185
	<u>2,535</u>	<u>2,034</u>

12. Interest-bearing loans and borrowings

	December 31,	
	2004	2003
	<u> </u>	<u> </u>
<i>Non-current liabilities</i>		
Secured bank loans	16,753	15,434
Finance lease liabilities	315	-
	<u>17,068</u>	<u>15,434</u>

	December 31,	
	2004	2003
	<u> </u>	<u> </u>
<i>Current liabilities</i>		
Current portion of secured bank loans	4,077	5,442
Current portion of finance lease liabilities	125	-
	<u>4,202</u>	<u>5,442</u>

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12. Interest-bearing loans and borrowings (continued)

The group leases air conditioning equipment for certain Hungarian hotels. The finance lease liabilities are payable as follows:

	December 31, 2004			December 31, 2003		
	Minimum Lease			Minimum Lease		
	Payments	Interest	Principal	Payments	Interest	Principal
Within 1 year	160	35	125	-	-	-
1 to 2 years	160	24	136	-	-	-
2 to 5 years	191	12	179	-	-	-
over 5 years	-	-	-	-	-	-
Total debt	511	71	440	-	-	-
Amounts due in less than one year	(160)	(35)	(125)	-	-	-
	351	36	315	-	-	-

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

	December 31,	
	2004	2003
Within 1 year	4,077	5,442
1 to 2 years	3,209	4,600
2 to 5 years	9,534	10,537
over 5 years	4,010	297
Total debt	20,830	20,876
Amounts due in less than one year	(4,077)	(5,442)
	16,753	15,434

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12. Interest-bearing loans and borrowings (continued)

Outstanding loans comprise the following:

	December 31,	
	2004	2003
<i><u>Danubius Hotel and Spa Rt.</u></i>		
1. MKB long term USD loan at interest rate of LIBOR + 0.75%, secured by mortgages on the Budapest Hilton.	-	1,354
2. MKB long term Euro loan at interest rate of (3 months) EURIBOR + 0.75%, secured by mortgages on the Budapest Hilton.	934	1,325
3. K&H long term Euro loan, interest rate of (3 months) EURIBOR + 0.75%, secured by mortgages on the Hotel Radisson SAS Béke and Hotel Flamenco.	-	1,652
4. MKB long term Euro loan at interest rate of (3 months) EURIBOR + 0.75%, secured by mortgages on the Budapest Hilton and Hotel Budapest.	1,402	1,987
5. MKB long term Euro loan at interest rate of (3 months) EURIBOR + 0.75%, secured by mortgages on the Budapest Hilton and Hotel Budapest.	914	1,295
6. MKB long term Euro loan at interest rate of (3 months) EURIBOR + 0.75%, secured by mortgages on the Thermal Hotel Sárvár.	1,371	1,943
7. MKB long term Euro loan at interest rate of (3 months) EURIBOR + 0,95%, secured by mortgages on the Thermal Hotel Sárvár	1,267	1,347
8. MKB long term Euro loan at interest rate of (3 months) EURIBOR + 0,95%, secured by mortgages on the Hotel Hélia	1,218	1,295
9. OTP long term Euro loan at interest rate of (3 months) EURIBOR + 0,95% secured by mortgages on Hotels	10,094	-
10. MKB long term Euro loan at interest rate of (3 months) EURIBOR + 0,75%	844	-
11. Bank overdraft	114	-
<i><u>Hungária Szálloda-Ingatlankezelő Rt.</u></i>		
1. K&H long term Euro loan, interest rate of (3 months) EURIBOR + 0.75%, secured by mortgages on the Hotel Radisson SAS Béke and Hotel Flamenco.	-	1,749
2. K&H long term Euro loan, interest rate of (3 months) EURIBOR + 1.4%, secured by mortgages on the Hotel Radisson SAS Béke and Hotel Flamenco.	-	1,818
<i><u>Léčebné Lázně a.s.</u></i>		
1. K&H and ČSOB long term Euro loan, interest rate of (3 months) EURIBOR + 1.4%, secured by mortgages on the Hotel Radisson SAS Béke and Hotel Flamenco.	-	3,639
2. Komerční Banka overdraft secured by fixed assets and by blank bill of exchange	58	-
<i><u>Slovenské Liečebné Kúpele Piestany a.s.</u></i>		
1. Short term loan in SKK and Euro at interest rate of 3-5% and (3 months) EURIBOR + 1,25%, secured by mortgages on land and buildings.	663	828
2. Long term loan in Euro at interest rate of (3 months) EURIBOR + 1,3%, secured by mortgages on land and buildings.	1,359	-

