Cinema City International N.V.

Annual Report
for the year ended
31 December 2007

GENERAL INFORMATION

Management Board

Moshe Greidinger
Amos Weltsch
Israel Greidinger

Supervisory Board

Coleman Kenneth Greidinger
Carrie Twist
Frank Pierce
Scott Rosenblum
Peter Weishut
Yair Shilhav

Registered office

Weena 210-212
3012 NJ Rotterdam
The Netherlands

Auditors

KPMG Accountants N.V.
Burg. Rijnderslaan 10-20
1185 MC Amstelveen
The Netherlands

LETTER FROM THE CEO

To our shareholders

The year 2007 proved to be another record year for growth and profitability for the Cinema City Group. A combination of strong organic expansion by our company and a year of well received international and domestic movie product helped us to achieve a record revenue of EUR 161.3 million, a record EBITDA of EUR 34.6 million and a record net profit of over EUR 16.6 million.

We continued our ambitious theatre expansion program. With the benefit of the fresh capital raised in our 2006 IPO, we invested over EUR 35.1 million during 2007, an increase of 31.5% from 2006. We opened a total of 47 new screens, purchased 18 screens and closed a total of 20 obsolete screens. In December 2007, we entered our sixth territory of operation with the opening of our first two theatres in Romania. With a population of almost 22 million, recent entry into the European Union and a developing economy with virtually no modern multiplex theatres, Romania, so we believe, will become our most active territory of development in the near future.

With record sales of almost 20 million tickets in 2007, our theatre operations performed strongly, bolstered by a well received supply of international movies. In particular, our Polish operations continued to perform well in 2007, supported by not only an international fare of movies, but also by a strong local supply of movies. The new screens that we opened in Poland during the latter part of 2006, which had their first full year of operations in 2007, together with the 18 screens in Poznań we acquired in January 2007 from the Kinepolis Group and the additional 35 screens opened during 2007, all contributed to the positive results in Poland, both in terms of number of admissions and EBITDA.

Our real estate activities continued to contribute strongly to our results for 2007. This was driven primarily by our sale of one-half of our equity interest in the Mall of Plovdiv, Bulgaria during the second quarter. This sale was to two leading real estate private equity groups: US based General Electric Real Estate and Irish based Quinlan Private. In July 2007, we acquired a 45% interest in a 60-thousand square meter plot of land located in Russe, Bulgaria. Similar to our real estate investment and developments in Sofia and Plovdiv, we intend to develop a 25,000 to 35,000 square meter shopping mall with the city's first modern multiplex theatre on the acquired plot of land. We intend to sell the shopping centre in the future, whilst maintaining a long term lease on the multiplex theatre on the site.

During 2007, we continued to grow our film distribution business geographically, mainly by extending our DVD distribution activities into the Czech Republic. The Czech DVD distribution business will initially distribute DVDs for the Walt Disney Company.

In 2008, we expect to open new multiplexes with about 133 screens. Already in January 2008 we opened the largest mega-plex in Central/Eastern Europe, our 23-screen and IMAX® flagship theatre in Budapest, Hungary. In March 2008 we opened multiplex theater in Pilzen, Czech Republic. During the second quarter we expect to open a multiplex theatre in Bydgoszcz, Poland. In the second half of the year we are planning to open 2 new multiplex theaters in Israel, 5 in Romania, one in the Czech Republic and one in Poland.

I would like to take this opportunity to express my gratitude to our Cinema City employees for helping make 2007 such a successful year and for their continued hard work and dedication. With our ambitious plans for continued growth and development, we are committed more than ever to becoming the premier cinema exhibitor in Europe. We know that our ultimate success will continue to largely depend on the ongoing contribution of each one of them.

And last but not least, I would like to thank our millions of customers, now in six countries, who continue to share in our never ending love for the movies. As we say in the movie business… to be continued….

Moshe Greidinger, CEO

Contents

Supervisory Board report

We take pleasure in presenting the financial statements of Cinema City International N.V. for the financial year 2007, accompanied by the report of the management board. KPMG Accountants N.V. audited the financial statements and issued an unqualified auditor's report. We recommend the shareholders to adopt the financial statements as presented.

We concur with the management board’s proposal as taken up on page 93 to allocate the net profit for the year 2007 amounting to EUR 16,624,000 to retained earnings.

Supervision

Towards the end of 2006, in preparation of the listing of the Company at the Warsaw stock exchange, the Company’s corporate governance structure was amended in order to comply as much as practically possible with Dutch governance regulations. The Supervisory Board has reviewed the Dutch corporate governance code (the “Code”), and generally agrees with its basic provisions, and has, to the extent possible, approved the implementation of most of the best practice provisions of the Code. For a more detailed description, reference is made to pages 3 to 7 of this Annual Report.

During the year 2007, there have been frequent meetings between the Supervisory Board and the management Board during which the following topics were mainly discussed:

- the Company’s business strategy;
- the corporate governance structure of the Company and the implementation of the Code;
- risk management;
- a Management Board remuneration policy including the execution of the long-term incentive plan.
- financial results and other related issues.

Audit committee

The roles and responsibilities of the Audit Committee are to supervise, monitor and advise the Management Board and Supervisory Board on all matters related to risk management, audit, control and compliance to relevant financial legislation and regulations. The Audit Committee evaluates the performance of external auditors and related costs.

Appointment committee

The primary responsibility of this committee is to advise the Supervisory Board on matters relating to the nominations of both Management and Supervisory Board members. The Appointment Committee regularly reviews the Supervisory Board profile, its effectiveness and composition. The committee also reviews the performance of the members of the Management Board.

Supervisory Board report

Remuneration committee
It is the primary task of the Remuneration Committee to propose to the Supervisory Board remunerations of the members of the Management Board, including a review and monitoring of the Group's total remuneration policy.

During the year 2007, the Audit Committee has met several times. The Audit Committee has also held meetings with the external auditors. Meetings of the Appointment Committee and the Remuneration Committee have not been held separately in 2007. Any appointment and remuneration matters were dealt with by the Supervisory Board jointly.

Financial statements
The Management Board has prepared the 2007 financial statements. These financial statements were discussed at a Supervisory Board meeting attended by the auditors, who provided further information on the audit process and their audit findings.

Composition of the Supervisory Board
In accordance with the existing appointment schedule, the term of Ms Twist and Messrs Greidinger, Pierce, Rosenblum and Weishut as Supervisory Directors will expire in June 2008. Ms Twist and Messrs Greidinger, Pierce, Rosenblum and Weishut are all available for re-election. It is recommended that they be re-appointed at the General meeting of shareholders in June 2008 for a term of 4 years.

Composition of the Management Board
In accordance with the existing appointment schedule, the term of Messrs Moshe Greidinger, Israel Greidinger and Amos Weltsch as Management Board Directors will expire in June 2008. It is recommended that they be re-appointed for a term of 4 years at the General meeting of shareholders in June 2008.

27 March 2008
For the Supervisory Board

Coleman Kenneth Greidinger
Chairman

Corporate Governance

Governance structure

The Company is a Dutch public company with a listing on the Warsaw Stock Exchange ('WSE').

Corporate governance Code in the Netherlands

On the basis of Section 391 of Book 2 of the Dutch Civil Code (Act of 9 July 2004, Stb 370, to amend Book 2, CC) and the Royal Decree of 23 December 2004, public limited liability companies, whose shares – to put it briefly – are listed on a stock exchange, must include a statement in their annual report about their compliance with the principles and best practices of the Tabaksblat Code, published on 9 December 2003 (the 'Code').

The Code contains 21 principles and 113 best practice provisions covering the management board, the supervisory board, the shareholders and general assembly, financial reporting, auditors, disclosure, compliance and enforcement. The Code requires Dutch companies that are listed on a government recognised stock exchange, whether in the Netherlands or in any other country, to disclose in their annual reports (commencing with those annual reports for financial years beginning on or after 1 January 2004), whether or not they comply with the provisions of the Code and, if they do not comply, to explain the reasons why.

The Company acknowledges the importance of good corporate governance. The Management Board and Supervisory Board have reviewed the Code, and generally agree with its basic provisions, and have, to the extent possible, implemented and subsequently applied most of the best practice provisions of the Code in its corporate governance structure and Articles of Association. Save as disclosed below, the Company complies with the Code. The Code recognises that non-compliance of a specific Best Practice Provision is not in itself objectionable but indeed may be justified under certain circumstances.

In certain respects where the provisions of the Code conflict with Polish law or Polish corporate governance requirements, the Company has determined that it will comply with the Polish requirements rather than the provisions of the Code in view of the fact that the Company is solely listed on a Polish stock exchange and the majority of its public shareholders are expected to be based in Poland. The following is a description of the deviations from the provisions of the Code:

- Best Practice Provision II.2.7 of the Code states that severance payments may not exceed the annual salary. Employment contracts of the members of the Management Board, which were entered into before the Code was developed, provide severance payments that exceed the annual salary. The employment contracts are considered to be in line with standard company policy and the Supervisory Board intends to honour this contractual commitment and is of the view that a deviation from the Code is justified.
- Best Practice Provision III.2.1 of the Code prescribes that the Supervisory Board consists of independent persons, except for one. The Company currently has two non-independent members of the Supervisory Board, which is a deviation from the Code. However, the current composition of Supervisory Board is consistent with Polish corporate governance guidelines.

Corporate Governance

In view of the foregoing considerations and justifications, the Company makes the following statement.

Statement referred to in Section 3 of the Decree of 23 December 2004, Stb 747, determining the further requirements concerning the contents of annual reports

In the year under review, the Company did not comply fully with the provisions of the Code, nor does it intend to fully comply with these during the current or the next financial year.

The Extraordinary General Meeting of Shareholders held on 24 November 2006 approved the corporate governance policy and framework of Cinema City International N.V., including the structure of the remuneration of management under article 2:135 of the Dutch Civil Code. The corporate governance policy and the framework was again discussed during and approved by the Annual General Meeting of Shareholders held on 25 June 2007, and will once again be placed on the agenda of the forthcoming General Meeting of Shareholders, in order to allow the shareholders to discuss and exchange views upon the issue with the Management Board and Supervisory Board.

Corporate governance Code in Poland

On 15 December 2004, the WSE management board and the WSE supervisory board adopted corporate governance rules of the WSE contained in the Best Practices in Public Companies in 2005 (the "WSE Corporate Governance Rules"). The WSE Corporate Governance Rules reflect the achievements in this field at both national and international level and apply to companies listed on the WSE, irrespective of whether such companies are incorporated in Poland or outside of Poland. The WSE Corporate Governance Rules consist of five general principles and 48 best practice provisions relating to shareholders' meetings, management boards, supervisory boards and relations with third parties and third party institutions. The WSE Corporate Governance Rules impose on companies listed on the WSE an obligation to disclose in their annual reports, whether or not the companies comply with those principles and provisions and, if they do not comply, to explain the reasons why.

Compliance with WSE Corporate Governance Rules is voluntary. Companies listed on the WSE are required, however, to give reasons justifying non-compliance or partial compliance with any rule. The Company intends, to the extent practicable, to comply with all principles of the WSE Corporate Governance Rules. However, certain principles will apply to the Company only to the extent allowed by Dutch law. In particular, as Dutch law does not provide for elections of the Supervisory Board's members by separate groups of shareholders, the Company's internal regulations do not and will not include provisions on group elections (Rule 6). No reports will be provided by the Supervisory Board member delegated by a group of shareholders (Rule 30) because Dutch law does not provide for delegation of a board member by a group of shareholders.

Detailed information on the Company's compliance with the WSE Corporate Governance Rules as well as additional explanations regarding partial compliance with certain principles of the WSE Corporate Governance Rules due to their incompatibilities with Dutch law, are included in the full text of the Company's statement regarding the compliance with the WSE Corporate Governance Rules which was filed with the WSE in December 2006 together with the Company's WSE listing applications and is available on the Internet on the Company's website (www.cinemacity.nl).

The Company makes all efforts to comply with all principles of both the Dutch Code and the WSE Corporate Governance Rules and to enforce such corporate structure that ensures the Company's transparency to the most possible extent. The Company believes that its efforts are appreciated by its stakeholders and will support the Company's growth and its reliability.

Corporate Governance

General Meeting of Shareholders

The annual General Meeting of Shareholders shall be held within six months after the end of the financial year to deal with, among other matters: (i) the annual report; (ii) adoption of the annual accounts, (iii) discussion of any substantial changes in corporate governance; (iv) discussion of the remuneration policy in respect of the Management Board, (v) granting of discharge to the members of the Management Board for their management over the past financial year (vi) discussion of the remuneration policy in respect of the Supervisory Board, (vii) granting of discharge to the members of the Supervisory Board for their supervision over the past financial year, (viii) policy on additions to reserves and dividends, (ix) adoption of the profit appropriation, (x) (re)appointment of members of the Management Board and (xi) (re)appointment of members of the Supervisory Board.
Other General Meetings of Shareholders shall be held as often as the Management Board or the Supervisory Board deems necessary. Shareholders representing in the aggregate at least one-tenth of the Company's issued capital may request the Management Board or the Supervisory Board to convene a General Meeting of Shareholders, stating specifically the issue to be discussed.

Supervisory Board and Management Board

The Company has a two-tier corporate governance structure, consisting of a (executive) management board (the "Management Board") and a (non-executive) supervisory board (the "Supervisory Board"). The day-to-day management and policy-making of the Company is vested in the Management Board, under the supervision of the Supervisory Board. There are currently three members of the Management Board whose names are set out below. The Supervisory Board supervises the Management Board and the Company's general course of affairs and the business it conducts. It also supports the Management Board with advice. In performing their duties the Supervisory Board members must act in accordance with the interests of the Company and the business connected with it.

Supervisory Board

The Articles of Association provide that the Company shall have a Supervisory Board consisting of at least three and at most six persons of which at least two Supervisory Directors shall be independent. Supervisory Directors are appointed by the General Meeting of Shareholders for a period of four years. After holding office for the first period of four years, Supervisory Directors are eligible for re-election for two additional terms of four years each. The General Meeting of Shareholders shall establish the remuneration for each Supervisory Director.

Supervisory Board Committees

The Supervisory Board is supported by three committees:

- the audit committee;
- the appointment committee;
- the remuneration committee.

These committees are composed from members of the Supervisory Board with relevant experience. All committees operate under the overall responsibility of the Supervisory Board, in accordance with the best practice stipulations of the Code.

Composition of the Supervisory Board

Coleman Greidinger (1 January 1924)

An Israeli citizen, Coleman Greidinger was appointed as a member of the Supervisory Board in 2004, is the current Chairman of the Supervisory Board and a member of the Audit Committee. He founded Israel Theatres Limited in 1958 and has been Managing Director of Israel Theatres Limited and affiliated companies since that time. He was also a President of Variety Israel, serves as a member of the International Board of Variety Clubs and is a member of the board of governors of the Hebrew University in Jerusalem and the board of governors of the Technion University in Haifa. He is the father of Moshe and Israel Greidinger. His current term as Supervisory Director expires in June 2008.

Yair Shilhav (12 October 1958)

Yair Shilhav was appointed as a member of the Supervisory Board in November 2006, and is the Chairman of the Audit Committee. Since 2004, Mr Shilhav has been the owner of a business consulting office. Between 2000 and 2003, he was a member of the executive directory committee of the audit firm, Somekh Chaikin, a member of KPMG ("Somekh Chaikin"). Between 1995 and 2003, he was the head of the Haifa branch of Somekh Chaikin, of which he was partner from 1990 to 2003. Prior to becoming a partner at Somekh Chaikin, he was head of the professional and finance department of the same firm. He was also the head of the accountancy faculty at Haifa University between 1998 and 2002. His current term as Supervisory Director expires in November 2010.

Arthur F. Pierce (4 April 1930)

Arthur Pierce was appointed as a member of the Supervisory Board in 2004 and, as of November 2006, has been a member of the Remuneration Committee and the Appointment Committee. From 1996 to the present time, he has worked as a consultant providing services related to the international motion picture distribution. Between 1954 and 1972, Mr. Pierce held various executive positions with Columbia Pictures International, Paramount Pictures International and Cinema International Corporation. From 1972 to 1993, he served as Vice President of Europe for Warner Brothers Theatrical Distributions. From 1993 to 1996, he served as Senior Vice President for European Theatrical Distributions, Time Warner Entertainment. Mr. Pierce currently serves as Director of Luna Productions, Limited, a UK subsidiary of New Regency Productions, Inc., and as President of Frank Pierce Partners, International Theatrical Representation. He received his B.A. and M.A. from Boston College in the United States.. His current term as Supervisory Director expires in June 2008.

Scott. S. Rosenblum (4 October 1949)

Scott Rosenblum was appointed as a member of the Supervisory Board in 2004, was appointed Chairman of the Remuneration Committee and of the Appointment Committee in November 2006 and is also a member of the Audit Committee. He is licensed as a lawyer and admitted to the New York Bar Association. For the past ten years he was a partner in the law firm of Kramer Levin Naftalis & Frankel LLP, New York, and was Managing Partner between 1994 and 2000. He is currently a director of Escala Group, Inc and Temco, Inc. He is also legal adviser to Israel Theatres limited Ltd., the indirect shareholder of the Company. His current term as Supervisory Director expires in June 2008.

Caroline M. Twist (25 January 1956)

Caroline Twist was appointed as a member of the Supervisory Board in 2004 and, as of November 2006, has been a member of the Remuneration Committee. Between 1978 and 1984, Ms Twist worked as a manager in ABC/Thorn EMI cinemas in the UK. From 1984 to 1988, she served as West End Regional Manager / New Projects Manager for C.I.C. Theatres in the U.K. From 1989 until now, Ms Twist has held various managerial positions, with PACER CATS, a leading supplier of computerised ticketing systems, both in the United States and Europe. Her current term as Supervisory Director expires in June 2008.

Peter J. Weishut (31 July 1935)

Peter Weishut was appointed as a member of the Supervisory Board in 2004 and, as of November 2006, has been a member of the Appointment Committee. Between 1969 and 1997, Mr Weishut worked as a director in Akzo Nobel in the Netherlands and Japan. From 1997 to 1999, he served as Management Consultant for Rafino, producer of pet foods, in the Netherlands. Between 1999 and 2001, Mr Weishut was the treasurer of a foundation celebrating the 400-year relationship between the Netherlands and Japan. His current term as Supervisory Director expires in June 2008.

Management Board

The management of the Company is entrusted to the Management Board under the supervision of the Supervisory Board. The Articles of Association provide that the Management Board shall consist of two or more managing directors. Managing directors are appointed by the General Meeting of Shareholders. The Management Board shall meet as often as a managing director requests a meeting. All resolutions by the Management Board shall be adopted by an absolute majority of the votes cast.
The Management Board as a whole is responsible for the day-to-day management, including comprehensive risk management control, financing and regulatory compliance. Cinema City International N.V. and its operating companies are organised along clear functional reporting lines. Throughout the Group, corporate and operating accountabilities, roles and responsibilities are in place.

Composition of the Management Board

Moshe J. (Mooky) Greidinger (12 December 1952)

Moshe J. (Mooky) Greidinger was appointed Chief Executive Officer of the Company in 1984. Mr Greidinger joined the Company in 1976. Since 1984, he has held executive positions with the Company with substantially the same responsibilities as he presently maintains. Mr Greidinger has also served as a director and Deputy Managing Director of Israel Theatres Limited since 1983 and Co-Chairman of the Cinema Owners Association in Israel since August 1996. He is the brother of Israel Greidinger and the son of Coleman Greidinger. His current term as Managing Director expires in June 2008.

