Cinema City International N.V.

Annual Report
for the year ended
31 December 2008

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

The year 2008 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 record revenues of EUR 189.1 million, a record EBITDA of EUR 41.0 million and a record net profit of EUR 17.7 million.

During the year, we continued our ambitious theatre expansion program. We invested over EUR 36 million during 2008, an increase of 75% from 2007. We opened a total of 94 new screens and closed a total of 39 obsolete screens. In December 2007, we entered Romania, our sixth territory of operation with the opening of our first two theatres in that country followed by the opening of another 2 theatres: one during 2008 and one in early January 2009. With a population of almost 22 million, recent entry into the European Union and a developing economy with virtually no modern multiplex theatres, we believe Romania will become our most active territory of development in the near future.

With record sales of 22.2 million tickets in 2008, our theatre operations performed strongly. In particular, our Polish operations continued to perform well in 2008, supported not only by a fare of popular international movies, but also by a strong local supply of movies. We also had a strong year in our Israeli operations, which were enhanced by the highly successful opening of our second megaplex theatre – the 23 screen "Planet" theatre – in Haifa, and the growing success of our first "Planet" megaplex in Ramat Gan.

The new screens the Company opened during 2007, which had their first full year of operations in 2008, together with the opening of new theatres in 2008 comprising 23 screens in Budapest (Hungary), 10 screens in Pilzen (the Czech Republic), 13 screens in Bydgoszcz (Poland), 9 screens in Zielona Gora (Poland), 6 screens in Modiin (Israel), 23 screens in Haifa (Israel) and 10 screens in Cluj (Romania), added to the positive results of the Company's 2008 theatre operations, both in terms of number of admissions and in EBITDA.

Our real estate activities continued to meaningfully contribute to our results for 2008. This was driven primarily by the revaluation of the Company's long-term investment in the Mall of Russe, Bulgaria, to its increased fair market value, as described in the notes to the Consolidated Financial Statements.

During the year, we bought out the interests of our former partner, Ocif, in two of our Bulgarian mall development projects. This transaction was driven by Ocif's failure to satisfy certain commitments to us (including meeting payment deadlines) and our ongoing concerns with Ocif's ability to meet future obligations. We currently plan to seek a new joint venture partner to replace Ocif, but this may take some time given current market conditions. Nonetheless, our real estate activities are otherwise progressing well. We currently expect in March to open our second mall in Bulgaria in Plovdiv. We are very excited about this opening, which is currently proceeding as planned even in today's challenging real estate market.

In the course of 2009, we expect to complete the opening 13 new multiplexes with about 140 screens. In January 2009, we opened an 8 screen multiplex in Pardubice, the Czech Republic, and an 8 screen multiplex in Bacau, Romania. Together with the Plovdiv opening scheduled for March that would account for 27 new screens by the end of the first quarter of 2009.

2009 has already begun strongly for the Company, supported by a continuing well received supply of international and local movies. With that said, we are of course cognisant of the financial and real estate crisis that has swept the world and that has begun to have a material impact in our territories of operation. While we are aware that a sustained downturn in the economy could have a materially adverse impact on movie theatre admissions and on our ability to execute our aggressive growth strategy and we will accordingly monitor the external environment diligently. We continue to remain optimistic that our industry will emerge relatively unscathed. Indeed, we have noted that during past economic downturns movie going often increases. Consumers desire to spend their smaller pools of discretionary funds on relatively inexpensive forms of "escapist" entertainment such as the movies.

LETTER FROM THE CEO

I would like to take this opportunity to express my gratitude to our Cinema City employees for helping make 2008 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 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

11 March 2009

Contents

Supervisory Board report

We take pleasure in presenting the financial statements of Cinema City International N.V. for the financial year 2008, 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 adopt the financial statements as presented.

We concur with the Management Board’s proposal as taken up on page 102 to allocate the net profit for the year 2008 amounting to EUR 17,656,000 to retained earnings.

Supervision
During the year 2008, there have been 3 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 Dutch corporate governance code;
- risk management;
- a Management Board remuneration policy including the execution of the long-term incentive plan.
- financial results and other related issues.

All Supervisory Board meetings held in 2008 were attended by the majority of the members of the Supervisory Board. None of the members of the Supervisory Board have been absent during more than one Supervisory Board meeting in 2008.

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. During the year 2008, the Audit Committee has met 6 times. The Audit Committee has also held meetings with the external auditors.

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. During the year 2008, the Appointment Committee has met once.

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 2008, the Remuneration Committee has met twice.

Financial statements
The Management Board has prepared the 2008 financial statements. These financial statements were discussed at an audit committee meeting attended by the auditors, who provided further information on the audit process and their audit findings.
These financial statements were further discussed and approved by a Supervisory Board meeting.

Supervisory Board report

Composition of the Supervisory Board

In June 2008, the General meeting of shareholders reappointed Ms Twist and Messrs Greidinger, Pierce, Rosenblum and Weishut as Supervisory Directors of the Company. Their new term will expire in June 2012.

In order to secure continuity within the Board, the Supervisory Board has adopted an arrangement that provides for a staggered expiration of individual terms. Under this arrangement, the reappointment for a four year term of one member of the Supervisory Board will be scheduled prematurely for the upcoming Annual General Meeting of shareholders. This will be repeated for each Supervisory Board member at the occasion of the Annual General Meetings of shareholders of the next two years.

Composition of the Management Board

During the General meeting of shareholders in September 2008, Messrs Moshe Greidinger, Israel Greidinger and Amos Weltsch were re-appointed as Management Board Directors. Their current term of 4 years will expire in June 2012.