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12. Interest-bearing loans and borrowings (continued)

	December 31,	
	2004	2003
<i>Sovata</i>		
Long term loan, 24% interest, guaranteed by a first rank mortgage on Sovata Hotel and bank accounts of Balneoclimaterica with the Romanian Commercial Bank.	577	615
<i>Other bank loans</i>	15	29
Total debt	<u>20,830</u>	<u>20,876</u>

LIBOR was 2.154% and EURIBOR was 2.174% at December 31, 2004.
(LIBOR was 2.39%, EURIBOR was 2.09% and BRIBOR was 6.06% at December 31, 2003.)

13. Minority Interests

	December 31,	
	2004	2003
Hungária Szálloda-Ingatlankezelő Rt.	-	6
Lángastronomia Kft.	469	-
Léčebné Lázně a.s.	417	406
Slovenské Liečebné Kúpele Piestany a.s.	1,321	1,335
Salina Invest SA and SC Balneoclimaterica SA	689	715
	<u>2,896</u>	<u>2,462</u>
	December 31,	
	2004	2003
Opening balance at 1 January	2,462	2,538
Income attributable to minority shareholders	(23)	(94)
Deconsolidation of Preventív Rt.	-	(72)
Capital increase in subsidiary	-	90
Share in subsidiary purchased from minority Shareholders	(5)	-
Minority share in subsidiary acquired	462	-
Closing balance at 31 December	<u>2,896</u>	<u>2,462</u>

In 2003 Preventív Rt. ceased to be consolidated as the Group's interest in that company reduced to 32.75%. In 2004 a controlling interest was acquired in Lángastronomia Kft (see note 25).

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14. Share Capital

	December 31,	
	2004	2003
Ordinary shares	<u>8,285</u>	<u>8,285</u>

Registered share capital at December 31, 2004 consists of 8,285,437 (2003: 8,285,437) authorised, issued and fully paid ordinary shares, each of par value HUF 1,000.

At December 31, 2004, the Company owned 374,523 of its own shares (Treasury shares) which cost HUF 1,162 million (2003: 374,523 shares, which cost HUF 1,162 million). (The Hungarian Companies Act formerly required Treasury shares to be sold within one year from the date of purchase. In 2003 a loss of HUF 412 million was recorded in Capital Reserve on the sale of treasury shares which were subsequently repurchased. From 1 January 2004, there is no such requirement.)

15. Retained Earnings

Dividends are available for distribution from the Company's retained earnings calculated according to Hungarian Accounting Law. The amount available for distribution as dividends at December 31, 2004 is HUF 21,904 million (2003: HUF 23,263 million).

If dividends are paid to non-resident shareholders, a withholding tax of up to 20% must be paid. The rate applicable is dependent on the country of residence of the shareholder, on the period and number of the shares held. (Qualifying shareholding is holding of 20% of the shares for an uninterrupted period of at least 2 years.) The withholding tax is also payable by individual shareholders who are resident in Hungary (resident legal entities are exempt).

16. Other revenue

	2004	2003
Gain on sale of fixed assets	<u>71</u>	<u>59</u>
Proceeds from insurance	35	112
Other revenue	<u>200</u>	<u>72</u>
	<u>306</u>	<u>243</u>

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17. Administrative and general expenses

	<u>2004</u>	<u>2003</u>
Payroll and related costs	5,491	4,557
Utility costs	2,829	2,315
Maintenance expenses	1,603	1,436
Management fees to CP Holdings Limited (related party)	310	301
Fees to branded hotel chains	123	171
Marketing expenses	672	661
Bank and insurance fees	523	473
Commissions	52	53
Professional and membership fees	292	336
Telecommunication charges	194	212
Rental expense	547	482
Release of rental fee provision	-	(229)
Security costs	250	245
Miscellaneous expenses	1,280	1,973
	<u>14,166</u>	<u>12,986</u>

The group had 5,608 employees as at 31 December 2004 (5,736 as at 31 December 2003).