Amos Weltsch (28 February 1950)

Amos Weltsch joined the Company in 1980 at which time he was appointed Chief Operating Officer of the Company. Since that time, Mr Weltsch has held executive positions with the Company with substantially the same responsibilities as he presently maintains. He has also held various senior management positions with Israel Theatres Limited and affiliated companies since 1980. From 1974 to 1978, he was a manager at L. Glickman Building Materials, and from 1978 to 1980, a managing director of Eitan Cement Limited. His current term as Managing Director expires in June 2008.

Israel Greidinger (14 April 1961)

Israel Greidinger joined the Company in 1994 and was appointed Chief Financial Officer of the Company in 1995. Since that time he has held executive positions with the Company with substantially the same responsibilities as he presently maintains. Mr Greidinger has also served as a director of Israel Theatres Limited since 1994. From 1985 to 1992, Mr Greidinger served as Managing Director of C.A.T.S. Limited (Computerised Automatic Ticket Sales), a London company, and from 1992 to 1994, he was President and Chief Executive Officer of Pacer C.A.T.S., Inc. He is the brother of Moshe Greidinger and the son of Coleman Greidinger. His current term as Managing Director expires in June 2008.

Remuneration Report

Introduction
The Extraordinary General Meeting of Shareholders held on 24 November 2006, upon recommendation of the Supervisory Board, approved the Company's remuneration policy which sets forth the terms of remuneration of the members of the Management Board. The same General Meeting approved a long-term incentive plan for members of the Management Board and other key personnel of the Company and its subsidiaries. The remuneration for the Supervisory Board was also adopted at the same General Shareholders' Meeting.

Remuneration Policy
The objective of the Company's remuneration policy is to provide a compensation programme that allows the Company to attract, retain and motivate qualified people who have the character traits, skills and background to successfully lead and manage the Company. The remuneration policy is designed to reward members of the Management Board and other key personnel for their contribution to the success of the Company.

Governance
The General Meeting of Shareholders approves all aspect of the remuneration policy for the Management Board. The General Meeting of shareholders further determines the remuneration of the Supervisory Board. Compensation of both the Supervisory Board and Management Board is reviewed regularly. The Supervisory Board has a dedicated Remuneration Committee.

Remuneration of the Management Board
Employment contracts
The three members of the Company's Management Board have three-year employment contracts that terminated in December 2007 and are automatically renewed by the year periods unless notice of termination is given by either party. It also includes a non-compete clause that requires the Managing Director to refrain from any activity that is competitive to the Company's activity for a period of twelve months after termination of employment. These persons are paid under contractual agreements that provide a monthly base salary indexed to the Israeli consumer price index and annual participation in a bonus pool with the other Management Board members. Forum Film (Israel), the Company's 50% subsidiary, covers 100% of the portion of the bonus pool derived from Forum Film (Israel) profits and 33% of the monthly based salaries to Mr. Moshe Greidinger and Mr. Israel Greidinger.
In addition, under the terms of the employment contracts, the members of the Management Board are entitled to a car, contribution to a severance fund, contribution to a statutory provident fund, a EUR 175 per diem payment for business travel days and reimbursement of reasonable business expenses, including payment of reasonable telephone bills. The members of the Management Board are not entitled to any benefits on termination of his employment except for a severance payment. For Messrs Moshe Greidinger and Israel Greidinger, the severance payment is equal to their monthly base salaries at the time of termination, multiplied by the number of years of employment by the Company. For Mr Weltsch, the severance payment is equal to the greater of: (a) the statutory amount accumulated in his policy account for severance pay and (b) his monthly base salary at the time of termination, multiplied by the number of years of his employment by the Company.

Remuneration Report

Long-term incentive plan
Towards the end of 2006, a new long-term incentive plan (the “Plan”) was implemented. The persons eligible for participation in the Plan are the employees of the Group, including the members of the Management Board. Under the Plan, both option rights to acquire shares in the Company and cash bonuses may be granted to the participants.
The grant of options to Management Board members and other personnel has a maximum of 930,000 newly issued or repurchased shares. The Supervisory Board is authorised to determine, with the participation of at least one independent member of the Supervisory Board, the exact terms of any stock or stock-based incentive scheme. The actual grant of share options is disclosed in the Notes to the Consolidated Financial Statements.

Remuneration of the Supervisory Board
Each Supervisory Board member receives an annual remuneration of EUR 8,500 and EUR 1,500 per attendance at meetings or EUR 750 if attendance is by telephone.

Directors' report

General

Introduction

Cinema City International N.V. (the "Company"), incorporated in the Netherlands, is a subsidiary of I.T. International Theatres Ltd. ("ITIT" or "parent company"). The Company (and together with its subsidiaries, the "Group"), is principally engaged in the operation of entertainment activities in various countries including: Poland, Hungary, Czech Republic, Bulgaria, Israel and, as of the fourth quarter in 2007, Romania as well. The Company, through related entities, has been a family operated theatre business since 1929. The Company shares are traded on the Warsaw Stock Exchange. As at 27 March 2008, the market price was PLN 28.50 (EUR 8.05) per share giving the Company a market capitalization of EUR 409 million. The Company's office is located in Rotterdam, the Netherlands.

Company overview

The Company is the largest operator of multiplex cinemas in Central Europe and is currently operating 400[(*)] screens in 42[(*)] cinemas in Poland, Hungary, the Czech Republic, Bulgaria and Romania. The Company has significant expansion plans for Central Europe, mainly in Poland and Romania, and also in Hungary, Czech Republic and Bulgaria. In addition to Central Europe, the Company is one of the two leading motion picture exhibitors in Israel, operating 111 screens in 19 multiplexes throughout the country. The Company has historically benefited from its relationships with international film companies, having acted as the exclusive motion picture distributor for Walt Disney Company ("Disney") in Israel for the past 40 years and, more recently, in Poland and Hungary. The Company also maintains an exclusive arrangement with the IMAX® Corporation to develop IMAX® theatres in Poland, the Czech Republic, Hungary, Bulgaria and Romania.

[(*)] as of 31 December 2007

Business strategy

The Company's strategic objectives are to enhance its position as a leading operator of multiplex cinemas in Central Europe through continued expansion in Poland, Hungary, the Czech Republic, Bulgaria and Romania, and to maintain its position as a leading motion picture exhibitor in Israel. The Company plans to continue to design and operate multiplex theatres, which it believes will promote increased attendance and maximise space and operating efficiencies through improved utilisation of theatre capacity and reduced labour costs. In conjunction with its movie exhibition business, the Company is also active in other movie related activities, including film distribution and, to a smaller extent, video retail. The Company plans to continue developing its film related activities, mainly in Central Europe, and believes these operations will continue to play a key roll in achieving the Company's targets. In addition, in conjunction with its expansion in Central Europe, the Company has invested in the development of commercial real estate projects associated with its theatres in a number of locations in Central Europe and intends, opportunistically, to continue to do so.

Economy and business developments during the year

Economic environment

Economy

The positive economic trends in Central Europe are stabilising. The disposable income in each country represents the purchasing power of the consumer for among other things, cinema entertainment. The Company believes that an increase in the disposable income will increase admissions in the existing cinemas as well as average spending in the cinemas.

The strengthening of most of the local currencies against the euro, during the past few years, shows that these countries are closing the economic gap with Western European countries.

The Company believes the development of the economies in Central Europe will help its development plans in the region.

Cinema market

While the demand is growing mainly in line with the economic status of the market, the Company believes that the low supply of good quality cinemas is the main reason for the underdeveloped market. The multiplex screens density in the Company's markets of operation in Poland, Hungary, Czech Republic, Bulgaria and Romania in comparison to the density to the western European countries is considered to be relatively low. This allows expansion of multiplexes, which should increase admissions in the mentioned countries.

Competitive environment

Poland

Cinema City is the clear leader in the Polish movie exhibition market. As of 31 December 2007, the Company had a 34% share of the total market as measured by admissions (not including the IMAX® theatres) and a 46% share of multiplex admissions. Moreover, the Company has a dominant position in Warsaw, accounting currently for over one third of the box office market in Poland, with a 60% market share of admissions.

Apart from being the market leader in the movie exhibition industry in Poland, Cinema City controls the leading cinema advertising sales house, New Age Media, and is a major film distributor through Forum Film Poland, a wholly-owned subsidiary of Cinema City. Forum Film Poland is the exclusive distributor of Buena Vista International, a subsidiary of Walt Disney, distributing movies of Disney and Touchstone. In addition, Forum Film Poland distributes films from Spyglass and several other independent producers.

The main competitors of Cinema City are other multiplex chains of which Multikino is the largest with 8 multiplexes across Poland. Other major competitors are Silver-Screen, Helios, and Kinoplex.
Starting from the second quarter of 2007 Helios and Kinoplex are controlled by the same shareholders.

Directors' report

Hungary

The Company is the second largest exhibitor in Hungary in number of screens as of 31 December 2007 and has multiplexes mainly in the secondary cities, with an approximate 24.5 %(*) share of the Hungarian exhibition market. The Company currently dominates the cinema market in larger cities outside Budapest. The Company opened early 2008 a 22 screen multiplex and an IMAX® theatre in the Arena shopping mall in Budapest which is one of the biggest shopping centres in Central-Eastern Europe.
In 2007 the company signed a lease agreement to open an additional 13 screens Multiplex in a new shopping Mall in Budapest. This multiplex is planned to be opened in 2009.
The main competitors in Hungary are Palace Cinemas and Budapest Film.

In 2005, the Company opened a new film distribution company in Hungary and received the rights to distribute films for Revolutionary, Spyglass and BVI. The first film was released in July 2005. In September 2006, the Company commenced the operation of its DVD distribution company in Hungary. This distribution company is already the exclusive distributor of films on DVDs for two major US studios: Warner Bros and Sony (Columbia).
In October 2006, the Company established its screen advertisements company "New Age Cinema" in Hungary, This Company is operating since January 2007.

(*) According to distributor association data 2007

Czech Republic

Cinema City is one of the largest cinema operators in the Czech Republic with a strong presence in Prague. The cinema market in the Czech Republic outside Prague is relatively undeveloped. This offers opportunities for Cinema City to open multiplex theatres in other large cities. Cinema City plans to open during 2008 2 multiplex theatres in 2 of the other large cities (first was already open towards the end if March 2008).
The Company's main competitors are Palace Cinemas, Cinestar and Village Roadshow.
In addition to cinema operations, the Company established lately its DVD distribution business and started to distribute DVDs for Walt Disney Company

Israel

The Company operates in Israel under the brand name of "Rav-Chen" and "Planet" (the brand name "Cinema City" was previously reserved in Israel by a competitor). The Israeli movie exhibition market is dominated by two cinema operators. As of December 2007, the Company is the largest cinema operator in Israel based on number of screens with 19 theatres with 111 screens. Globus is the second largest operator with 15 theatres and 105 screens.
The Company is also a major film distributor through Forum Film, a 50% owned subsidiary of the Company. Forum Film is the exclusive film distributor of Disney and several other independent studios. The Company's main competitor is Globus that operates with 15 theatres and 105 screens, and that, through its distributions channel, acts as a distributor for Warner and UIP. Other players in the cinema market in Israel include Lev Cinemas, Cinema City (a brand registered by a competitor) and A.D. Mattalon. A.D. Mattalon is also a competitor in the Israeli film distribution business.

Bulgaria

The Company operates one modern multiplex of cinema in Bulgaria; located in Sofia Mall, Sofia .The cinema market in Bulgaria is relatively underdeveloped. Until few years ago, the Bulgarian exhibition was dominated by the state-owned company called Sofia Film .It was privatised and sold to Bulgarian Technology in 2001. Its new owners gradually disposed of its assets, and by 2005 it went into liquidation. Few modern multiplexes were built, all are located in Sofia.

Romania

The Company operates 2 modern multiplexes in Romania, both opened toward the end of 2007.

The Romanian cinema industry is in dire straits. Lack of investment in cinemas has led to dramatic decrease in the number of cinema screens in recent years. Old cinemas have been closed down and audience decreased dramatically. The country has very few multiplexes. Two of the country's multiplexes are owned by a private company, Multiplex Operation Romania, a subsidiary of the Hungarian company Intercom which operate one Multiplex in Bucharest with 10 screens and another one in the city of Oradea with 5 screens.
There are approximately 120 one screen cinemas in Rumania which most of them are state – owned. Admissions per capita, which is about 0.15, is one of the lowest in the region and in Europe which creates good opportunities for the company.

Directors' report

Business highlights during 2007

The twelve months ended 31 December 2007 was a successful period for the Company, with revenues, EBITDA (Earnings Before Interest, Taxation, Depreciation and Amortization) and net income all having increased in comparison to the year ended 31 December 2006 (which itself was also a strong period). Consolidated revenues increased from EUR 143.8 million for the year 2006 to EUR 161.3 million for the year 2007. Consolidated EBITDA increased from EUR 31.2 million for the year 2006 to EUR 34.6 million for the year 2007. Net income increased from EUR 11.7 million for the year 2006 to EUR 16.6 million for the year 2007.

In 2007 the Company also continued its ambitious theatre expansion program. During the year, the Company opened a total of 47 new screens, purchased 18 screens and closed a total of 20 obsolete screens. At the end of the year, the Company opened its first two theatres in Romania, the sixth country in which it operates. With a population of almost 22 million inhabitants, its recent entry into the European Union, being a developing economy and having virtually no modern multiplex theatres, Romania is expected to become the Company's most active territory of development for the next several years.

At the end of 2007, the Company was also putting the finishing touches on the largest megaplex in Central/Eastern Europe, its 23-screen and IMAX® flagship theatre in Budapest, Hungary, which will solidify the Company's leading position in the Hungarian market. This theatre was opened to the public in January 2008.

The Company's theatre operations performed well during 2007, bolstered by a well received supply of international movies. In particular, the Company's Polish operations continued to perform well, supported by not only a flow of international movies, but also by a strong local supply of movies. The new screens that the Company opened in Poland during the latter part of 2006 which had their first full year of operations in 2007, together with the 18 screens in Poznań acquired by the Company in January 2007 from the Kinepolis Group and an additional number of 35 screens opened during 2007, all contributed to the positive results in Poland, both in terms of number of admissions and EBITDA.

During the year ended 31 December 2007, the Company's real estate activities continued to contribute strongly to the Company's results. This was driven primarily by the Company's sale during the second quarter of one-half of its equity interest in the Mall of Plovdiv, Bulgaria. The sale was to two leading real estate private equity groups: US based General Electric Real Estate Central and Eastern Europe ("GE") and Irish based Quinlan Private ("Quinlan").

Theatre operation activities

In January 2007, the Company acquired a modern recently developed 18 screen multiplex cinema in Poznań, Poland that previously had been owned and operated by the Kinepolis Group. Under the agreement with Kinepolis, the Company acquired certain assets relating to Kinepolis' operation of the Poznań theatre and entered into a long-term lease of the 18 screen complex with Kinepolis, which continues to own the building. This multiplex has now become the Company's second theatre operation in Poznań. In addition, in January 2007 the Company resolved a two year old dispute with the developer of two of the Company's planned multiplex sites in Poland – Wloclawek and Elblag. Under the settlement the Company agreed not to seek to enforce the lease agreements and development of the sites in return for an agreed upon cash payment.

In March 2007, the Company opened two multiplexes in Poland, one in Rybnik and one in Sosnowiec. The Rybnik multiplex consists of 8 screens with a total of 1,524 seats. The Sosnowiec multiplex consists of 6 screens with a total of 874 seats. In June 2007, the Company opened two more multiplexes in Poland, one in Lublin and one in Gliwice. The Lublin multiplex consists of 8 screens with a total of 800 seats. The Gliwice multiplex consists of 13 screens with a total of 2,333 seats. All these recently opened Polish multiplexes are located in modern shopping centres, and are part of the Company's overall strategy of expansion to secondary cities in Poland.

During the first quarter of 2007, the Company closed three older multiplex theatres in Israel: in Ashdod, Karmiel and Ashkelon. During the fourth quarter of 2007, the Company closed another older multiplex theatre located in Sevionim, Israel. These closings, which comprised 20 screens with approximately 3,519 seats, are in line with the Company's ongoing plans to modernize and upgrade its Israeli chain through the closing of its smallest and oldest multiplexes whilst opening modern state-of-the-art larger multiplex theatres.

During the fourth quarter of 2007, the Company opened its first two modern multiplexes in Iasi and Timisoara, Romania, The multiplex in Iasi consists of 5 screens with a total of 830 seats. The multiplex in Timisoara consists of 7 screens with a total of 970 seats.
The Company's total screen count at the end of 2007 following the above openings (and closings) is 511 (including 7 IMAX® theatres).

Film distribution activities

During the year ended 31 December 2007, the Company continued to grow its film distribution business geographically mainly by extending its DVD distribution activities to the Czech Republic. The Czech DVD distribution business, which commenced operations during the third quarter of 2007, will initially distribute DVDs for the Walt Disney Company. Overall performance of the distribution division for the year was, however, generally disappointing mainly due to the negative performance of the Company's Israeli distribution business.

Real estate activities

In 2006, the Company, through its wholly-owned Dutch subsidiary, IT Sofia B.V., together with its partner, Ocif Development Ltd. ("Ocif"), acquired from a Bulgarian developer, 60% of the equity in a company whose main asset is a parcel of land located in Plovdiv, Bulgaria, on which the Mall of Plovdiv is now being constructed. As noted above, during the second quarter of 2007, the Company sold one-half of its equity interest in the Mall of Plovdiv to GE and Quinlan.

In addition to entering into a share purchase agreement with GE and Quinlan, the selling shareholders, including IT Sofia and Ocif, entered into an operating agreement with the purchasers regulating the rights and obligations of all parties as shareholders in the Mall of Plovdiv and the rights and obligations relating to the development, construction and management of the mall. Under the operating agreement, the selling shareholders, but primarily IT Sofia and Ocif, will remain responsible for completion of the project. Moreover, pursuant to the operating agreement, GE and Quinlan agreed to acquire the remaining 50% interest in the Mall of Plovdiv held by the selling shareholders (including 15% of the shares still held by the Company through IT Sofia) immediately prior to the opening of the mall, for a price based on agreed upon formula.

In July 2007 the Company, through IT Sofia and through a new Bulgarian affiliated company in which IT Sofia holds 45% of the equity, entered into an agreement to purchase a 60-thousand square meter plot of land located in Russe, Bulgaria. Ocif also acquired 45% of the company purchasing the Russe land, with the remaining 10% interest in the company held by the original landowner, which under an agreement with IT Sofia and Ocif, has been granted a right to sell this interest to IT Sofia and Ocif at a future date. The purchase price paid for the plot of land was EUR 22.5 million, of which IT Sofia and Ocif each paid EUR 11.25 million. Similar to the Company's real estate investment and development in Sofia Bulgaria, and more recently Plovdiv Bulgaria, the Company, together with Ocif, intends to develop a 25,000 to 35,000 square meter shopping mall with the city's first modern multiplex theatre located therein on the acquired plot of land.

Overview of results

The Company's net income for 2007 was EUR 16,624,000. An analysis of net income is shown below.

	For the year ended 31 December 2007	2006
	EUR (thousands, except per share data)	
Revenues	**161,340**	143,791
Operating costs, excluding depreciation and amortisation	**117,719**	106,266
Gross result	**43,621**	37,525
General and administrative expenses	**9,021**	6,277
EBITDA *	**34,600**	31,248
Depreciation and amortisation	**15,440**	13,901
Operating profit	**19,160**	17,347
Financial income	**1,985**	795
Financial expenses	**(5,714)**	(5,465)
Loss on disposals, write-off of other investments and other costs	**(416)**	(34)
Net income before taxation	**15,015**	12,643
Income tax benefit/(expense)	**575**	(1,377)
Net income before minority interests	**15,590**	11,266
Minority interests	**1,034**	472
Net income attributable to equity holders of the parent company	**16,624**	11,738
Net earnings per ordinary share of EUR 0.01 each (basic and diluted)	**0.33**	0.28

* Earnings Before Interest, Taxation, Depreciation and Amortisation. Under this definition, gains and losses on disposals and write-off of other assets as well as currency exchange results are also not included in EBITDA.

Revenues

Total revenues increased by 12.2% from EUR 143.8 million during the year ended 31 December 2006 to EUR 161.3 million during the year ended 31 December 2007.

Theatre operating revenues increased by 25.2% from EUR 99.1 million during the year ended 31 December 2006 to EUR 124.1 million during the year ended 31 December 2007. The increase in theatre revenues mainly resulted from an increase in number of admissions because of strong supply of movies, the contribution of new cinemas opened in 2006 and in 2007, especially in Poland, and increase in sales of cinema advertising in the company's major territories. Theatre operating revenue also includes the amount received as a settlement of a dispute with the developer of the Company's planned multiplex sites in Wloclawek and Elblag in Poland.

Distribution operating revenues increased by 5.0% from EUR 21.9 million during the year ended 31 December 2006 to EUR 23.0 million during the year ended 31 December 2007. This can be explained as the net effect of:

- a decrease in revenues in Israel and Poland, mainly due to the differences in the supply of movies, and;

- an increase due to the first full year contribution of Forum Home Entertainment Hungary, a new subsidiary, which is distributing DVDs in Hungary and commenced its activities only in September 2006 and the first time contribution of Home Entertainment Czech, a new subsidiary, which is distributing DVDs in the Czech republic and commenced its activities during the third quarter of 2007.

Video operating revenues decreased by 4.9% from EUR 4.1 million during the year ended 31 December 2006 to EUR 3.9 million during the year ended 31 December 2007. The decrease is mainly due to reduction in DVD rentals, and the post merger restructuring following the May 2006 combination between Video Giant with Blockbuster as described in note 3 II (a) to the Consolidated Financial statements.

Other revenues, which includes real estate activities, decreased by 44.9% from EUR 18.7 million during the year ended 31 December 2006 to EUR 10.3 million during the year ended 31 December 2007. This was mainly attributed to the fact that revenue generated from the sale of the first 50% of the Mall of Plovdiv in 2007, was lower than the revenue generated in 2006 from the sale of the Company's second 50% interest in the Mall of Sofia. Other revenues during the year ended 31 December 2006 also include revenues generated from the sale of a building in the Czech Republic.

Operating costs

Operating costs, excluding depreciation and amortization increased by 10.7% from EUR 106.3 million during the year ended 31 December 2006 to EUR 117.7 million during the year ended 31 December 2007. This increase resulted primarily from the net effect of:

- an increase in theatre operating expenses primarily explained by the increase in theatre revenues as described above. Theatre operating expenses, excluding depreciation and amortization, as a percentage of total theatre revenue decreased to 72.8% for the year ended 31 December 2007, from 73.3% for the year ended 31 December 2006;

- an increase in distribution operating expenses. Distribution operating expenses, excluding depreciation and amortization, as a percentage of total distribution revenue increased to 93.3% for the year ended 31 December 2007, from 91.2% for the year ended 31 December 2006. The increase in the relative part of operating expenses as a percentage of total revenue was mainly due to lower distribution revenue in Israel during the year ended 31 December 2007 in comparison to the same period last year, and;

- a decrease in Video operating expenses primarily explained by the decrease in Video revenues as described above. Video operating expenses as a percentage of total video revenue decreased to 64.4% during the year ended 31 December 2007 from 70.9% during the year ended 31 December 2006.

General and administrative expenses

General and administrative expenses increased by 42.9% from EUR 6.3 million for the year ended 31 December 2006 to EUR 9.0 million during the year ended 31 December 2007. General and administrative expenses as a percentage of total revenue increased to 5.6% for the the year ended 31 December 2007, from 4.4% for the year ended 31 December 2006. The increase was mainly a result of the increase in the size of the operation in Poland, the commencement of theatre activities in Romania and DVD distribution activities in Hungary and the Czech Republic. In addition, the Company recorded expenses related to the long term incentive plan established by the Company in December 2006 and further expenses related to being a public company (mainly investor relations and share listing fees). Such expenses also contributed to the increase in the general and administrative expenses.

EBITDA

As a result of the factors described above, the Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) increased by 10.9% from EUR 31.2 million for the year ended 31 December 2006 to EUR 34.6 million for the year ended 31 December 2007.

Depreciation and amortisation

Depreciation and amortisation expenses increased by 10.8% from EUR 13.9 million for the year ended 31 December 2006 to EUR 15.4 million for the year ended 31 December 2007. This was primarily due to the commencement of operations of the Company's new multiplex screens during 2006 and 2007.

Operating profit

As a result of the factors described above, the operating profit increased by 11.0% from EUR 17.3 million during the year ended 31 December 2006 to EUR 19.2 million during the year ended 31 December 2007.

Financial income/expenses

The balance of financial income and expenses resulted in a net expense of EUR 3.7 million during the year ended 31 December 2007 compared to a net expense of EUR 4.7 million during the year ended 31 December 2006. Net financial results were positively impacted by the inflow of capital following the Company's IPO, which was used, in part, to repay outstanding indebtedness and which also generated interest income. In addition, there was increase in interest income generated for short term loans to unconsolidated subsidiaries. This was offset in part by currency losses relating to future currency contracts the Company purchased in order to fix the rate of exchange used to calculate payments due under certain dollar denominated lease agreements.

Income tax

The income tax as a percentage of profit before income tax was 3.8% (income) for the year ended 31 December 2007 compared to 10.9% (expense) for the year ended 31 December 2006. This decrease in income tax is partly due to utilization of tax losses carried forward from previous years against current taxable income in Poland. Such tax losses were not accounted for in the past as deferred tax assets.
Further tax losses from previous years available for carry forward were recognised during 2007 as deferred tax assets based on Management's estimation that these can be used to set off future taxable income in Poland. This also contributed to creating an income tax benefit.

Minority interests

Minority interests for the year ended 31 December 2007 and 31 December 2006 was comprised of the share of minority shareholders in losses from subsidiaries that are not 100% owned by the Company (EUR 1.0 million and EUR 0.5 million respectively).

Net income

As a result of the factors described above, the Company realized a net income of EUR 16.6 million during the year ended 31 December 2007 compared to net income of EUR 11.7 million during the year ended 31 December 2006.

Financial condition

Liquidity and capital resources

The Company funds its day-to-day operations principally from the cash flow provided by its operating activities. Such cash flow (not including changes in working capital) totalled EUR 28.8 million and EUR 23.5 million for the years ended 31 December 2007 and 2006, respectively. The difference between the Company's net income and its cash flow from operating activities (excluding the changes in working capital) is principally due to the Company's depreciation and amortisation expenses of EUR 15.4 million and EUR 14.0 million in 2007 and 2006, respectively, which are non-cash expenses.

Capital expenditure

The Company maintains a dynamic and flexible approach to developing its theatre projects whereby it will generally seek to lease theatres rather than to purchase them. The Company, however, will consider owning a multiplex if strategically desirable.

The Company's capital expenditures (including investment in subsidiary companies and net of proceeds from investments sold) aggregated EUR 35.1 million and EUR 26.7 million during 2007 and 2006, respectively. The Company has funded its capital expenditures principally from cash flow generated by its operating activities, bank borrowings and the proceeds from the public offering.

The Company's net cash flow used in financing activities for the year ended 31 December 2007 amounted to EUR 38.9 million which compares to a net cash flow provided by financing activities during the year ended 31 December 2006 of EUR 45.4 million. The large amount of cash flow used in financing activities for the year ended 31 December 2007 is mostly explained by the repayment of long term loans (EUR 57.8 million) offset by proceeds from new long term loans assumed (EUR 19.6 million). The large amount of cash flow provided by financing activities for the year ended 31 December 2006 is primarily explained by the net proceeds of the Company's initial public offering in December 2006 (EUR 46.5 million).

Asset and capital structure

The Company has historically financed the majority of its development to date through loans from Bank Leumi in Israel. The Company's local subsidiaries in Central Europe, mainly in Poland, have financed a growing part of their projects using financing provided by local banks, against which securities have been provided such as mortgages on the assets of the financed projects, a pledge of the shares in local subsidiaries and assignments of the local subsidiaries revenues and insurance policies. During the first quarter of 2007, the Company redeemed the outstanding balance of EUR 32.1 million under its line of credit with Bank Leumi Israel. The redemption was funded by the proceeds from issuing new shares in December 2006. During the third quarter of 2007, the Company redeemed additional outstanding balance of EUR 7.2 million under the same line of credit. This redemption was funded by the proceeds from the sale of the company interest in the Mall of Plovdiv as described above.

Debt and operational debt

As of 31 December 2007, the Company's total debt to banks amounted to EUR 53.4 million (2006: EUR 91.4 million). Taking into account the Company's liquid funds at 31 December 2007 amounting to EUR 7.8 million (31 December 2006: EUR 53.2 million), the net debt position of the Company amounted to EUR 45.6 million at the end of 2007 (end of 2006: EUR 38.2 million). Out of this net debt, EUR 10.1 million was used to finance non-operational assets (construction in progress) and non-operational cinema equipment.

The Company's non-operational assets consist mainly of investments in theatres under development (EUR 2.4 million) and investments in non-operational IMAX® and cinema equipment (EUR 7.7 million).

Employees

The average number of personnel employed by the Company and its subsidiaries – on a full – time equivalent basis - increased from 1,509 in 2006 to 1,617 in 2007. The increase is attributable to an increase of personnel in Central Europe largely as a result of expanded activities in that region, mainly in Poland.

Outlook for the year 2008

In January 2008, the Company opened the largest Central European megaplex and IMAX®, a 23-screen 3,800 seat state-of-the-art flagship theatre, in Budapest, Hungary, which solidifies the Company's position as one of the two key cinema operators in the Hungarian market. This theatre significantly enhances the Company's presence in the key Budapest market. It also unveils the only IMAX® theatre in Hungary.

In March, the Company opened 6 screen multiplex site in Plzen in the Czech Republic.

During 2008 the Company plans to continue its ambitious expansion program, which includes:

- Toward the end of 2008, the Company expects to open a 10 screen multiplex in Zielona Cora, Poland;
- Toward the end of 2008, the Company expects to open a 8 screen multiplex in Pardubice, Czech Republic;
- Toward the end of April, the Company expects to open a 13 screen multiplex in Bydgoszcz, Poland;
- During the second quarter, the Company plans to open a 6 screen multiplex in Modiin, Israel, which was originally scheduled to open before the end of 2007, but is now scheduled to open during the second quarter of 2008
- During 2008, the Company plans to open a 23 screen multiplex in Haifa, Israel. This will be the second of the Company's new generation of "Planet" theatres in Israel, and is expected to follow the success of the Company's "Yes" sponsored Planet theatre that opened in Ramat Gan in 2006;
- During 2008, the Company expects to open 5 cinemas in Romania including 44 screens – in Bacau, Pitesti, Cluj, Braila and Tirgu-Mures;

Throughout 2008, the Company expects to open 133 screens, 29 already opened in Hungary and the Czech Republic and further 104 screens, in Romania, Poland, Czech Republic and Israel as described above.

In addition, the Company is progressing in signing additional lease agreements for future multiplexes in Romania at a faster pace than originally projected. As at 27 March 2008, the Company has binding commitments for additional 20 sites (representing about 226 screens) throughout Romania, and is in advanced negotiations in respect of a further number of sites. Of the existing commitments, three theatres are in the advanced stages of development in recently opened malls in the cities of Bacau, Pitesti and Cluj, and five mall projects are under construction. With these sites and future expansions, the Company believes that Romania will likely become the Company's most active territory for theatre development and expansion for the foreseeable future. Upon completion of the projects currently in the pipeline, Romania will become the Company's second largest country in terms of number of screens in operation, exceeded only by Poland. All of the planned Romanian theatres are located in shopping centers and will be leased.

With respect to the Company's estimated opening dates, the Company continues to find that because the mall opening dates are dependent on the mall developers and there is a tendency to complete the construction of the malls behind schedule, the planned openings of each of the Company's theatres can be delayed by 3 to 9 months beyond the Company's initial estimates.

Additional information to the report

Major shareholders

To the best of the Company's knowledge as of the date of publication of short report for the year ended 31 December 2007 (27 March 2008), the following shareholders are entitled to exercise over 5% of voting rights at the General Meeting of Shareholders in the Company:

	As of 27 March 2008 Number of shares/ % of shares	**Increase/ (decrease) Number of shares**	**As of 31 December 2007 Number of shares/ % of shares**	**Increase/ (decrease) Number of shares**	**As of 30 September 2007 Number of shares/ % of shares**
I.T. International Theaters Ltd.,	32,720,091 / 64.37%	119,095	32,600,996 / 64.13%	(109,000) *	32,709,996 / 64.49%
ING Nationale - Nederlanden Polska Otwarty Fundusz Emerytalny	2,700,000 / 5.31%	-	2,700,000 / 5.31%	414,023	2,285,997 / 4,50%
BZ WBK AIB Asset Management SA	2,542,345 / 5.00%	2,542,345	n.a.	n.a.	n.a.

* The 109,000 shares were sold on the regulated market, Warsaw stock exchange. This sale was purely affected to facilitate the realization of the 2006 Long Term Incentive Plan and to finance the acquisition by eligible holders of options of shares in the Company to be issued in the exercise of the options granted to them by the Company under the plan.

In the register of major holdings maintained by the Dutch Authority for the Financial Markets the following major holding is disclosed:

- DKG Investment Ltd: 41.13%.. This concerns a holding company through which the shares in I.T. International Theatres Ltd. owned by two members of the Management Board (see below) are jointly held.

Changes in ownership of shares and rights to shares by Management Board members in the fourth quarter of 2007 and until the date of publication of the report

Changes in ownership of shares and rights to shares by the Management Board members are specified below:

	As of 27 March 2008 Number of shares/ % of shares	**Increase/ (decrease) Number of shares**	**As of 31 December 2007 Number of shares/ % of shares**	**Increase/ (decrease) Number of shares**	**As of 30 September 2007 Number of shares/ % of shares**
Moshe Greidinger*	11,571,551 / 22.76%	42,112	11,529,439 / 22.68%	(36,816)	11,566,255 / 22.80%
Amos Weltsch	-	-	-	-	-
Israel Greidinger*	11,571,551 / 22.76%	42,112	11,529,439 / 22.68%	(36,816)	11,566,255 / 22.80%

*The shares held by Messrs Moshe and Israel Greidinger are held indirectly through I.T. International Theaters Ltd.

Rights to shares
The members of the Management Board did not own or receive any rights to shares in the Company during the period 31 December 2006 until 27 March 2008.

Additional information to the report (cont'd)

Changes in ownership of shares and rights to shares by Supervisory Board members in the fourth quarter of 2007 and until the date of publication of the report
The members of the Supervisory Board did not own any shares and/or rights to shares in the Company during the period 31 December 2006 until 27 March 2008.

Changes in the composition of the Supervisory Board
None

Capital structure, restrictions regarding shareholder rights and issue of new shares in the Company
The share capital of the Company consists of ordinary shares only, whereby one share represents one vote. There are no restrictions in respect of exercising rights attached to the shares by any shareholder.
The Company can only issue shares pursuant to a resolution of the General Meeting of Shareholders for a fixed number of shares and for a fixed period not exceeding 5 years. Such decision can only be taken upon a proposal by the Management Board subject to approval by the Supervisory Board.

Risk factors

The risks that may affect the Company's business, financial condition, operating results and corporate structure can be summarized as follows:
A. Risks Related to the Company's Business and Industry
- A lack of motion picture production and poor performance of motion pictures would have a negative effect on film attendance
- The Company is subject to uncertainties relating to its future expansion plans, including its ability to identify suitable site locations
- The Company is subject to risks related to the development of real estate
- A prolonged economic downturn could have a material adverse effect on the Company's business and results of operations by reducing consumer spending in its industry
- A deterioration in relationships with film distributors could adversely affect the Company's ability to obtain commercially successful films
- An increase in the use of alternative film distribution channels, such as home theatre video and the Internet, and other competing forms of entertainment may drive down movie theatre attendance and limit ticket prices
- The Company is subject to uncertainties related to new technologies, including the potentially high costs of re-equipping theatres
- Changes in laws could adversely affect the Company
- The Company's results of operations may fluctuate on a seasonal basis and may be unpredictable
- The loss of services of one or more members of the Company's senior management team could adversely affect the Company's business, results of operations and its ability to effectively pursue its business strategy
- The Company may not be able to sustain and grow ancillary revenue streams

Additional information to the report (cont'd)

Risk factors (cont'd)

A. Risks Related to the Company's Business and Industry (cont'd)

- Covenants in debt agreements concluded by the Company may restrict its ability to borrow and invest, which could affect flexibility to operate and ability to expand
- The Company is subject to additional risks relating to its operations in Israel
- Political, economic and legal risks associated with countries in emerging markets, including Central and Eastern Europe, could adversely affect the Company's financial condition and results of operation
- Accession to the European Union by a number of Central European countries, including Hungary, the Czech Republic and Poland, which took place in May 2004, may lead to uncertainty in the regulatory environment in which the Company operates
- The Company's operations may be subject to limitations imposed by antimonopoly regulations
- The Company faces competition that may adversely affect its business
- The Company could be negatively affected if certain copyright claims against it are successful
- Terms of leases and lease renewal
- The Company is subject to currency-related and interest rate risks
- Uninsured and underinsured losses

B. Risks Related to the Company's Corporate Structure

- The interests of the Company's controlling shareholder may conflict with those of minority shareholders
- Exercise of certain shareholders' rights and tax treatment for non-Dutch investors in a Dutch company may be more complex and costly

Representation concerning accounting policies

Management Board confirms that, to the best knowledge, consolidated financial statements together with comparative figures, has been prepared according to all applicable accounting standards and give a true and fair view of the state of affairs of the Group at 31 December 2007 and of the profit or loss for the period then ended.

Management Discussion and Analysis in this annual report shows true view of the state of affairs of the Group, including evaluation of major risks and uncertainties.

Representation concerning election of the Company's auditor

The Company's auditor has been elected according to applicable rules and that the audit firm and its chartered accountants engaged in the audit of the financial statement of Cinema City International N.V. meet the objectives to present an objective and independent report.

Additional information to the report (cont'd)

Other

As of 31 December 2007, the Group has issued guarantees for loans that in total amount to EUR 12 million and Polish zloty 115.5 (EUR 31.47) million in connection with loans provided to subsidiaries.

As of 31 December 2007, the Group has no litigations for claims or liabilities that in total exceed 10% of the Group's equity.