18. Other expenses

	<u>2004</u>	<u>2003</u>
Local taxes	713	695
Other taxes	386	687
Doubtful debt and other provisions	322	223
	<u>1,421</u>	<u>1,605</u>

Danubius Hotel and Spa Rt. and Subsidiaries
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19. Income tax

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

	2004	2003
Current tax	358	271
Deferred tax	(371)	(744)
	<u>(13)</u>	<u>(473)</u>

The deferred tax charge / (benefit) comprises:

	2004	2003
Origination and reversal of temporary differences	(148)	(225)
Reduction in tax rate	(143)	(213)
Benefit of tax losses recognized	(80)	(306)
	<u>(371)</u>	<u>(744)</u>

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

	2004	2004	2003	2003
Profit / (loss) before tax and minority interest		<u>1,554</u>		<u>(126)</u>
Income tax using the domestic corporation tax rate	16.0%	249	18.0%	(23)
Effect of tax rates in foreign jurisdictions		47		60
Non-deductible expenses		35		61
Tax exempt revenues		(23)		-
Tax incentives not recognised in the income statement		(25)		(14)
Effect of tax losses utilised / (deferred)		(207)		(405)
Impact of changed income tax rates on deferred tax		(143)		(213)
Under provided in prior years		9		12
Others		45		49
		<u>(13)</u>		<u>(473)</u>

Current corporate income tax receivables

Corporate income taxes receivables include overpayments of HUF 391 million (2003: HUF 439 million) as a result of advance payments required by the tax authorities for certain group companies in 2004, based on the actual income taxes paid for 2003.

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19. Income Tax (continued)

Deferred tax assets and liabilities

Deferred tax assets and liabilities as at 31 December 2004 and 31 December 2003 are attributable to the following:

	Assets		Liabilities	
	2004	2003	2004	2003
Property, plant and equipment	89	85	1,408	1,364
Repairs and maintenance provision	-	-	390	543
Legal provisions	115	116	-	-
Other items	45	35	-	28
Tax value of tax loss carry forwards	410	330	-	-
	<u>659</u>	<u>566</u>	<u>1,798</u>	<u>1,935</u>
Offset of assets and liabilities	<u>(257)</u>	<u>(134)</u>	<u>(257)</u>	<u>(134)</u>
	<u>402</u>	<u>432</u>	<u>1,541</u>	<u>1,801</u>

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

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

The tax value of the losses carried forward at 31 December 2004 will expire as follows, if not previously utilised: HUF 175 million, 1 January 2008, HUF 218 million, 1 January 2009, HUF 12 million 1 January 2010. HUF 5 million can be carried forward indefinitely.

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20. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to ordinary shareholders of HUF 1,590 million in 2004 (2003: HUF 441 million) and the weighted average number of ordinary shares outstanding during 2004 of 7,910,914 (2003: 7,910,914).

	December 31,	
	2004	2003
Weighted average number of issued ordinary shares	8,285,437	8,285,437
Weighted average number of treasury shares	(374,523)	(374,523)
Weighted average number of qualifying ordinary shares	7,910,914	7,910,914
Net profit for the year in million HUF	1,590	441
Earnings per share (HUF/share)	201	56

There are no dilutive factors to earnings per share disclosed above.

21. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	December 31,	
	2004	2003
Less than one year	132	125
More than one year	-	-
	132	125

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

During the year ended 31 December 2004 HUF 453 million was recognised as an expense in the income statement in respect of operating leases (2003: HUF 401 million).

Leases as lessor

The group has no significant non-cancellable operating or finance lease rental receivables as at 31 December 2004 and 31 December 2003.