The following net movements in the Group's main provisions took place during the year ended 31 December 2007 (between brackets the net movements during the fourth quarter of 2007 are shown):

- a decrease in the provision for deferred tax liabilities of EUR 257,000 (a decrease of EUR 316,000).
- an increase in the provision for accrued employee retirement rights of EUR 176,000 (an increase of EUR 264,000).
- a decrease in the provision related to onerous lease contracts of EUR 1,608,000 (a decrease of EUR 402,000).

The Management Board

Moshe J. (Mooky) Greidinger President of the Board General Director	Amos Weltsch Management Board Operational Director	Israel Greidinger Management Board Financial Director

Rotterdam, 27 March 2008

To: the Shareholders of Cinema City International N.V.

AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying 2007 financial statements of Cinema City International N.V., Rotterdam. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2007, the consolidated profit and loss account, the consolidated statement of changes in equity and recognised income and expense and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at 31 December 2007, the company profit and loss account for the year then ended and the notes.

Management's responsibility

The Management Board is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the Directors' Report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Cinema City International N.V. as at 31 December 2007, and of its result and its cash flow for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Cinema City International N.V. as at 31 December 2007, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we confirm, to the extent of our competence, that the Directors' report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 27 March 2008

KPMG ACCOUNTANTS N.V.

P. Mizrachy RA

Initials for identification purposes:

08W00010844CCP

Consolidated Balance Sheet

	Note	31 December 2007	31 December 2006
		EUR (thousands)	
ASSETS			
FIXED ASSETS			
Intangible fixed assets	4	**1,041**	719
Property and equipment, net	5	**183,042**	170,554
Deferred tax asset	25	**1,175**	796
Total fixed assets		**185,258**	172,069
CURRENT ASSETS			
Inventories	6	**4,380**	3,919
Receivables			
Trade accounts receivable	7	**13,392**	11,642
Receivable from related parties	26	**299**	1,846
Income taxes receivable		**876**	423
Other accounts receivable and prepaid expenses	8	**12,157**	10,642
Total receivables		**26,724**	24,553
Financial assets			
Marketable securities		**60**	56
Available for sale financial assets	9	**18,456**	3,669
Total financial assets		**18,516**	3,725
Liquid funds			
Cash and cash equivalents	10	**7,817**	53,194
Short-term bank deposits – collateralized	11	**349**	-
Total liquid funds		**8,166**	53,194
Total current assets		**57,786**	85,391
TOTAL ASSETS		**243,044**	257,460

The notes on pages 36 to 84 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

	Note	31 December 2007	31 December 2006
		EUR (thousands)	
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY	12		
Share capital		**508**	507
Share premium reserve		**90,377**	89,945
Accumulated currency translation adjustment		**11,605**	4,967
Retained earnings		**53,681**	36,757
Total equity attributable to equity holders of the Company		**156,171**	132,176
Minority interests	14	**(1,908)**	(895)
Total equity		**154,263**	131,281
LONG-TERM LIABILITIES			
Long-term loans, net of current portion	17	**34,802**	65,739
Accrued employee retirement rights, net	15	**217**	41
Deferred tax liabilities	25	**1,933**	2,190
Provision related to onerous lease contracts	16	**3,565**	5,173
Other long-term payables	20(1)h	**2,537**	2,358
Income received in advance		**-**	91
Total long-term liabilities		**43,054**	75,592
CURRENT LIABILITIES			
Short-term borrowings	18	**18,575**	25,637
Trade accounts payable		**11,265**	10,740
Payable to related parties	26	**428**	455
Employee and payroll accruals		**1,544**	1,303
Other accounts payable	19	**13,915**	12,452
Total current liabilities		**45,727**	50,587
Total liabilities		**88,781**	126,179
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**243,044**	257,460

The notes on pages 36 to 84 are an integral part of these consolidated financial statements.

Consolidated Income Statement

	Note	2007	2006
		For the year ended 31 December	
		EUR (thousands, except per share data and number of shares)	
Revenues	21	**161,340**	143,791
Operating costs	22	**133,159**	120,167
Gross margin		**28,181**	23,624
General and administrative expenses		**9,021**	6,277
Operating profit		**19,160**	17,347
Financial income	23	**1,985**	795
Financial expenses	23	**(5,714)**	(5,465)
Loss on disposals, write-off of other investments and other costs	24	**(416)**	(34)
Income before taxation		**15,015**	12,643
Income tax benefit/(expense)	25	**575**	(1,377)
Net income before minority interests		**15,590**	11,266
Attributable to:			
Equity holders of the Company		**16,624**	11,738
Minority interests	14	**(1,034)**	(472)
Net income before minority interests		**15,590**	11,266
Number of average equivalent shares (basic)	13	**50,727,918**	41,436,329
Number of average equivalent shares (diluted)	13	**50,902,911**	41,467,160
Net earnings per ordinary share of EUR 0.01 each (basic and diluted)	13	**0.33**	0.28

The notes on pages 36 to 84 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

	Share capital	Share premium	Trans lation reserve	Retained earnings	Total	Minority interest	Total Equity
	EUR (thousands) except number of shares						
Balance as of 31 December 2005	407	43,553	4,158	24,999	73,117	(411)	72,706
New shares issued	100	46,392*	-	-	46,492	-	46,492
Share based payments under the stock option plan	-	-	-	20	20	-	20
Net income for the year 2006	-	-		11,738	11,738	(472)	11,266
Foreign currency translation adjustment	-	-	809		809	(12)	797
Balance as of 31 December 2006	507	89,945	4,967	36,757	132,176	(895)	131,281
New shares issued	**1**	**585**	**-**	**-**	**586**	**-**	**586**
Share based payments under the stock option plan	**-**	**-**	**-**	**300**	**300**	**-**	**300**
Public offering related costs **	**-**	**(153)**	**-**	**-**	**(153)**	**-**	**(153)**
Net income for the year 2007	**-**	**-**	**-**	**16,624**	**16,624**	**(1,034)**	**15,590**
Foreign currency translation adjustment	**-**	**-**	**6,638**	**-**	**6,638**	**21**	**6,659**
Balance as of 31 December 2007	**508**	**90,377**	**11,605**	**53,681**	**156,171**	**(1,908)**	**154,263**

* After deducting an amount of EUR 4,125 thousand representing the total costs directly attributed to the initial public offering. Those costs represent mainly underwriters' fees, legal, tax and accounting fees, road show, related public relations and marketing costs.

** Represents additional costs directly attributed to the 2006 initial public offering.

The notes on pages 36 to 84 are an integral part of these consolidated financial statements.

Consolidated Statement of Recognised Income and Expense

	For the year ended 31 December	
	2007	**2006**
	EUR (thousands)	
Foreign currency translation differences	**6,659**	797
Net income recognised directly in equity	**6,659**	797
Profit for the year	**15,590**	11,266
Total recognised income for the year	**22,249**	12,063
Attributable to:		
Equity holders of the Company	**23,262**	12,547
Minority interests	**(1,013)**	(484)
Total recognised income for the year	**22,249**	12,063

The notes on pages 36 to 84 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	For the year ended 31 December 2007	2006
	EUR (thousands)	
Cash flows from operating activities		
Net sales result	**19,160**	17,347
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortisation	**15,440**	14,016
Decrease in value of other assets (including write-offs)	**3**	431
Decrease in provision related to onerous lease contracts	**(1,608)**	(1,608)
Increase/(decrease) in accrued employee rights upon retirement, net	**177**	(847)
Interest received (including currency result)	**2,045**	782
Interest paid(including currency result)	**(5,714)**	(5,568)
Income taxes paid	**(687)**	(1,050)
Operating income before working capital	**28,816**	23,503
Increase in inventories	**(785)**	(1,112)
Increase in accounts receivable	**(1,539)**	(3,349)
(Increase)/decrease in prepaid expenses	**(246)**	6,283
Increase in governmental institutions	**(155)**	(2,187)
Increase in long-term film distribution costs and deferred expenses	**(602)**	(909)
Increase in accounts payable	**756**	7,357
Increase in employee and payroll accruals	**245**	7
Decrease/(increase) of amount due from related parties	**1,522**	(121)
Decrease in income received in advance	**(90)**	(88)
Equity share-based payment	**300**	-
Net cash from operating activities	**28,222**	29,384
Cash flows from investing activities		
Purchase of property and equipment and other assets*)	**(20,601)**	(26,936)
Investment in intangible fixed assets	**(686)**	(1,031)
Investment in subsidiaries	**-**	(71)
Acquisition of available for sale financial assets	**(1,446)**	(3,669)
Proceeds from disposition of property and equipment	**1,303**	2,829
Short-term bank deposits - collateralized	**(349)**	-
Loans to unconsolidated subsidiaries	**(15,806)**	-
Loans to third parties	**18**	(294)
Proceeds from disposition of marketable securities	**(4)**	(2)
Proceeds from sale of subsidiaries	**2,517**	2,283
Proceeds from disposition of other assets	**-**	164
Net cash used in investing activities	**(35,054)**	(26,727)

The notes on pages 36 to 84 are an integral part of these consolidated financial statements.

*) taking into account movements in investment creditors (see note 19)

Consolidated Statement of Cash Flows (cont'd)

	For the year ended 31 December 2007	2006
	EUR (thousands)	
Cash flows from financing activities		
Proceeds from new shares issued	**586**	50,637
Costs directly attributed to the new shares issued	**(153)**	(4,125)
Proceeds from long-term loans	**19,571**	22,967
Repayment of long-term loans	**(57,360)**	(30,640)
Increase in long-term payables	**30**	(414)
Short-term bank credit, net (decrease)/increase	**(1,532)**	6,940
Net cash (used in)/provided by financing activities	**(38,858)**	45,365
Foreign currency exchange differences on cash and cash equivalents	**313**	5
(Decrease)/increase in cash and cash equivalents	**(45,377)**	48,027
Cash and cash equivalents at beginning of year	**53,194**	5,167
Cash and cash equivalents at end of year	**7,817**	53,194

The notes on pages 36 to 84 are an integral part of these consolidated financial statements.

Note 1 - General and principal activities

Cinema City International N.V. ("the Company") is incorporated in Amsterdam, the Netherlands. The address of the Company is Weena 210-212, 3012 NJ Rotterdam, the Netherlands. The accompanying Consolidated Financial Statements present the financial position, results of operations, changes in shareholders' equity, and cash flows of the Company and its subsidiaries (together referred to as "the Group") and the Group's interest in associates and joint ventures.

The shares of the Company are traded on the Warsaw stock exchange. As at 31 December 2007, 64.13% of the outstanding shares are held by I.T. International Theatres Ltd. ("ITIT"), incorporated in Israel (31 December 2006: 64.5%).

The Group is principally engaged in the operation of entertainment activities in various countries including Poland, Hungary, the Czech Republic, Bulgaria, Israel and Romania. The Company is also engaged in managing and establishing its own entertainment real estate projects for rental purposes, in which the Company operates motion picture theatres. In addition, the Company is involved in short-term and long-term real estate trading in Central Europe. The Company's business is dependent both upon the availability of suitable motion pictures from third parties for exhibition in its theatres, and the performance of such films in the Company's markets.

Note 2 – Summary of significant accounting policies

A. Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union as well as in accordance with article 362.9 of the Netherlands Civil Code. The Company has adopted the standards and interpretations with an effective date before 31 December 2007.

The Company's separate financial statements (the 'Company Financial Statements') are prepared in accordance with Part 9 of Book 2 of the Netherlands Civil Code and are taken up on pages 83 through 91.

The financial statements were authorised for issue by the directors on 27 March 2008.

The accounting policies set out below have been applied consistently for all periods presented in these consolidated financial statements and by all Group entities.

Note 2 - Summary of Significant Accounting Policies (cont'd)

B. Basis of presentation

(1) *Measurement basis*

The financial statements are presented in euros, rounded to the nearest thousand. They are prepared on the historical cost basis adjusted for the change in the measurement currency. Unless otherwise stated, monetary assets and liabilities are presented at nominal value. Marketable securities are presented at fair value.

(2) *Functional and presentation currency*

The functional currencies of the operations in Central Europe are the relevant local currencies: the Bulgarian leva, the Czech crown, the Hungarian forint, the Polish zloty and the Romanian new Lei. The functional currency of the operations in Israel is the New Israeli shekel (NIS).

The financial statements of the above mentioned foreign operations are translated from the functional currency into euros (presentation currency) for both 2007 and 2006 as follows:
Assets and liabilities, both monetary and non-monetary are translated at the closing exchange rate. Income statement items were translated at the average exchange rate for the year. Foreign exchange differences arising on translation have been recognised directly in equity.

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Note 2 - Summary of significant accounting policies (cont'd)

C. Exchange rates

Information relating to the relevant euro exchange rates (at year-end and averages for the year):

	Exchange rate of euro					
As of	**Czech crown (CZK)**	**Hungarian forint (HUF)**	**Polish zloty (PLN)**	**US dollar (USD)**	**Israeli Shekel (NIS)**	**Romania New Lei (RON)**
31 December 2007	**26.67**	**255.46**	**3.63**	**1.47**	**5.66**	**3.63**
31 December 2006	27.53	252.90	3.83	1.32	5.56	3.41
Change during the period	**%**	**%**	**%**	**%**	**%**	**%**
2007 (12 months)	**(3.12)**	**1.01**	**(5.22)**	**11.36**	**1.80**	**6.45**
2006 (12 months)	(5.07)	0.11	0.00	11.86	2.02	(7.83)

	Exchange rate of euro					
Average for the period	**Czech crown (CZK)**	**Hungarian forint (HUF)**	**Polish Zloty (PLN)**	**US dollar (USD)**	**Israeli Shekel (NIS)**	**Romania New Lei (RON)**
2007 (12 months)	**27.78**	**252.05**	**3.79**	**1.37**	**5.63**	**3.35**
2006 (12 months)	28.37	264.90	3.90	1.26	5.59	3.54
Change year over year	**%**	**%**	**%**	**%**	**%**	**%**
2007 (12 months)	**(2.08)**	**(4.85)**	**(2.82)**	**8.73**	**0.71**	**(5.37)**
2006 (12 months)	(4.80)	6.59	(2.98)	0.80	0.18	(3.01)

Since the exchange rate of Bulgarian Leva versus the euro for the applicable periods is unchanged, a currency table is not added. The exchange rate for the applicable periods used is 1.95583 Bulgarian Leva for one euro.

D. Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions. These judgements, estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on a ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Note 2 - Summary of significant accounting policies (cont'd)

E. Principles of consolidation

The Consolidated Financial Statements include the accounts of the Company, its subsidiaries, and jointly controlled entities.

Subsidiaries are those enterprises which are 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 effectively commences until the date that control effectively ceases.

Jointly controlled entities are those enterprises over whose activities the Company has joint control, established by contractual agreements. The Consolidated Financial Statements include the Company's proportionate share of the enterprises' assets, liabilities, revenues and expenses with items of similar nature on a line-by-line basis, from the date that joint control commences until the date that joint control ceases.

All inter-company accounts and transactions are eliminated when preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

A list of the companies whose financial statements are included in the Consolidated Financial Statements and the extent of ownership and control appears in Note 33 to these financial statements.

F. Investment in associates

Associates are entities where the Group has significant influence over financial and operating policies. This is presumed to exist when the Group hold 20% to 50% of the voting power of an entity.

Investment in associates comprise minority interests held by the Group and is accounted for using the equity method.

G. Share capital

Incremental costs directly attributable to the issue or buying back of ordinary shares and to the issue of share options are recognised as a deduction, net of any tax effects, from equity through the share premium reserve.

H. Intangible fixed assets

Intangible fixed assets that are acquired by the Group are stated at cost less accumulated amortisation, calculated over the estimated useful life of the assets, and after impairment losses, if any. The carrying amount of the intangible fixed assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated as the higher of net selling price and value in use.

Note 2 - Summary of significant accounting policies (cont'd)

I. Property and equipment

(1) Property and equipment are stated at cost less accumulated depreciation and impairment losses. Expenditures for maintenance and repairs are charged to expenses as incurred, while renewals and improvements of a permanent nature are capitalised.

(2) Depreciation is calculated by means of the straight-line method over the estimated useful lives of the assets.
Annual rates of depreciation are as follows:

	%
Buildings	2 - 3
Cinema equipment	Mainly 10
Leasehold improvements	Mainly 5
Computers, furniture and office equipment	6 - 33
Vehicles	15 - 20
Video movie cassettes and DVDs	50
Video machines	20

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(3) Leasehold improvements are depreciated over the estimated useful lives of the assets, or over the period of the lease, including certain renewal periods, if shorter.

(4) Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Property 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.

(5) The carrying amount of assets mentioned above is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated as the higher of net selling price and value in use.

(6) Financing expenses relating to short-term and long-term loans, which were taken for the purpose of purchasing or constructing property and equipment, as well as other costs which refer to the purchasing or constructing of property and equipment, are capitalised to property and equipment, in accordance with IAS 23.

J. Impairment of non-financial assets

Assets that have an indefinite useful life, for example land, are not subject to amortisation or depreciation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds the recoverable amount. The recoverable amount is the higher of net selling price and value in use. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Note 2 - Summary of significant accounting policies (cont'd)

K. **Inventories**

Inventories are valued at the lower of cost or net realisable value, and include concession products, spare parts, music cassettes, CDs and video cassettes. Cost is determined by means of the "first in, first out" method. Cost of music cassettes is determined on the basis of the average purchase price. Net realisable value is the estimated selling price during the normal course of business, less the estimated costs of completion and variable selling expenses.

L. Allowance for doubtful accounts

The allowance for doubtful accounts is determined based upon management's evaluation of receivables doubtful for collection on a case-by-case basis.

M. Financial assets

The Group classifies its financial assets in the following categories: marketable securities (at fair value through profit or loss), loans and receivables, and available for sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Marketable securities

The investments in securities held by the Group are classified as trading securities. Trading securities are bought and held principally for the purpose of selling them in the short term and are recorded at fair value. The fair value of investments held for trading is their quoted bid price as of the balance sheet date. Unrealised gains and losses on these securities are included in the income statement. Dividend income is recognized when distribution of dividend is announced. interest income is recognized based on the agreement of the interest schedule.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables in these consolidated financial statements comprise current receivables and cash and cash equivalents.

(c) Available for sale financial assets

Available for sale financial assets comprising investments that are held principally for the purpose of selling them in the short term and are thus classified as available for sale under current assets. These investments are valued at fair value or cost if the fair value cannot be measured at reliable bases. The carrying amount of the available for sale financial assets is reviewed at each balance sheet date to determine whether there is any indication of impairment.

Note 2 - Summary of significant accounting policies (cont'd)

N. Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange rate risks arising from operational and financing activities.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value with changes being accounted for in the profit and loss account. The fair value of foreign contracts is based on the relevant current exchange rates at balance sheet date.

Where a derivative financial instrument is used to economically hedge the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss due to the change in the fair value of the hedging instrument is recognised in the income statement.

O. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term highly liquid investments, that are readily convertible to known amounts of cash, and which are subject to insignificant risks of changes in value.

P. Employee benefits - defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Q. Employee benefits – severance pay

In certain countries in which the Group operates, employees are entitled to severance pay at the end of their employment. The Group's liability for these severance payments is calculated pursuant to local applicable severance pay laws and employee agreements based on the most recent salary of the employees. The Group's liability for all of its employees is partly provided by monthly deposits with insurance policies and by accruals. The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfilment of the obligation pursuant to local severance pay law or labour agreements. The value of the deposited funds is based on the cash value of these policies, and includes immaterial profits. The unfunded portion of the Group's liability is taken up in the balance sheet as a provision under the heading "Accrued employee retirement rights, net". The provision is calculated based on the actuarial method using a discounted cash flow approach.

R. Employee benefits – share options granted

The Group operates a share-based incentive plan. The fair value of share options granted to management and other employees as at the grant date is recognised as an employee expense, with a corresponding increase in equity recognised in Retained earnings, over the period during which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

Note 2 - Summary of significant accounting policies (cont'd)

S. Provision related to onerous lease contracts

During July 2002, the Group acquired a cinema chain in Poland at a discount, which was allocated to the lease agreements of the cinemas acquired. In the financial statements of the Company the discount is presented as a provision related to onerous lease contracts and is released to the income statement over the term of the lease (see also Note 16).

T. Long-term loans

All long-term loans and borrowings are initially recognised at fair value, being the amount of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in profit or loss when the liabilities are derecognised or impaired, as well as through the amortisation process.

For information regarding the fair value of long-term liabilities reference is made to Note 29.

U. Revenue recognition

(1) Revenues from admission (ticket sales) and concession sales (snack-bars operated by the Company) are recognised when services are provided.

(2) Revenues from distribution of cinema films are recognised on an accrual basis by a percentage of admissions from the related films.

(3) Revenues from distribution of films to cable television companies and television stations are recognised over the agreed period for the screening of the film.

(4) Revenues from sales of video cassettes and DVDs are recognised upon delivery to the customer.

(5) Revenues from video cassettes and DVD rentals are recognised as the rental services are provided.

(6) Revenues from "on screen" advertising contracts are included in theatre revenues and are recognised when the related advertisement or commercial is screened, or, in some cases, over the period of the contract.

(7) Revenues from rental contracts are included in other revenues and are recognised on an accrual basis.

(8) Revenues from the sale of real estate are included in other revenues and are recognised when the significant risks and benefits of the ownership have been transferred, when the buyer is committed to the purchase, and when the sales price is considered collectible.

Note 2 - Summary of significant accounting policies (cont'd)

V. Cost of revenues

(1) Cost of theatre sales include direct concession product and joint theatre facility costs such as employee costs, theatre rental and utilities, which are common to both ticket sales and concession operations.

(2) Cost of films distributed are capitalised until the time the films are distributed for screening. Once the films have been distributed and screening has begun, the costs are amortised at a rate equal to the ratio of revenues in the period to total estimated revenues for the films.

(3) General advertising expenses are expensed as incurred. Film advertising expenses are expensed when the film is distributed or is shown to the public.

(4) Cost of real estate sold.

W. Net financing cost

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, and interest receivable on funds invested. Foreign exchange gains and losses, and gains and losses that are recognised on hedging instruments are recognised in the income statement.
Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

X. 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 to equity, in which case it is recognised in equity.
Current tax is the expected tax payable on the taxable income for the year calculated at the applicable local tax rates.
Deferred income tax is provided using the balance sheet liability method on all temporary differences at the balance sheet date between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases of assets and liabilities. The amount of deferred tax provided is based on the expected timing of the reversal of the temporary differences, 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 unused tax losses and credits 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.
Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Y. Earnings per share

The computation of the basic earnings per share is determined on the basis of the weighted average par value of the issued and paid-in share capital outstanding during the year. The Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

Note 2 - Summary of significant accounting policies (cont'd)

Z. Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the Group's business and geographical segments. The Group's primary format for segment reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure.
Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly loans and borrowings and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

AA. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these consolidated financial statements:

IAS 1- Presentation of financial statements (effective for annual periods beginning on or after from 1 January 2009). The revision of IAS 1 is aimed at improving users' ability to analyse and compare the information given in financial statements. The changes made are to require information in the financial statements will be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income. The Group has not yet completed its analysis of the impact of IAS 1 on the consolidated financial statements.

IFRS 8 - Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard requires that segment information should be presented in disclosure based on the basis of components whose results are reviewed regularly by of the entity that management monitors in making business decisions. The Company's management about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Group has not yet completed its analysis of the impact of IFRS 8 on the financial statements.

Note 2 - Summary of significant accounting policies (cont'd)

AA. New standards and interpretations not yet adopted (cont'd)

IFRIC 11 - Share-based Payment – Group and Treasury Share Transactions (effective from annual periods beginning on or after 1 January 2008) requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. It also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent, should be accounted for as cash-settled or equity-settled in the entity's financial statements. It is not expected to have an impact on the consolidated financial statement.

IFRIC 12 - Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008) provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12 is not expected to have an effect on the consolidated financial statement.

IAS 23 - Borrowing Costs, revised (effective from 1 January 2009) The revised Standard will require the capitalization of borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Revised IAS 23 will not constitute a change in accounting policy for the group.

IFRIC 13 - Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008) The Interpretation explains how entities that grant loyalty award credits to customers who buy other goods or services should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem those award credits. Such entities are required to allocate some of the proceeds of the initial sale to the award credits and recognize these proceeds as revenue only when they have fulfilled their obligations. IFRIC 13 is not expected to have an impact on the consolidated financial statement.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interactions (effective for annual periods beginning on or after 1 January 2008) The interpretation addresses 1) when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; 2) how a MFR might affect the availability of reductions in future contributions; and 3) when a MFR might give rise to a liability. No additional liability need be recognized by the employer under IFRIC 14 unless the contributions that are payable under the minimum funding requirement cannot be returned to the company. IFRIC 14 is not expected to have an impact on the consolidated financial statements.

BB. Cash flow statement

The consolidated cash flow is presented using the indirect method. Cash flows in foreign currencies are translated into euros using the applicable average exchange rate for the period.

Note 3 - Changes in consolidated entities

(I) Changes in consolidated and associated entities during 2007:

(a) IT Sofia 2007 B.V 100% owned by the company, was incorporated in the Netherlands. The company holds 45% of Cinema City Malls AD, affiliated Bulgarian company owning a plot of land in Russe, Bulgaria. The 45% shares were transferred to IT Sofia 2007 B.V by IT Sofia BV during November 2007.

(b) Forum Home Entertainment Czech s.r.o., 100% owned by the Company, was incorporated in the Czech Republic. The Company commenced operation in July 2007 and specializes in the distribution of DVD movies. This distribution company is the exclusive distributor in the Czech Republic of the Film DVD activity of "Disney".

(c) New Age Cinema S.R.L, 100% owned by the Company was incorporated in Romania. The Company commenced operation in December 2007 and specializes in screen advertising.

(d) Cinema City Ro S.R.L, 100% owned by the Company was incorporated in Romania. The Company commenced operation in November 2007 and specializes in operation of theatres.

(e) Kino 2005 a.s 100% owned by the company was fully merged into IT Czech Cinemas S.R.O which is also owned 100% by the company. The merge is effective as of 01 January 2007.

(II) Changes in consolidated entities during 2006:

(a) In May 2006, the Israeli government anti-monopoly office approved the merger of the Company’s video retail operations in Israel, which operate under the brand name Video Giant, with its main competitor, Blockbuster. Under the agreement signed between the parties, Video Giant and Kafan Video Libraries Ltd. (operator of the Blockbuster video libraries in Israel) formed a 50/50 joint venture to operate the combined video chain under the brand name Blockbuster. The Company will provide the MD (chief executive officer) for the new JV, while Kafan will provide the chairman of the board. The JV will be jointly controlled between Kafan and the Company and the Company has consolidated the results of operations of this entity proportionally.

(b) During the first half of 2006, the Company sold its remaining 25% interest in MO Sofia EAD. The Company has received EUR 13.1 million.

(c) Forum Film Home Entertainment KFT 100% shares - new subsidiary incorporated in Hungary. The company commenced its operation in September 2006 and specialises in video and DVD distribution in Hungary. This distribution company is expected to be the exclusive distributor of the Film DVD activity of 2 major US studios: Warner Bros and Sony (Columbia).

(d) New age Cinema KFT 100% shares - new subsidiary, incorporated in Hungary. The Company commenced operation in October 2006 and specializes in screen advertising.

Note 4 - Intangible fixed assets

The intangible fixed assets comprise mainly investments in the development of Cinema Megaplex in Israel and are stated at cost less accumulated amortisation and impairment losses, if any.

Composition:

	Financial year 2007				
	Balance at beginning of the year	Additions during the year	Foreign currency translation adjustments	Sales and disposals	Balance at end of year
	EUR (thousands)				
Cost	**1,993**	**686**	**(19)**	**(1,246)**	**1,414**
Accumulated amortisation	**1,274**	**155**	**(7)**	**(1,049)**	**373**
Carrying value	**719**	**531**	**(12)**	**(197)**	**1,041**

	Financial year 2006			
	Balance at beginning of the year	Additions during the year	Foreign currency translation adjustments	Balance at end of year
	EUR (thousands)			
Cost	966	1,031	(4)	1,993
Accumulated amortisation	768	516	(10)	1,274
Carrying value	198	515	6	719

Note 5 - Property and equipment, net

	Balance at beginning of the year	Additions during the year	Foreign currency translation adjustments	Sales and disposals during the year	Balance at end of year
	Financial year 2007				
	EUR (thousands)				
Cost					
Land and buildings (1)	**65,071**	**286**	**3,606**	**-**	**68,963**
Cinema equipment (1)	**72,854**	**17,515**	**2,210**	**(1,071)**	**91,508**
Leasehold improvements	**89,986**	**1,839**	**3,897**	**(10)**	**95,712**
Computers, furniture and office equipment	**9,589**	**284**	**(128)**	**-**	**9,745**
Vehicles	**1,236**	**611**	**(8)**	**(376)**	**1,463**
Video movies	**3,181**	**724**	**98**	**-**	**4,003**
Video machines	**59**	**20**	**(1)**	**(36)**	**42**
	241,976	**21,279**	**9,674**	**(1,493)**	**271,436**
Accumulated depreciation					
Land and buildings	**12,292**	**2,182**	**812**	**-**	**15,286**
Cinema equipment	**35,229**	**5,684**	**888**	**(3)**	**41,798**
Leasehold improvements	**14,342**	**5,408**	**513**	**(8)**	**20,255**
Computers, furniture and office equipment	**6,718**	**406**	**(87)**	**(101)**	**6,936**
Vehicles	**565**	**198**	**(3)**	**(246)**	**514**
Video movies	**2,255**	**932**	**(44)**	**(21)**	**3,122**
Video machines	**21**	**475**	**21**	**(34)**	**483**
	71,422	**15,285**	**2,100**	**(413)**	**88,394**
Carrying value	**170,554**	**5,994**	**7,574**	**(1,080)**	**183,042**

(1) The balance as of 31 December 2007 includes EUR 2,339,000 construction in progress for entertainment purposes and cinema equipment to an amount of EUR 7,724,000 not operational yet (see also Note 20 (1)b and c).

Note 5 - Property and equipment, net (cont'd)

	Financial year 2006				
	Balance at beginning of the year	**Additions during the year**	**Foreign currency translation adjustments**	**Sales and disposals during the year**	**Balance at end of year**
	EUR (thousands)				
Cost					
Land and buildings (1)	67,666	-	772	(3,367)	65,071
Cinema equipment (1)	68,450	4,696	105	(397)	72,854
Leasehold improvements	77,494	13,573	(119)	(962)	89,986
Computers, furniture and office equipment	10,029	1,055	(176)	(1,319)	9,589
Vehicles	1,187	320	(14)	(257)	1,236
Video movies	9,520	870	(189)	(7,020)	3,181
Video machines	1,138	93	(29)	(1,143)	59
	235,484	20,607	350	(14,465)	241,976
Accumulated depreciation					
Land and buildings	9,674	3,191	132	(705)	12,292
Cinema equipment	30,684	5,660	(71)	(1,044)	35,229
Leasehold improvements	12,478	2,709	(75)	(770)	14,342
Computers, furniture and office equipment	7,129	714	(127)	(998)	6,718
Vehicles	579	154	(8)	(160)	565
Video movies	7,263	906	(178)	(5,736)	2,255
Video machines	1,067	51	(28)	(1,069)	21
	68,874	13,385	(355)	(10,482)	71,422
Carrying value	166,610	7,222	705	(3,983)	170,554

(1) The balance as of 31 December 2006 includes EUR 1,015,000 construction in progress for entertainment purposes and cinema equipment to an amount of EUR 3,620,000 not operational yet (see also Note 20 (1) b. and c.).

Note 6 – Inventories

Composition:

	31 December 2007	31 December 2006
	EUR (thousands)	
Concession products	**898**	970
Video cassettes and DVDs	**1,277**	1,127
IMAX® films inventories	**1,997**	1,592
Video machines	**-**	22
Spare parts	**208**	208
	4,380	3,919

Valuation:

	31 December 2007	31 December 2006
	EUR (thousands)	
At cost	**4,380**	3,919
Provision for net realisable value	**-**	-
	4,380	3,919

All inventories included above are valued at cost.

Note 7 - Trade accounts receivable

Composition:

	31 December 2007	31 December 2006
	EUR (thousands)	
Trade accounts receivable	**13,515**	11,685
Allowance for doubtful accounts	**(123)**	(43)
	13,392	11,642

Note 8 - Other accounts receivable and prepaid expenses

Composition:

	31 December 2007	31 December 2006
	EUR (thousands)	
Government institutions	**1,712**	1,239
Advances to suppliers	**399**	406
Prepaid expenses	**5,268**	4,956
Prepaid cinema film and video film distribution costs (1)	**3,652**	3,050
Other	**1,126**	991
	12,157	10,642

(1) Stated at cost, in respect of video and cinema films which have not yet been distributed, after being reviewed for recoverability - see also Note 20 (1) d.

Note 9- Available for sale financial assets

Composition:

	31 December 2007	31 December 2006
	EUR (thousands)	
Available for sale financial assets (1)	**2,317**	3,336
Short-term loans to associates (2)	**16,139**	333
	18,456	3,669

(1) In 2006, the Company, through its wholly-owned Dutch subsidiary, IT Sofia B.V., together with its partner, Ocif Development Ltd. ("Ocif"), acquired from a Bulgarian developer, 60% of the equity in a company whose main asset is a parcel of land located in Plovdiv, Bulgaria, on which the Mall of Plovdiv is now being constructed. During 2007, the Company sold one-half of its equity interest in the Mall of Plovdiv.
In addition to entering into a share purchase agreement, the selling shareholders, including IT Sofia and Ocif, entered, into an operating agreement with the buyers regulating the rights and obligations of all parties as shareholders in the Mall of Plovdiv and the rights and obligations relating to the development, construction and management of the mall. Under the operating agreement, the selling shareholders, primarily IT Sofia and Ocif, will remain responsible for completion of the project. Moreover, pursuant to the operating agreement, the buyers agreed to acquire the remaining 50% interest in the Mall of Plovdiv held by the selling shareholders (including 15% of the shares still held by the Company through IT Sofia) immediately prior to the opening of the mall, for an agreed upon price.

Available for sale assets also include EUR 32 thousand in respect of the investment in Cinema City Malls AD, a new Bulgarian affiliated company in which IT Sofia holds 45% of the equity.

There were no impairment provisions on Available for sale financial assets as at 31 December 2007 and 2006, respectively.

Note 9- Available for sale financial assets (cont'd)

(2) In July 2007 the Company, through IT Sofia B.V., together with its partner, Ocif , entered into an agreement to purchase a 90% interest in a 60-thousand square meter plot of land located in Russe, Bulgaria. The Company and Ocif each acquired 45% of the shares in Cinema City Malls AD, the local company that purchased the land in Russe, whilst the remaining 10% interest is held by the original landowner, who, under an agreement with IT Sofia and Ocif, has been granted a right to sell this interest to IT Sofia and Ocif at a future date. The purchase price paid for the plot of land was EUR 22.5 million, for which IT Sofia and Ocif each funded EUR 11.25 million. Similar to the Company's real estate investment and development in Sofia Bulgaria, and more recently Plovdiv Bulgaria, the Company, together with Ocif, intends to develop a 25,000 to 35,000 square meter shopping mall with the city's first modern multiplex theatre located therein on the acquired plot of land.
The purchase of the plot as well as other related costs was financed by the Company and Ocif each by issuing to Cinema City Malls AD an unsecured loan denominated in euros. Both loans bear a 5.5% interest and will mature until 18 July 2012. The outstanding balance of loan issued by the Company including accumulated interest amounted to EUR 16,044 thousands as per 31 December 2007.

Note 10 - Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits freely available for the Group. The short - term deposits have an original maturity varying from one day to three months.

Composition:	31 December	
	2007	**2006**
	EUR (thousands)	
Cash at bank and in hand	**5,991**	2,885
Short-term deposits	**1,826**	50,309
	7,817	53,194

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates that vary between 3%-4%. The fair value of the cash and cash equivalents is EUR 7,817,000 (2006: EUR 53,194,000).

Note 11 – Short-Term Bank Deposits - collateralized

In 2007, deposits with banks in Central Europe denominated in Euro for a total amount of EUR 349,000 were made to serve as collateral for credit facilities provided to a subsidiary. The interest rates earned on these deposits vary from 0.5% to 2.5% on an annual basis.

Note 12 - Shareholders' equity

a. Share capital

The authorised share capital of the Company consists of 175,000,000 shares of EUR 0.01 par value each.

The number of issued and outstanding ordinary shares as at 1 January 2006 was 40,724,000. At 5 December 2006, as part of the Initial Public Offering of the Company's shares, the Company issued 10,000,000 ordinary shares. As a result of the share issue in 2006, the total number of shares issued and outstanding at 31 December 2006 totalled 50,724,000. In connection with the exercise of share options granted to employees, the Company issued 110,000 ordinary shares as at 18 December 2007. Following the share issue in 2007, the total number of shares issued and outstanding at 31 December 2007 totalled 50,834,000. All shares issued and outstanding at 31 December 2007 have been fully paid up. Ordinary shares entitle one vote per share and participation in payments of dividends.

b. Share premium

	Financial year	
	2007	**2006**
	EUR (thousands)	
Balance at beginning of the year	**89,945**	43,553
Public offering related costs *	**(153)**	-
Net proceeds of new shares issued in excess of par value**	**585**	46,392
Balance at end of the year	**90,377**	89,945

* 2007: represents additional costs directly attributed to the 2006 initial public offering.
** 2006: after deducting an amount of EUR 4,125 thousands representing the total costs directly attributed to the initial public offering. These costs represent mainly underwriters' fees, legal, tax and accounting fees, road show and public relations costs.

c. Share options

In December 2006 and as part of the successful initial public offering, a new long-term incentive plan (the "Plan") was implemented. The persons eligible for participation in the Plan are the employees of the Group, including the members of the Management Board. Under the Plan, share options are granted to members of the Management Board and selected employees. The exercise price of the granted options determined by the Supervisory Board on the date of granting the share options and shall not be less than the fair market value at the time of the grant of the options. Options are conditional on the employee being employed or Board member being in office at the time the Options are exercisable (vesting period). Options granted shall vest over three years after the date of the grant: one third vesting after one year, one third vesting after two years and one third vesting after three year. The options have a contractual option term of ten years.

On 6 December 2006, a total number of 477,000 options with an exercise price of EUR 5.05 each, vesting in 3 years and having an option term of 4 years, were granted to certain employees of the Group. No options were granted to employees during 2007. Members of the Management Board did not receive any options during 2007 and 2006.