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22. Commitments

The Group plans to spend approximately HUF 3 billion on hotel refurbishment and construction in 2005.

At the acquisition of Piestany, the Group committed to a SKK 700 million (HUF 4,459 million) reconstruction program on hotel buildings by 2006. The remaining amount of the commitment at 31 December 2004 is SKK 480 million (HUF 3,058 million). Included in other non-current assets is restricted cash of HUF 1,031 million in respect of this commitment (see note 9).

The Group has an obligation to renew the façade and the garage of Hotel Nádor, Pécs (Hungary) for an estimated cost of HUF 555 million. The reconstruction started in 2004 and the remaining works are estimated to cost HUF 366 million.

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

23. Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 December 2004.

24. Pension Plans

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

The Group has a pension plan in addition to the State plan, which is available for all Hungarian employees after six months employment. The group pays contributions equal to 5% of the salary of employees who are members of the fund. The contribution expense in 2004 was HUF 234 million (2003: HUF 220 million). The assets of the fund are held in separate trustee administered funds and are not included in these financial statements.

On February 1, 2004 the Group formed a Health Fund, which is available for all Hungarian employees after six months employment. The group pays contributions equal to 1% of the salary plus HUF 4,000 per month for employees who decided to become members of the fund. The total contribution expense in 2004 was HUF 166 million. The assets of the fund are held in separate trustee administered funds and are not included in these financial statements.

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

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25. Acquisition of Lángastronomia Kft.

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

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

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

Balance sheet at acquisition

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

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

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

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25. Acquisition of Lángastronomia Kft. (continued)

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

26. Related Party Transactions

Transactions with related parties are summarised as follows:

	2004	2003
Management fee to CP Holdings	310	301
Rental fee to Interag Rt.	149	146
Services provided by Interag Rt.	5	5
Service provided to Interag Rt.	(1)	(1)
Service provided by Investor Rt.	13	13
Service provided to Investor Rt.	(2)	(3)
Service provided by Preventív Security Rt.	250	242

Related party receivables and payables are not significant as at December 31, 2004.

Interag Rt., Investor Rt. and Preventív Security Rt. are each subsidiary companies of CP Holdings.

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

27. Financial instruments

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

Currency risk

The Group's sales prices are primarily quoted in Euro or US dollars and income is received in foreign currency or local currency.

The Group had loans of EUR 82.3 million (2003: EUR 72.1 million), HUF 572.5 million (2003: nil), ROL 92,641 million (2003: ROL 90,000), CZK 7.1 million (2003: nil), nil USD (2003: USD 6.6 million) and nil SKK (2003: SKK 27.4 million) outstanding at 31 December 2004 (see note 12).

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

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27. Financial instruments (continued)

Interest rate risk

Interest rates on loans are listed in note 12. Management has not entered into any interest rate hedging contract as management believes the contracted interest rates are favourable for the Company.

Credit risk

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

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28. Segment reporting

Geographical segments

December 31, 2004

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

December 31, 2003

	Operations in Hungary	Operations in Czech Republic	Operations in Slovakia	Operations in Romania	Elimination	Consolidated
Revenue	24,463	5,388	6,701	335	-	36,887
Inter-segment revenue	426	-	-	-	(426)	-
Total revenue	24,889	5,388	6,701	335	(426)	36,887
Profit/(loss) per segment	3	505	60	(127)	-	441
Cost to acquire fixed assets	1,614	394	351	1,325	-	3,684
Depreciation and amortisation	2,599	550	704	130	-	3,983
Current assets	5,934	1,008	653	253	(437)	7,411
Non-current assets	49,315	13,982	14,090	1,740	(17,809)	61,318
Current liabilities	6,367	1,389	2,319	510	(437)	10,148
Non-current liabilities	12,009	7,010	-	657	(2,441)	17,235
Minority interest	8	404	1,335	715	-	2,462
Net assets	36,865	6,187	11,089	111	(15,368)	38,884

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

28. Segment reporting (continued)

Business segments

Management considers hotel and hospitality operations as the only business segment, therefore all amounts included in the financial statements are part of that segment.