Note 12 - Shareholders' equity (cont'd)

c. Share options (cont'd)

In December 2007, a total number of 110,000 options that have been granted in 2006, were exercised. The average share price at the time of exercise was EUR 5.35 per share. The details of the number of options outstanding as at 31 December 2007 are as follows:

	Number of options		
Vesting date	**granted**	**exercised**	**Outstanding**
6 December 2007	159,000	110,000	49,000
6 December 2008	159,000	-	159,000
6 December 2009	159,000	-	159,000
	477,000	110,000	367,000

The weighted average fair value of options granted in 2006 using the Black-Scholes valuation model was approximately EUR 1 per option. The significant inputs into the model were a weighted average share price of EUR 5.05 at the grant date, the exercise price mentioned above, volatility of 20%, dividend yield of 0%, an option life of 4 years and an annual risk free rate of 4%.

The impact of the share-based payment on the financial statements of the Company for the financial year 2007 was an expense of EUR 300,000 (2006: EUR 20,000) recognised in the income statement with a corresponding increase in equity.

During 2007 and 2006 no options were forfeited.

Note 13 - Net earnings per share

The calculation of basic and diluted net earnings per share at 31 December 2007 was based on the profit attributable to ordinary shareholders of EUR 16,624,000 (2006: EUR 11,738,000) and a weighted average number of ordinary shares outstanding as presented below:

Weighted average number of ordinary shares (basic):

	Financial year	
	2007	**2006**
	number of shares	
Number of ordinary shares at beginning of the year	**50,724,000**	40,724,000
Effect of shares issued during the year	**3,918**	712,329
Weighted average number of ordinary shares (basic)	**50,727,918**	41,436,329

Weighted average number of shares (diluted):

	Financial year	
	2007	**2006**
	number of shares	
Weighted average number of ordinary shares (basic)	**50,727,918**	41,436,329
Effect of share options issued and outstanding	**174,993**	30,831
Weighted average number of ordinary shares (diluted)	**50,902,911**	41,467,160

Note 14 - Minority interests

	Financial year 2007	Financial year 2006
	EUR (thousands)	
Balance at beginning of the year	**(895)**	(411)
Minority interests in (losses) of consolidated subsidiaries	**(1,034)**	(472)
Translation adjustments	**21**	(12)
Balance at end of the year	**(1,908)**	(895)

The minority Shareholders are committed to cover any deficits and losses realised by the relevant subsidiaries to the extent of their interest in these subsidiaries.

Note 15 - Accrued employee retirement rights

a. According to the relevant laws, the Company's subsidiaries in Europe are required to deposit amounts, on a monthly basis, to retirement and pension funds on behalf of their employees, and therefore have no such liabilities towards them.

b. Local applicable labour laws and agreements require group companies to pay severance pay to dismissed or retiring employees (including those leaving their employment under certain other circumstances). The calculation of the severance pay liability was made in accordance with labour agreements in force and based on salary components that, in Management's opinion, create entitlement to severance pay.

   Group companies' severance pay liabilities to their employees are funded partially by regular deposits with recognised pension and severance pay funds in the employees' names and by purchase of insurance policies and are accounted for as if they were a defined contribution plan. The amounts funded as above are netted against the related liabilities and are not reflected in the balance sheets since they are not under the control and management of the companies.

c. The amounts of the liability for severance pay presented in the balance sheets (see (d) below) reflect that part of the liability not covered by the funds and the insurance policies mentioned in (b) above, as well as the liability that is funded by deposits with recognised central severance pay funds held under the name of the Company's subsidiaries.

d. The cost of severance provision is determined according to the actuarial method, the projected unit credit method. It has been calculated using a discounted cash flow approach. The calculations are based on the following financial assumptions:

Discount at 31 December 2007	3.10% (3.60% at 31 December 2006)
Expected return on plan assets at 1 January 2008	3.00% (3.00% at 31 December 2006)

Note 15 - Accrued employee retirement rights (cont'd)

e. The provision for accrued employee rights upon retirement, net, comprises:

	31 December 2007	31 December 2006
	EUR (thousands)	
Present value of unfunded obligation	**1,581**	978
Less: fair value of plan assets	**(1,364)**	(937)
	217	41

f. The movements in the provision for accrued employee rights upon retirement during the financial year is as follows:

	Financial year 2007		
	Gross amount	Amount deposited	Net amount
	EUR (thousands)		
Balance at beginning of the year	**978**	**(937)**	**41**
Translation difference	**(16)**	**15**	**(1)**
Monthly payments to deposit	**-**	**(578)**	**(578)**
Net movement in provision - charged to net profit	**619**	**136**	**755**
Balance at end of the year	**1,581**	**(1,364)**	**217**

	Financial year 2006		
	Gross amount	Amount deposited	Net amount
	EUR (thousands)		
Balance at beginning of the year	1,896	(989)	907
Payments made upon retirement	(40)	21	(19)
Monthly payments to deposit	-	31	31
Net movement in provision - (released) to net profit	(878)	-	(878)
Balance at end of the year	978	(937)	41

Note 16 - Provision related to onerous lease contracts

In July 2002, the Group purchased four multiplex cinemas in Poland from Ster Century Europe Limited. The multiplexes comprised a total of 46 screens and approximately 10,000 seats. As part of the transaction, the Group acquired all of the shares of Ster Century Europe's Polish subsidiaries, and purchased shareholder loans provided to these subsidiaries, for a total consideration of approximately EUR 19 million (USD 20 million). The acquisition also involved the assumption of certain long-term lease contracts with onerous terms, expiring in 2009 to 2010. A provision of EUR 12,731,000 (USD 13,369,000), relating to these onerous lease contracts, which the acquired subsidiaries were party to prior to the acquisition, has been recorded as part of the acquisition.
The provision is amortised over the non-cancellable periods of the lease contracts. Amortisation in 2007 amounted to EUR 1,608,000 (2006: EUR 1,608,000) and was credited to the lease expenses under operating expenses.

Movements:	**Financial year**	
	2007	**2006**
	EUR (thousands)	
Balance at beginning of the year	**5,173**	6,781
Amortisation during the year	**(1,608)**	(1,608)
Balance at end of the year	**3,565**	5,173

Note 17 - Long-term loans

A. Composition:

	Interest rates	31 December 2007	2006
	%	EUR (thousands)	
In CZK	(1)	**4,729**	4,980
In EUR	(2)	**18,827**	47,052
In NIS	(3)	**-**	133
In PLN	(4)	**16,518**	24,087
Loan from minority interest holder	(5)	**-**	38
		40,074	76,290
Less - current portion		**(5,272)**	(10,551)
		34,802	65,739

(1) PRIBOR + 2%
(2) EURIBOR + 1% - 2 %
(3) 5.7%, linked to the Israeli CPI
(4) EURIBOR + 1.5% - 2%
(5) In USD, bearing no interest.

The interest rates shown concern the rates per the end of the appropriate financial years.

B. The loans mature as follows:

	31 December 2007	2006
	EUR (thousands)	
First year - current maturities	**5,272**	10,551
Second year	**5,462**	12,349
Third year	**5,528**	9,682
Fourth year	**5,600**	9,750
Fifth year	**6,300**	9,823
Sixth year and thereafter	**7,770**	13,367
Undefined	**4,142**	10,768
	40,074	76,290

C. Liens - see Note 20 (2).

Note 18 - Short-term borrowings

Composition:

	Interest rates	31 December 2007	31 December 2006
	%	EUR (thousands)	
Current maturities of long term loans	See Note 17	**5,272**	10,551
Short-term bank credit:			
Unlinked (NIS)	(1) 5.7%	**13,303**	15,086
		18,575	25,637

(1) Variable

The interest rate shown concerns the rate per 31 December 2007.

Note 19 - Other accounts payable

Composition:

	31 December 2007	31 December 2006
	EUR (thousands)	
Investment creditors	**961**	279
Accrued expenses	**6,838**	5,294
Government institutions	**1,213**	895
Advances and income received in advance (1)	**41**	1,712
Other	**4,862**	4,272
	13,915	12,452

(1) Consist mainly of advances received from several customers, for feature video rentals and film distribution.

Note 20 - Commitments, contingent liabilities and liens

(1) **Commitments**

a. The Company and its subsidiaries conduct most of their cinema, video library stores and corporate operations in leased premises. These leases, which have non-cancellable clauses, expire at various dates after 31 December 2007. Many leases have renewal options. Most of the leases provide for contingent rentals based on the revenues of the underlying cinema or video library stores, while certain leases contain escalating minimum rental provisions. Most of the leases require the tenant to pay city taxes, insurance, and other costs applicable to the leased premises.

Future minimum lease payments under non-cancellable operating leases from third parties for the years after 31 December 2007 are as follows:

	EUR (thousands)*
2008	**20,782**
2009	**21,306**
2010	**21,005**
2011	**21,170**
2012	**21,010**
After 2012	**91,928**
	197,201

* Does not include contingent rental, which is subject to the Company's decision to exercise the option to extend the operating lease period.

Future minimum lease payments under non-cancellable operating leases from third parties for the years after 31 December 2006 were as follows:

	EUR (thousands)*
2007	12,359
2008	16,312
2009	15,699
2010	14,994
2011	14,826
After 2011	46,013
	120,203

* Does not include contingent rental, which is subject to the Company's decision to exercise the option to extend the operating lease period.

Rental expenses for theatres during 2007 amounted to EUR 20,752,000 (2006: EUR 15,038,000).

Note 20 - Commitments, contingent liabilities and liens (cont'd)

b. The Group is party to a master agreement with a developer, Control Centres Ltd. ("Control Centres"), for the construction of theatre sites in shopping malls and other commercial centres throughout Hungary, Poland and the Czech Republic. Under this agreement, the Company has opened several multiplexes that are already operating in shopping malls in Central Europe.

c. As at 31 December 2007, the Group has unpaid commitments to invest in the development of properties of approximately EUR 11.2 million and further commitments to acquire equipment of approximately EUR 14.8 million in connection with the development of new systems and movie theatres (31 December 2006- EUR 10 million and EUR 21.5 million respectively). In addition, the Group is committed to pay a percentage of its revenues from movie systems, subject to a minimum monthly cost per system.

d. In consideration for its rights to be the exclusive distributor of their films in Israel, Poland and Hungary, subsidiary companies are committed to pay fees to certain producers based on a percentage of its revenues (or in some cases, specific profits) from the films. In some cases, a minimum fee has been determined.

e. Ya'af Network, a subsidiary company, and later as part of Kafan Et Anak partnership (see note 3.I) has agreements for the rental of video library stores, and for the rental of space for video mats, which it uses in its operations. The rental terms pursuant to these agreements (including renewal options) granted for periods of one to ten years. The rental expenses relating to these agreements are calculated as a lump-sum linked either to the Israeli CPI or to the US dollar, or as a percentage of the turnover. Annual rent expenses for 2007 amounted to EUR 557,000 (2006- EUR 700,000).

f. Subsidiary companies signed agreements with third parties in Israel, Poland and Hungary. According to these agreements, the subsidiary companies grant the third parties exclusive broadcasting rights on Israeli, Polish and Hungarian television for specific movies.
These rights are for various periods and will end during the year 2008.

g. Movie films are typically licensed from film distributors representing film production companies. Film exhibition licences typically specify rental fees based upon a gross receipts formula, which is negotiated on a movie-by-movie basis in advance of distribution. The fees are generally related to the anticipated performance of the movie based on the distributor's experience in other markets, if possible. Under such a formula, the distributor receives a specified percentage of box office receipts, with the percentage declining over the term of the run.

h. Lease contracts of certain cinema equipment of IMAX® systems are classified as finance lease and as such the equipment is included in Property and equipment under Cinema equipment. The total of the lease obligation at 31 December 2007 amounted to EUR 1,467,000 (31 December 2006: EUR 2,358,000), and is classified as Other long-term payables. The capital lease is bearing 7% annual; interest The lease term expires on 31 December 2020, after which the ownership will be transferred to the Company.

Note 20 - Commitments, contingent liabilities and liens (cont'd)

(2) **Liens**

a. The Company has entered into a loan facility agreement with a bank. In order to secure the Company's liabilities for these bank credits and loans, the Company has provided the bank the following: (i) a registered first degree fixed lien on IT-2004's (the Israeli subsidiary) outstanding share capital and goodwill; (ii) a first degree floating lien on IT-2004's assets, including insurance benefits in respect of the assets and rights of any kind which ITIT has or will have in the future; (iii) that the assets of IT-2004 will not be pledged and the lien cannot be transferred without the agreement of the bank; (iv) ITIT has agreed to guarantee the debt of the Company (v) that certain financial covenants will be fulfilled and maintained. the Company complied with the financial covenants during the year 2007 and as at 31 December 2007.

b. The local subsidiaries in Poland and the Czech Republic have obtained financing from banks for some of the cinema complex projects. The securities given include: mortgage on the assets of the financed projects, pledge on the shares of the subsidiaries, and an assignment of all revenues and insurance policies of the projects. As 31 December 2007, the Company had issued a guarantee for EUR 12 million to a Polish bank in connection with a loan provided to a subsidiary. In addition, the Company has issued a guarantee for a total amount of PLN 115.5 (EUR 31.47) million to a Polish bank in order to secure several loan agreements with this bank.

c. In order to secure an outstanding loan from a Hungarian bank of approximately EUR 3.4 million, a subsidiary company has provided to the bank the following: (i) a registered first degree fixed lien on its outstanding share capital and goodwill; (ii) a first degree floating lien on its assets, including insurance benefits in respect of the assets and rights of any kind which the subsidiary has or will have in the future; (iii) that the assets of the subsidiary will not be pledged and the lien cannot be transferred without the agreement of the bank.

d. In order to secure an outstanding loan from a Bulgarian bank of approximately EUR 3.4 million a subsidiary company has provided to the bank several commitments such as going concern pledge agreement, trade mark pledge agreement, sponsor support agreement and receivables pledge agreement.

Note 20 - Commitments, contingent liabilities and liens (cont'd)

(3) **Contingent Liabilities**

From time to time, the Group is involved in routine litigation and proceedings during the normal course of business. As of balance sheet date, the Group is not involved in any litigations or proceedings except for the following:

Cinema City Poland Sp.z o.o. 100% owned by the company, is the defendant in a claim brought by Związek Autorów i Kompozytorow ("Zaiks"), a Polish collection society representing screenplay authors and authors of other literary and musical works used in audiovisual works that are exhibited in Poland. The Company understands that Zaiks has also brought similar claims against every other major cinema exhibitor and cable TV operators In Poland. The claimant seeks royalties in the amount of approximately EUR 2.0 million plus interest for the use of works by certain of its members in movies exhibited In Poland. Based on legal advice, the Management Board does not expect the outcome of the action to have a material effect on the Group's financial position. The Company has accrued for future legal expenses in connection with the case in the balance sheet per 31 December 2006 and 31 December 2007.

At the end of June 2007, the Company, through a subsidiary sold 15% of the shares in Mall of Plovdiv. After this sale, the Company still holds a 15% interest in the shares in Mall of Plovdiv. The Company has agreed to sell this remaining interest to the same buyers immediately prior to the opening of the Mall for a price based on an agreed upon formula whilst retaining the responsibility for the completion of the project. In this regard, the Company has provided the buyers with a cost overrun guarantee, to cover its part in any additional costs of completion of the project that exceed the budget.

Note 21 - Revenues

	Financial year	
	2007	**2006**
	EUR (thousands)	
Theatre sales	**124,120**	99,134
Distribution	**22,972**	21,904
Video	**3,891**	4,120
Other	**10,357**	18,633
	161,340	143,791

Note 22 – Operating costs

	Financial year	
	2007	**2006**
	EUR (thousands)	
Cost of theatre sales	**90,356**	72,686
Distribution operations	**21,434**	19,981
Video operations	**2,505**	2,920
Other	**3,424**	10,679
Depreciation and amortisation*	**15,440**	13,901
	133,159	120,167

* refer to note 5.

Note 23 - Financial income/expenses

A. Financial income

	Financial year	
	2007	**2006**
	EUR (thousands)	
Interest income	**934**	406
Currency exchange gains	**1,051**	389
Total financial income	**1,985**	795

B. Financial expenses

	Financial year	
	2007	**2006**
	EUR (thousands)	
Interest expenses incurred	**(3,992)**	(5,246)
Interest cost capitalised (1)	**63**	318
Currency exchange losses	**(1,785)**	(537)
Total financial expenses	**(5,714)**	(5,465)

(1) The Company has capitalised interest expenses to the cost of buildings in progress as well as to other fixed assets components before being taken into operation.

Note 24 - Loss on disposals, write-off on other investments and other costs

This item comprises mainly other costs related to the polish operation in addition to capital loss on the disposal of property, equipment and other assets.

Note 25 - Income taxes

I. **Tax laws applicable to the Group**

1. Results of operations for tax purposes of the Company and its Dutch subsidiaries are computed in accordance with Dutch tax legislation.

2. Tax rates applicable to the Company and its subsidiaries are as follows:

The subsidiary	Tax rate
Netherlands	25.5% - (2006-29.6%)
Hungary	16% - (2006-16%)
Czech Republic	24% - (2006- 24%)
Poland	19% - (2006-19%)
Israel	29% - (2006-31%)
Bulgaria	15 % - (2006-15%)
Romania	16 % - (2006-16%)

In several countries in which the Group is operating, tax rates will change as of 1 January 2008 as follows:

- In Czech to 21 %
- In Israel to 27%

3. Tax ruling in Israel

The Group has received a special ruling from the Israeli tax authorities to allow for the transfer of the Israeli activities to IT-2004, and to transfer the shares of all the operating Israeli subsidiaries to the Dutch company. Under the ruling, ITIT has committed not to sell its shares in the Company for a period of four years, and the Company has committed to pay tax in Israel on any future gains on the sale of Israeli subsidiaries.

II. **Deferred income taxes**

1. Deferred income taxes are primarily provided for all temporary differences between the tax and the accounting basis of assets and liabilities based on the tax rate that is expected to be in effect at the time the deferred income taxes will be realised.

   Realisation of the deferred income tax assets is dependent upon generating sufficient taxable income in the period that deferred income tax assets are realised. Based on all available information, management believes that all of the deferred income tax assets are realisable and therefore has not provided for valuation allowance.

Note 25 - Income taxes (cont'd)

2. Changes in deferred income taxes in relation to tax assets are in respect of the following items:

	31 December 2007	31 December 2006
	EUR (thousands)	
Accrued employee rights	**65**	(148)
Fixed assets	**(1,411)**	(108)
Operating tax loss carry – forwards	**1,022**	(617)
Long-term liabilities	**1,365**	-
Other	**(361)**	389
	680	(484)

3. Deferred income taxes in relation to tax liabilities are in respect of the following items:

Deferred income tax included in assets:

	31 December 2007	31 December 2006
	EUR (thousands)	
Accrued employee rights	**83**	19
Fixed assets	**(1,940)**	(49)
Operating tax loss carry - forwards	**1,630**	784
Long-term liabilities	**1,365**	-
Other	**37**	42
	1,175	796

Deferred income tax included in liabilities:

	31 December 2007	31 December 2006
	EUR (thousands)	
Fixed assets	**2,549**	2,993
Other	**(616)**	(803)
	1,933	2,190

III**. Income taxes in the income statement comprise:**

	Financial year 2007	Financial year 2006
	EUR (thousands)	
Current taxes	**388**	653
Deferred income taxes	**(106)**	392
In respect of previous years	**(387)**	318
Effect of reduction in tax rate	**(470)**	14
Income tax (benefit)/expense	**(575)**	1,377

Note 25 - Income taxes (cont'd)

IV. **Tax reconciliation**

The difference between the amount of tax calculated on income before taxes at the regular tax rate and the tax expenses included in the financial statements is explained as follows:

	Financial year	
	2007	**2006**
	EUR (thousands)	
Tax calculated at the regular rate (2007: 25.5%; 2006: 29.6%)	**3,829**	3,742
Adjustment for reduced tax rate in foreign subsidiaries	**(796)**	(530)
Effect of reduction in tax rates on deferred income taxes	**(469)**	-
Non-deductible expenses	**1,142**	119
Effect of tax losses utilised	**(1,041)**	(704)
Income exempt from taxes	**(1,915)**	(2,388)
Taxes in respect of previous years	**(387)**	318
Other differences	**(938)**	820
Actual income tax (benefit)/expense	**(575)**	1,377

Note 26 - Related party transactions

Related parties

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial and reporting decisions.

Such relationships include:

1. Parent-subsidiary relationships.
2. Entities under common control.
3. Individuals who, through ownership, have significant influence over the enterprise and close members of their families.
4. Key management personnel.

The Group is controlled by I.T. International Theatres Ltd, incorporated in Israel, which owns 64.13% of the outstanding shares (2006 – 64.5%) . The remaining 35.87% are held by the public and listed at Warsaw Stock Exchange. The ultimate parent of the Group is Israel Theatres Ltd, incorporated in Israel. The ultimate controlling parties are Mr Moshe Greidinger and Mr Israel Greidinger, both managing directors of the Company.

Note 26 - Related party transactions (cont'd)

Transactions with related parties:

a. Income (expenses):

	Financial year	
	2007	**2006**
	EUR (thousands)	
Financing	**-**	31
Rental fees	**(444)**	(495)
Management services	**302**	303

b. In December 2003, employment agreements with Mr Moshe Greidinger, Mr Israel Greidinger, and Mr. Amos Weltsch (”Managing Directors”), signed originally with ITIT in 1998, were assigned to the Company. The fulfilment of the Company’s obligation under the agreements will be performed by the Company, or by its Israeli subsidiaries.

In accordance with the said agreement, the aggregate gross monthly remuneration for the Managing Directors amounts to EUR 27,000 (USD 37,000) per month (not linked), which, together with related employee benefits, will amount to EUR 32,000 (USD 44,000) per month.

In addition, the Managing Directors are entitled to an annual bonus aggregating to 7% of the Company’s consolidated profits before tax for any fiscal year. The above mentioned Managing Directors undertook to be employed by the Company for an indefinite period, with 6 month notice of termination, and to refrain from competing with the Company’s business for a period of 12 months following termination of their employment with the Company.

On 24 November 2006, the General Meeting of Shareholders of the Company approved a new remuneration policy which confirmed the entitlement of the members of the Management Board to receive a monthly base salary and annual participation in a cash bonus pool designated for the members of the Management Board equal to 7% of the Company’s pre-tax profit before the bonus. In addition, under the same remuneration policy, each member of the Management Board is entitled to a car, contribution to a severance fund as well as to statutory provident fund, a travel allowance and reimbursement of reasonable business expenses.

Also on 26 November 2006, the General Meeting of Shareholders of the Company approved a new long-term incentive plan (the “Plan”). The persons eligible for participation in the Plan are the employees of the Group, including the members of the Management Board.
Under the Plan, both option rights to acquire shares in the Company and cash bonuses may be granted to the participants. During the financial years 2007 and 2006, no share options have been granted to members of the Management Board.

The Managing Directors of the Company received remuneration totalling EUR 1,662,000 (2006: EUR 1,588,000). The members of the Supervisory Board received fees totalling EUR 93,000 (2006: EUR 52,500). The total remuneration is included in general and administrative expenses. The members of the Management and Supervisory Board did not receive any option rights to acquire shares in the Company during the financial years 2007 and 2006.

Note 26 - Related party transactions (cont'd)

The remuneration for the managing directors is divided between the managing directors as follow:

	Financial year	
	2007	2006
	EUR (thousands)	
General director:		
Salary and other related costs	**218**	212
Management bonus	**546**	500
	764	712
Operational director:		
Salary and other related costs	**176**	202
Management bonus	**272**	250
	448	452
Financial director:		
Salary and other related costs	**177**	174
Management bonus	**273**	250
	450	424
Total	**1,662**	1,588

The remuneration for the supervisory board members is principally divided equally.

Forum Film Ltd., a 50% subsidiary, will participate in the aforementioned remunerations to Mr. Moshe Greidinger and Mr. Israel Greidinger at the rate of 33% thereof and will fully cover the portion of the above mentioned bonuses that relate to its own revenues.

c. The Greidinger family has indirect control of the Company's majority shareholder, ITIT, through its majority shareholding in Israel Theatres Limited. More than 75% of the shares in Israel Theatres Limited are held by Mr Israel Greidinger, Mr Moshe Greidinger and their relatives.

   The 50% of Norma Film not owned by the Company is held by M.I. Greidinger Investment Limited, in which both Mr Moshe Greidinger and Mr Israel Greidinger each hold a 50% interest.

d. Israel Theatres Ltd. (the parent company of ITIT) is leasing real estate properties on which four of the Company's theatres are located to the Company. The annual lease payments for the above properties aggregated to EUR 278,000 (USD 392,000).

e. Pursuant to the management services agreement between the Company and Israel Theatres, the Company will provide Israel Theatres for an indefinite period with certain management services. Management services include office and accounting services through providing Israel Theatres with senior personnel and administration of Israel Theatres' business. The management services agreement is for a fixed annual sum of EUR 299,000 (USD 377,000).

Note 26 - Related party transactions (cont'd)

f. Forum Film Ltd. and Giant Video have been leasing offices and storage space from Israel Theatres since February 1994, for consideration of EUR 10,000 (USD 13,000) per month, linked to the changes in the CPI.
Israel Theatres leased offices in Herzlia and in Haifa to IT-2004 until 30 November 2007, in consideration of EUR 49,000 (NIS 286,000) per annum. The rental fees are linked to the Israeli CPI.

g. The minority interests mainly represent a 50% indirect share in the equity of Forum Film Ltd. By M.I. Greidinger Investment Limited (see note 26.c above). Pursuant to Forum Film Ltd's Articles of Association, the Company has the right to appoint three of Forum Film Ltd's five directors, and accordingly, maintains control over all major company decisions.

h. The Company has entered into an indemnification agreement with each executive officer and director. These agreements endeavour to fully indemnify and limit the personal liability of the officers and directors, in certain circumstances, both to the Company and to its shareholders, for acts or omissions by them in their official capacity. The Company had obtained officers' and directors' liability insurance.

i. Israel Theatres, ITIT and its directors and principal officers undertook not to compete, whether directly or indirectly, with the Company's business in the film exhibition, distribution and video rental fields. The length of this undertaking is for as long as they are directors or officers in either of the companies, or beneficially own a controlling interest in the Company. The agreement specifically states that Israel Theatres and ITIT may not engage in the development, sale or lease of property for theatrical or video rental use without the prior written consent of the Company, unless it is to be used by the Company.

j. As part of the completion of the initial public offering on the Warsaw Stock Exchange in December 2006, the Company incurred costs related both to the primary shares and the secondary shares. The Company charged the selling shareholders with the proportionate part of the mentioned expense amounting to EUR 1,368,000, of which EUR 1,258,000 was recorded as receivable as per 31 December 2006. This receivables balance was fully repaid in 2007.

Note 27 - Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Board reviews and agrees policies for managing each of these risks and they are summarised below. The Group also monitors the market price risk arising from all financial instruments.
The Group uses derivative financial instruments, principally forward currency contracts, to hedge currency risks arising from the Group's operations and its sources of finance. It is, and has been throughout the financial year 2007 and 2006, the Group's policy that no trading in financial instruments shall be undertaken. The Group's accounting policies in relation to derivatives are set out in Note 2.

Note 27 - Financial risk management (cont'd)

The Group's principal financial instruments, other than derivatives, comprise bank loans, loans from the shareholder, operating leases and short-term bank credits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

Market risk

(i) Foreign exchange risk

The Group incurs foreign currency risk on future commercial transactions and recognised assets and liabilities that are denominated in a currency other than the relevant local functional currencies: the Bulgarian leva, the Czech crown, the Hungarian forint, the Polish zloty and the New Israeli shekel, as well as the euro at parent company level. The Group monitors the exposure to currencies other than the relevant functional currency at an entity by entity level.

If the following rate movements as follows would occur than the effect on profit/(loss) would be as as presented in the table below:

(a) the euro versus the Czech crown, the Hungarian forint, the Romanian new Lei or the Polish zloty by +/- 7%
(b) the euro versus the US dollar by +/- 10%
(c) the euro versus the New Israeli shekel by +/- 5%
(d) the US dollar versus the Czech crown, the Hungarian forint, the Romanian new Lei or the Polish zloty by +/- 13%
(e) the US dollar versus the New Israeli shekel by +/- 11%

The shifts in exchange rates above are based on historic volatility. Since the exchange rate of the Bulgarian Leva versus the euro has been unchanged, no shift in exchange rate of the euro versus the Bulgarian Leva is assumed.

Total effect on profit/ (loss)	**Financial year 2007**				
	EUR vs CZK, HUF,RON or PLN	**EUR vs USD**	**EUR vs NIS**	**USD vs CZK, HUF,RON or PLN**	**USD vs NIS**
	EUR (thousands)				
Total assets/(liabilities)	**(11,014)**	**6**	**174**	**485**	**(35)**
Reasonable shift	**7%**	**10%**	**5%**	**13%**	**11%**
Total effect on profit of positive movements	**(777)**	**(5.5)**	**4.35**	**1,375**	**(24.3)**
Total effect on profit of negative movements	**777**	**5.5**	**(4.35)**	**(1,375)**	**24.3**

Total effect on profit	**Financial year 2006**				
	EUR vs CZK, HUF or PLN	**EUR vs USD**	**EUR vs NIS**	**USD vs CZK, HUF or PLN**	**USD vs NIS**
	EUR (thousands)				
Total assets/(liabilities)	(11,217)	(116)	-	(80)	(406)
Reasonable shift	7%	10%	5%	13%	11%
Total effect on profit of positive movement	(877.1)	(4.5)	-	1,241	(44.7)
Total effect on profit of negative movement	877.1	4.5	-	(1,241)	44.7

Note 27 - Financial risk management (cont'd)

Market risk (cont'd)

(ii) Price risk

The Group's exposure to marketable securities price risk is not significant because of the very small amount invested in marketable securities relative to the Group's total assets.

Available for sale financial assets consist of a 15% interest in the Mall of Plovdiv and 45% interest in Mall of Russe. Due to the fact that the Group has entered into a sale and purchase agreement to sell its interest in Mall of Plovdiv immediately prior to the opening of the mall, based on an agreed upon formula, the Group's exposure to price risk for this financial asset is relatively low. In Mall of Russe, negotiation to sell the asset is on a relatively early stage. Initial price indications from potential buyers expressed in meetings, are indicating that the Group's exposure to price risk for this financial asset is also relatively low. The risk in relation to the Russe asset is higher that the one in relation to the Plovdiv assets, due to the early stage of the negotiation to sell this asset.

(iii) Interest rate risk

The Group has no significant interest-bearing assets. The Group's interest rate risk arises from long-term borrowings. For its long-term borrowings, the Group adopts a policy of a mixture of flat and floating interest rates (see Notes 18 and 19). At 31 December 2007, the Group has no borrowings at fixed rates of interest.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing and renewal of existing positions. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions. Based on the simulations performed, the impact on post-tax profit of a 1% shift in interest rate would be a maximum decrease of EUR 380 thousand (2006: EUR 805 thousand), respectively.

Note 27 - Financial risk management (cont'd)

Credit risk

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and cash equivalents, short-term investments and receivables. The Group places its cash and cash equivalents and short-term investments in financial institutions with high credit ratings. Management does not expect any counterparty to fail to meet its obligations. Concentrations of credit risk with respect to trade receivables are relatively low due to the relatively large number of clients comprising the Group's clients list.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	31 December	
	2007	**2006**
	EUR (thousands)	
Trade receivables:		
Counterparty without/unknown external credit rating		
Group 1 [1]	**13,320**	11,476
Group 2 [2]	**62**	153
Group 3 [3]	**10**	13
Total Trade receivables	**13,392**	11,642
Cash at banks and short term bank deposits		
AAA	**4,675**	6,206
AA	**1,445**	45,785
A	**794**	1,041
Total Cash at banks [4]	**6,914**	53,032

[1] Group 1 – new customer (less then 6 months)
[2] Group 2 – existing customers (more than 6 months) with no defaults in the past
[3] Group 3 – existing customers (more than 6 months) with some defaults in the past. All defaults were fully recovered.
[4] The rest of the balance sheet item "Cash and cash equivalents" is cash on hand

Note 27 - Financial risk management (cont'd)

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining availability under committed credit lines.

The table below analyses the Group's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	As at 31 December 2007			
	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
	EUR (thousands)			
Borrowings	**5,272**	**5,462**	**17,428**	**11,912**
Other long term payables	**-**	**43**	**1,205**	**1,289**
Current liabilities*	**27,111**	**-**	**-**	**-**

	As at 31 December 2006			
	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
	EUR (thousands)			
Borrowings	10,551	12,349	29,255	24,135
Other long term payables	-	52	154	2,152
Current liabilities*	23,238	-	-	-

* excluding short term borrowing and income received in advance.

Note 28 - Capital risk management

When managing capital, it is the Group's objective to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the group may adjust the profit appropriation, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the industry, the group monitors capital on the basis of the gearing ratio and leverage. No external capital requirements exists as per 31 December 2007

The gearing ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Leverage is calculated as net debt divided by total capital employed. Total capital employed is calculated as 'equity' as shown in the consolidated balance sheet plus net debt financing assets in operation.

The gearing ratios and leverage at 31 December 2007 and 2006 were as follows:

	31 December	
	2007	**2006**
	EUR (thousands)	
Bank debt:		
Long-term borrowings, including current portion	**40,074**	76,290
Short-term bank credit	**13,303**	15,086
Total debt	**53,377**	91,376
Cash and cash equivalents	**(7,817)**	(53,194)
Net debt	**45,560**	38,182
Construction in progress (see Note 5)	**(2,339)**	(1,015)
Cinema equipment not operated yet (see Note 5)	**(7,724)**	(3,620)
Net debt financing assets in operation	**35,497**	33,547
Total equity	**156,171**	132,176
Total capital employed	**191,668**	165,723
Gearing ratio	**29.2%**	28.9%
Leverage	**23.7%**	23.0%

Note 29 – Fair value estimation

The following are details of the fair values of all of the Group's financial instruments that are carried in the financial statements at other than fair values and for which it is practicable to estimate such value:

a. *Cash and cash equivalents, short-term bank deposit and short-term bank credit*. The carrying amounts approximate their fair value because of the short maturity of these instruments.
b. *Marketable securities*. The carrying amounts approximate their fair value.
c. *Trade accounts receivable, other accounts receivable, accounts payable and accrued liabilities.* The carrying amounts approximate their fair value because of the short-term nature of these instruments.
d. *Debt*. As of 31 December 2007, the aggregate fair value of the Company's long-term debt obligations is similar to its carrying value of EUR 40 million. As of 31 December 2006, the aggregate fair value of the Company's long-term debt obligation was similar to its carrying value of EUR 76 million. The above fair values have been based on comparison to similar Debts in the market.
e. *Available for sale financial assets including short-term loan to unconsolidated subsidiaries.* As of 31 December 2007, the approximate aggregate fair value of the above assets is not less the carrying value (EUR 18.5 million). As of 31 December 2006, the approximate aggregate fair value of the above assets was not less than the carrying value (EUR 3.7 million).

As at 31 December 2007, the Company has hedged some of its USD and EUR expenses through 2007 and 2008 in respect of its Polish and Hungarian theatre operations, against the Polish Zloty and the Hungarian Forint respectively. In connection with these obligations, the Company has entered into forward foreign exchange contracts comprising a commitment to buy USD 400,000 at the beginning of each month until December 2008 at fixed prices denominated in Polish Zloty, and forward foreign exchange contracts comprising a commitment to buy USD 265,000 at the beginning of each month during 2008 at fixed prices denominated in Hungarian forint. These forward foreign exchange contracts have been valued in the consolidated balance sheet at 31 December 2007 at their fair value.

Note 30 - Linkage terms of monetary items

	31 December 2007			
	In or linked to EUR	In or linked to USD	In or linked to foreign currencies	Total
	EUR (thousands)			
Assets				
Cash and cash equivalents	**2,509**	**40**	**5,268**	**7,817**
Short-term bank deposits - collateralized	**349**	**-**	**-**	**349**
Trade accounts receivable	**31**	**2**	**13,359**	**13,392**
Other accounts receivable	**836**	**829**	**10,492**	**12,157**
Related parties receivable	**88**	**-**	**211**	**299**
Short-term loans to subsidiaries	**16,139**	**-**	**-**	**16,139**
Marketable securities	**60**	**-**	**-**	**60**
	20,012	**871**	**29,330**	**50,213**
Liabilities				
Short-term bank credit	**-**	**-**	**13,303**	**13,303**
Trade accounts payable	**2,175**	**204**	**8,886**	**11,265**
Employee and payroll accruals	**16**	**-**	**1,528**	**1,544**
Other accounts payable	**2,896**	**230**	**10,789**	**13,915**
Due to related parties	**-**	**-**	**428**	**428**
Long-term loans (including current - portion)	**18,825**	**-**	**21,249**	**40,074**
Accrued employee rights upon retirement	**-**	**-**	**217**	**217**
	23,912	**434**	**56,400**	**80,746**

	31 December 2006			
	In or linked to EUR	In or linked to USD	In or linked to foreign currencies	Total
	EUR (thousands)			
Assets				
Cash and cash equivalents	46,303	267	6,624	53,194
Trade accounts receivable	86	-	11,556	11,642
Other accounts receivable	424	-	10,218	10,642
Related parties receivable	1,510	-	336	1,846
Marketable securities	-	-	56	56
	48,323	267	28,790	77,380
Liabilities				
Short-term bank credit	-	-	15,086	15,086
Trade accounts payable	952	790	8,998	10,740
Employee and payroll accruals	2	-	1,301	1,303
Other accounts payable	3,791	41	8,620	12,452
Due to related parties	5	-	450	455
Long-term loans (including current - portion	47,052	38	29,200	76,290
Accrued employee rights upon retirement	-	-	41	41
	51,802	869	63,696	116,367

Note 31 - Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.
The Group's operations in Israel and Central Europe are organised under the following major business segments:

- Theatre operations;
- Distribution - Distribution of movies;
- Video + DVD – Rental and sale of video cassettes and DVD;
- Other, this includes the Company's real estate business.

Business segments:

	Financial year 2007 EUR (thousands)					
	Theatre Operations	**Distribution**	**Video & DVD**	**Other**	**Eliminations**	**Consolidated**
Revenues						
External sales	**124,120**	**22,972**	**3,891**	**10,357**	**-**	**161,340**
Inter-segment sales	**-**	**5,548**	**-**	**-**	**(5,548)**	**-**
Total revenues	**124,120**	**28,520**	**3,891**	**10,357**	**(5,548)**	**161,340**
Results						
Segment results before depreciation, amortisation & impairment write-downs	**28,378**	**(235)**	**752**	**5,705**		**34,600**
Depreciation, amortisation & impairment write-downs	**(14,008)**	**(456)**	**(879)**	**(97)**	**-**	**(15,440)**
Segment results	**14,370**	**(691)**	**(127)**	**5,608**	**-**	**19,160**
Net financial expense						**(3,729)**
Gain and loss on disposals						**(416)**
Income taxes						**575**
Minority interests						**1,034**
Net income						**16,624**

	31 December 2007 EUR (thousands)					
	Theatre operations	**Distribution**	**Video & DVD**	**Other**	**Unallocated**	**Consolidated**
Segment assets	**200,360**	**14,960**	**2,087**	**24,462**	**1,175**	**243,044**
Segment liabilities	**23,942**	**6,391**	**(406)**	**1,636**	**55,310**	**86,873**
Capital expenditure	**20,561**	**745**	**617**	**42**	**-**	**21,965**

Note 31 - Segment reporting (cont'd)

	Financial year 2006 EUR (thousands)					
	Theatre Operations	**Distribution**	**Video & DVD**	**Other**	**Eliminations**	**Consolidated**
Revenues						
External sales	99,134	21,904	4,120	18,633	-	143,791
Inter-segment sales	-	5,996	312	-	(6,308)	-
Total revenues	99,134	27,900	4,432	18,633	(6,308)	143,791
Results						
Segment results before depreciation, amortisation and impairment write – downs	23,212	658	636	6,742	-	31,248
Depreciation, amortisation and impairment write – downs	(12,281)	(143)	(1,129)	(348)	-	(13,901)
Segment results	10,931	515	(493)	6,394	-	17,347
Net financial expense						(4,670)
Gain and loss on disposals						(34)
Income taxes						(1,377)
Minority interests						472
Net income						11,738

	31 December 2006 EUR (thousands)					
	Theatre operations	**Distribution**	**Video & DVD**	**Other**	**Unallocated**	**Consolidated**
Segment assets	181,480	11,899	2,689	14,838	46,554*	257,460
Segment liabilities	19,833	5,723	1,304	4,858	93,566	125,284
Capital expenditure	19,423	221	1,456	538	-	21,638

* includes the proceeds from the public offering held in cash as per 31 December 2006.

Note 31- Segment reporting (cont'd)

In addition to the information on business segments based on the structure of the Group, the figures below present information for geographical segments. Determination of geographical segments is based on location of assets and is identical to customer location.

31 December 2007
EUR (thousands)

	Poland	Israel	Hungary	Other	Un-Allocated	Conso-lidated
Revenues						
External sales	**85,471**	**30,864**	**24,747**	**20,258**	**-**	**161,340**
Assets						
Segment assets	**148,981**	**29,050**	**15,120**	**48,718**	**1,175**	**243,044**
Capital expenditure	**12,192**	**2,348**	**3,585**	**3,840**	**-**	**21,965**

31 December 2006*
EUR (thousands)

	Poland	Israel	Hungary	Other	Un-allocated	Conso-lidated
Revenues						
External sales	69,026	32,425	15,695	26,645	-	143,791
Assets						
Segment assets	139,319	29,527	12,983	29,077	46,554	257,460
Capital expenditure	9,434	8,169	439	3,596	-	21,638

* reclassified for comparison purposes.

Note 32 - Personnel

Personnel costs are specified as follows:

	31 December 2007	31 December 2006
	EUR (thousands)	
Salaries and wages	**14,580**	13,201
Pension costs	**1,038**	394
Other social charges	**1,220**	2,101
Equity settled share-based payment transactions (see Note 12 (c))	**300**	20
Total personnel costs	**17,138**	15,716

For 2007 and 2006, the pension costs comprise defined contribution expenses only.

The average number of personnel, in full-time equivalents, employed by the Company and its subsidiaries during the year 2007 were 1,617 (financial year 2006: 1,509). A geographical allocation of the average number of personnel is as follows:

	31 December 2007	31 December 2006
Israel	**472**	489
Poland	**685**	586
Hungary	**260**	241
Other Central Europe*	**200**	192
Netherlands	**-**	1
Total average number of personnel	**1,617**	1,509

* Including the Czech Republic, Bulgaria and Romania.

Note 33 - Details of corporations in the Group

	31 December 2007			
	Direct/indirect voting right of the Company	**The Company's equity share in subsidiary**	**Consolidation**	**Country**
	%	**%**	**%**	
I.T. International Theatres 2004 Ltd.	100%	100%	Full	(6)
I.T. Magyar Cinemas Kft	100%	100%	Full	(2)
Cinema City Finance B.V.	100%	100%	Full	(1)
Cinema City Poland Sp.z o.o.	100%	100%	Full	(4)
IT Development 2003	100%	100%	Full	(4)
I.T. Czech Cinemas S.R.O.	100%	100%	Full	(3)
I.T. Sofia B.V.	100%	100%	Full	(1)
I.T. Sofia 2007 B.V.	100%	100%	Full	(1)
New Age Media Sp.z o.o.	100%	100%	Full	(4)
Forum Film Poland Sp.z o.o.	100%	100%	Full	(4)
All Job Poland Sp.z o.o.	100%	100%	Full	(4)
Norma Film Ltd.	60%	50%	Full	(6)
Forum Film Ltd.	60%	50%	Full	(6)
Ya'af - Giant Video Library Network Ltd.	60%	30%	Full	(6)
Ya'af – Automatic Video Machines Ltd.	60%	50%	Full	(6)
Kafan et Anak limited partnership	25%	15%	Proportionate	(6)
Mabat Ltd.	100%	100%	Full	(6)
Teleticket Ltd.	100%	100%	Full	(6)
Cinema Plus Ltd.	100%	100%	Full	(6)
Cinema City Bulgaria EOOD	100%	100%	Full	(5)
Forum Film Home Entertainment KFT	100%	100%	Full	(2)
New Age Cinema KFT	100%	100%	Full	(2)
Forum Hungary Film Distribution KFT	100%	100%	Full	(2)
Forum Home Entertainment Czech S.R.O.	100%	100%	Full	(3)
New Age Cinema S.R.L.	100%	100%	Full	(7)
Cinema City Ro S.R.L.	100%	100%	Full	(7)
Cinema City Malls A.D.	45%	45%	Not consolidated	(5)
Mall of Plovdiv EOOD	15%	15%	Not consolidated-held for sale	(5)

(1) A holding company in the Netherlands.
(2) Hungarian corporation.
(3) Czech corporation.
(4) Polish corporation.
(5) Bulgarian corporation.
(6) Israeli corporation.
(7) Romanian corporation.

The details of corporation during 2006 were similar to the details of corporation in 2007 as shown above, except for the changes in consolidation disclosed in Note 3.

Note 34 - Information about agreed-upon engagements of the Group's auditor

Information about the agreements and the values from those agreements is disclosed below*:

	31 December	
	2007	**2006**
	EUR (thousands)	
Remuneration for audit (1)	**448**	336
Remuneration for IPO services (2)	**-**	252
Remuneration for other services	**74**	2
	522	590

(1) Remuneration for audit includes the amounts paid and due to KPMG worldwide for professional services related to audit and review of unconsolidated and consolidated financial statements of the Company for the relevant year.

(2) Remuneration for related services includes other amounts paid and due to KPMG. These services relate to services provided in connecting with the initial public offering in December 2006.

(3) Remuneration includes other services rendered by the auditor in 2007 and 2006.

* excluding fees for tax services.

Company Balance Sheet
(before appropriation of the result)

	Note	31 December 2007	2006
		EUR (thousands)	
ASSETS			
FIXED ASSETS			
Property and equipment	3	**31**	30
Financial fixed assets			
Investment in subsidiaries	4	**144,472**	125,903
Total fixed assets		**144,503**	125,933
CURRENT ASSETS			
Receivables			
Receivable from subsidiaries		**21,753**	1,675
Receivable from related parties		**48**	-
Income taxes receivable		**44**	46
Other accounts receivable and prepaid items		**556**	1,692
Liquid funds			
Cash and cash equivalents		**1,369**	45,758
Total current assets		**23,770**	49,171
TOTAL ASSETS		**168,273**	175,104
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY	5		
Share capital		**508**	507
Share Premium reserve		**90,377**	89,945
Retained earnings		**37,057**	25,019
Accumulated currency translation adjustments		**11,605**	4,967
Net profit for the year		**16,624**	11,738
Total shareholders' equity		**156,171**	132,176
CURRENT LIABILITIES			
Trade accounts payable		**219**	213
Payable to subsidiaries		**11,817**	40,829
Other accounts payable		**66**	1,886
Total current liabilities		**12,102**	42,928
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**168,273**	175,104

The notes on pages 89 to 92 are an integral part of the Company Financial Statements.

Company Income Statement

	Note	31 December 2007	2006
		EUR (thousands)	
Revenue		**325**	887
General and administrative expenses		**(1,082)**	(406)
Net operating result		**(757)**	481
Financial income	6	**372**	113
Financial expenses	7	**(268)**	(153)
Operating result before taxation		**(653)**	441
Income taxes	8	**-**	-
Net result after taxation		**(653)**	441
Result from subsidiaries after taxation	4	**17,277**	11,297
Net income		**16,624**	11,738

The notes on pages 89 to 92 are an integral part of the Company Financial Statements.

Company Statement of Changes in Equity

	Share capital	Share Premium reserve	Retained Earnings	Net profit for the year	Accumulated currency translation adjustments	Total
			EUR (thousands)			
Balance as of 1 January 2006	407	43,553	17,089	7.910	4,158	73,117
Profit appropriation prior year	-	-	7,910	(7,910)	-	-
New shares issued	100	46,392*	-	-	-	46,492
Share based payments	-	-	20	-	-	20
Net profit for the year 2006	-	-	-	11,738	-	11,738
Currency translation	-	-	-	-	809	809
Balance as of 31 December 2006	507	89,945	25,019	11,738	4,967	132,176
Profit appropriation prior year	**-**	**-**	**11,738**	**(11,738)**	**-**	**-**
Public offering related costs **	**-**	**(153)**	**-**	**-**	**-**	**(153)**
New shares issued	**1**	**585**	**-**	**-**	**-**	**586**
Share based payments	**-**	**-**	**300**	**-**	**-**	**300**
Net profit for the year 2007	**-**	**-**	**-**	**16,624**	**-**	**16,624**
Currency translation	**-**	**-**	**-**	**-**	**6,638**	**6,638**
Balance as of 31 December 2007	**508**	**90,377**	**37,057**	**16,624**	**11,605**	**156,171**

* *After deducting an amount of EUR 4,125 thousand representing the total costs directly attributed to the initial public offering. These costs represent mainly underwriters' fees, legal, tax and accounting fees, road show, related public relations and marketing costs.*

** *represent additional costs directly attributable to the 2006 Initial Public Offering of the Company's shares in December 2006.*

The notes on pages 89 to 92 are an integral part of the Company Financial Statements

Company Cash Flow Statement

	For the year ended 31 December 2007	For the year ended 31 December 2006
	EUR (thousands)	
Cash flows from operating activities		
Net sales result	**(757)**	481
Adjustments to reconcile net income to net cash provided by operating activities:		
Effect of foreign currency exchange and others	**(187)**	137
Interest received	**372**	114
Interest paid	**0**	(152)
Income taxes paid	**2**	10
Operating result before working capital	**(570)**	590
Movement in intragroup balances	**(49,091)**	6,510
Decrease in prepaid expenses	**(344)**	(1,025)
(Decrease)/increase in trade accounts payable	**(1,809)**	136
Increase in other accounts payable	**1,427**	1,683
Equity share based payments	**300**	-
Net cash (used in)/provided by operating activities	**(50,087)**	7,894
Cash flows from investing activities		
Purchase of property and equipment and other assets	**(1)**	-
Dividends received from subsidiaries	**5,978**	-
Investment in subsidiaries	**(762)**	(11,809)
Proceeds from disposition of other assets	**-**	1,725
Proceeds from disposition of subsidiaries	**50**	-
Net cash provided by/(used in) investing activities	**5,265**	(10,084)
Cash flows from financing activities		
Proceeds from new shares issued	**586**	50,637
Costs directly attributed to new shares issued	**(153)**	(4,125)
Net cash (used in)/provided by financing activities	**433**	46,512
Increase/(decrease) in cash and cash equivalents	**(44,389)**	44,322
Cash and cash equivalents at beginning of period	**45,758**	1,436
Cash and cash equivalents at end of period	**1,369**	45,758

The notes on pages 89 to 92 are an integral part of the Company Financial Statements.

Note 1 - General

Cinema City International N.V. ("the Company") was incorporated on 12 April 1994, and has its statutory seat in Amsterdam, the Netherlands, and its corporate office in Rotterdam, the Netherlands.

The shares in the Company are traded on the Warsaw stock exchange. As at 31 December 2007, 64.13% of the outstanding shares are held by I.T. International Theatres Ltd. ("ITIT"), incorporated in Israel. The Company is a subsidiary of I.T. International Theatres Ltd. ("ITIT"), incorporated in Israel.

The Company holds and owns various companies in Europe and Israel that are active in the entertainment business in various countries, including Poland, the Czech Republic, Hungary, Bulgaria, Romania and Israel. The Company is also engaged in managing and establishing its own entertainment real estate projects for rental purposes, in which the Company operates motion picture theatres. In addition, the Company is involved in short-term and long-term real estate trading in Central Europe.

Note 2 - Accounting principles

The accounting principles and measurement basis of the Company's statutory accounts are similar to those applied with respect to the Consolidated Financial Statements (see Note 2 to the Consolidated Financial Statements). The Company Financial Statements have been prepared in conformity with generally accepted accounting principles in the Netherlands ("Dutch GAAP"), whereas the Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and Dutch GAAP as described in Note 2 to the Consolidated Financial Statements.

Note 3 - Property and equipment

Composition:

	For the year ended 31 December 2007			
	Balance at beginning of the year	**Additions during the year**	**Sales and disposals during the year**	**Balance at year-end**
	EUR (thousands)			
Cost				
Cinema equipment (1)	**12**	**1**	**-**	**13**
Computers, furniture and office equipment	**18**	**-**	**-**	**18**
Carrying value	**30**	**1**	**-**	**31**

	For the year ended 31 December 2006			
	Balance at beginning of the year	**Additions during the year**	**Sales and disposals during the year**	**Balance at year end**
	EUR (thousands)			
Cost				
Cinema equipment (1)	1,737	-	(1,725)	12
Computers, furniture and office equipment	18	-	-	18
Carrying value	1,755	-	(1,725)	30

(1) Consists of prepayments on account of IMAX® systems not operated yet. Therefore, no depreciation has been incurred.

Note 4 - Investment in subsidiaries

The subsidiaries of the Company are valued at their net equity value.

The movements in subsidiaries are as follows:

	Financial year	
	2007	**2006**
	EUR (thousands)	
Balance at beginning of the year	**125,903**	62,685
Dividends received from subsidiaries	**(5,978)**	-
Sale of subsidiaries	**(50)**	-
Currency translation adjustment	**6,558**	669
Investments in subsidiaries	**762**	51,252
Net result subsidiaries during the year	**17,277**	11,297
Balance at the end of the year	**144,472**	125,903

Note 5 - Shareholders' equity

As of 31 December 2007 and as of 31 December 2006, the authorised share capital of the Company consisted of 175,000,000 ordinary shares with a par value of EUR 0.01 each. For details on shares issued during 2007 and 2006, reference is made to Note 12 of the Consolidated Financial Statements.

Note 6 – Financial income

The financial income comprises interest earned on bank accounts and deposits only.

Note 7 – Financial expenses

The financial expense relates mainly to foreign currency exchange losses of EUR 208,000 (2006: EUR 50,000) and interest expense payable to Group companies of EUR 60,000 (2006: EUR 89,000).

Note 8 - Income taxes

No Dutch income taxes have been recorded primarily because of available tax losses carried forward from prior years. Realisation of this deferred income tax asset is dependent upon generating sufficient taxable income in the period that the deferred income tax asset is realised. Based on all available information, it is not probable that the deferred income tax asset is realisable and therefore the deferred tax asset is valued at nil.
The accumulated tax losses carried forward as per 31 December 2007 are estimated to be EUR 3,700,898 (2006: EUR 3,701,648).

Note 9 - Personnel

The Company employed one employee during the year (2006: one employee).

Note 10 - Directors' remuneration

The Board of Managing Directors of the Company consists of 3 members; the board members are entitled to a total remuneration of EUR 1,662,000 during the year 2007 (2006: EUR 1,588,000). The amount of remuneration also includes fees, salaries and bonuses paid and have been paid through the Company's subsidiaries.
The Supervisory Board of the Company consists of 5 members; the supervisory directors are entitled to an annual fee of EUR 8,500 plus an amount of EUR 1,500 per board meeting (EUR 750 if attendance is by telephone). The total amount due in respect of supervisory board fees during 2007 is EUR 93,000 (2006: EUR 52,500).

Rotterdam,
27 March 2008

The Management Board

Moshe Greidinger	Amos Weltsch	Israel Greidinger

Supervisory Board

Coleman Kenneth Greidinger	Carrie Twist	Frank Pierce
Scott Rosenblum	Peter Weishut	Yair Shilvav

Articles of Association rules regarding profit appropriation

In accordance with Article 32 of the Articles of Association,

1) the Board of Managing Directors, with prior approval of the Supervisory Board, shall determine which portion of the profits – the positive balance of the profit and loss account – shall be reserved. The profit remaining shall be at the disposal of the general meeting;

2) profit distributions may only be made to the extent the equity exceeds the paid and called up part of the capital increased with the reserves which must be maintained pursuant to the law;

3) dividends shall be paid after adoption of the annual accounts evidencing that payment of dividends is lawful;

4) the Board of Managing Directors, with prior approval of the Supervisory Board may resolve to pay an interim dividend provided the requirement of the second paragraph has been complied with as shown by interim accounts drawn up in accordance with the provision of the law;

5) the general meeting may, subject to due observance of the provision of paragraph 2 and upon a proposal by the managing directors, resolve to make distributions out of a reserve which need not to be maintained by virtue of the law;

6) cash payments in relation to bearer shares if and in as far as the distributions are payable outside the Netherlands, shall be made in the currency of the country where the shares are listed and in accordance with the applicable rules of the country in which the shares of the Company have been admitted to an official listing on a regulated stock exchange in accordance. if such currency is not the same as the legal tender in the Netherlands the amount shall be calculated against the exchange rate determined by The Netherlands Central Bank ("De Nederlandsche Bank") at the end of the day prior to the day on which the general meeting shall resolve to make the distributions in accordance with paragraph.1 above. If and in as far as the Company on the first day on which the distribution is payable, pursuant to governmental measures or other extraordinary circumstances beyond its control is not able to pay on the place outside the Netherlands or in the relevant foreign currency, the board of Managing Directors is authorised to determine to that extent that the payments shall be made in euros and on one or more places in the Netherlands. In such case the provisions of the first sentence of this paragraph shall not apply.

7) the general meeting may, upon a proposal by the managing directors which proposal was approved by the Supervisory Board , resolve to pay dividends, or make distributions out of a reserve which need not to be maintained by virtue of the law, wholly or partially in the form of shares in the capital of the Company;

8) a claim of a shareholder to receive a distribution expires after 5 years;

9) For the calculation of the amount of profit distribution, the shares held by the Company shall be excluded.

Proposed profit appropriation

For the year ended 31 December 2007, Management proposes to allocate the net profit for the year 2007 amounting to EUR 16,624,000 to retained earnings. This proposal has not been reflected in the Company’s balance sheet per 31 December 2007.