11 March 2009
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. Moreover, the Company's articles of association state that the Supervisory Board shall have at least two independent Supervisory Board directors, which criterion is being net given the three independent members of the Supervisory Board.

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 2008, 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. On 10 December 2008, the Code was updated by the Corporate Governance Code Monitoring Committee. The Company envisages to implement the updated Code to the extent applicable and appropriate effective as per the financial year 2009.

Corporate governance code of the Warsaw Stock Exchange

On 4 July 2007, the WSE Board adopted the corporate governance rules of the WSE contained in the Code of Best Practice for WSE-Listed Companies (the “WSE Corporate Governance Rules 2008”). The WSE Corporate Governance Rules 2008 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 2008 consist of general recommendations relating to best practices for listed companies (Part I) and best practice provisions relating to management boards, supervisory board members and shareholders (Parts II to IV).

The WSE Corporate Governance Rules 2008 impose upon the companies listed on the WSE an obligation to disclose in their current reports continuous or incidental non-compliance with best practice provisions (with the exception of the rules set forth in Part I, in respect of which and based on a resolution of the Management Board of the WSE dated 11 December 2007 WSE-listed companies are not required to publish a current report). Moreover, every year each WSE-listed Company is required to publish a detailed statement on any non-compliance with the WSE Corporate Governance Rules 2008 (including the rules set forth in Part I) by way of a statement submitted with the company’s annual report (the “Yearly Compliance Statement”). With regards to the Yearly Compliance Statement for 2007 and 2008, companies should report on any non-compliance with the previously applicable corporate governance rules of the WSE contained in the Code of Best Practice for Public Companies in 2005, adopted by the Management Board and the Supervisory Board of the WSE on 15 December 2004 (the “WSE Corporate Governance Rules 2005”).

Companies listed on the WSE are required to justify non- or partial compliance with any WSE Corporate Governance Rules and to show the ways of eliminating the possible consequences of such non-compliance or the steps such company intends to take to mitigate the risk of non-compliance with such rule in future.

In compliance with § 29 sec. 5 of the Warsaw Stock Exchange Rules, each year the Company publishes a separate report on its compliance with the Warsaw Stock Exchange corporate governance rules which is submitted to Warsaw Stock Exchange together with the Company’s annual report and which will be available from 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 that these efforts 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.
Resolutions shall be passed by an absolute majority of the votes cast, unless the law or the articles of association prescribe a greater majority. A decision by the General meeting to amend the articles of association or to dissolve the company can only be taken at the proposal of the Board of Managing Directors, which has been approved by the Board of Supervisory directors.

Issue of new shares
The Company shall only issue shares pursuant to a resolution of the General meeting or of another corporate body designated to do so by a resolution of the General Meeting for a fixed period not exceeding five years. The designation must be accompanied by a stipulation as to the number of shares that may be issued. The designation may each time be extended for a period of up to five years. The designation may not be cancelled, unless the designation provides otherwise. A decision by the General Meeting to issue shares or to designate another body to issue shares can only be taken upon the proposal of the Board of Managing Directors. The proposal is subject to the approval of the Board of Supervisory Directors.

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 and Supervisory Board committees
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.
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 2012.

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 2012.

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 Temco service industries, 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 2012.

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 2012.

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 2012.

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 2012.

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 2012.

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 2012.

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 employment contracts that are automatically renewed at the end of each year for another 12 months unless prior notice of termination is given by either party. The employment contracts also include a non-compete clause that requires each 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. The Management Board members are paid a monthly base salary indexed to the Israeli consumer price index and further participate in a bonus pool equal to 7% of the Company's pre-tax profit before the bonus which is paid out on an annual basis. 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.

As the bonus pool equals 7% of the Company's pre-tax profit (before the bonus) the relative significance of the variable component in the total remuneration for the Management Board members can vary from year to year depending on the achieved pre-tax profit. The Supervisory Board is of the opinion that the current remuneration structure including the variable component thereof is appropriate for the Company in its present phase as it aligns the interests of the shareholders and the interest of the Management Board and incentivises management to focus on realising the Company's strategy and its longer term success.

In addition, under the terms of the employment contracts, the members of the Management Board are entitled to a use of 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.
Under the Plan, options may be granted to purchase up to 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.
Commencing 1 January 2009, the annual remuneration of each member of the supervisory board will be increased to EUR 12,500. The chairman of the audit committee will receive an additional EUR 5,000 per year and the chairman of each other committees will receive an additional EUR 2,500 per year.

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, Romania and Israel. 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 6 March 2009, the market price was PLN 15.5 (EUR 3.29) per share, giving the Company a market capitalization of EUR 167 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, as of March 6, 2009, operates 469 screens in 47 cinemas (out of total of 572 screens), in Poland Hungary, the Czech Republic, Bulgaria and Romania. This is an increase of 46 screens and 4 cinemas in the region from last year at this time. The Company continues to have significant expansion plans for Central Europe, mainly in Poland and Romania, but also in Hungary, the Czech Republic and Bulgaria. In addition to Central Europe, the Company is one of the two leading motion picture exhibitors in Israel, operating 113 screens in 16 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 well over 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.

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, to consider growth opportunities in new geographies in Europe when they present themselves and to strengthen 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 screen advertising and film and DVD distribution. The Company plans to continue developing its film related activities, mainly in Central Europe, and believes these operations will continue to play a key role in achieving the Company's objectives. 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 twelve months ended 31 December 2008

Economic environment

Central and Eastern Europe have undergone a massive economic transformation over the past 10 years that has brought about rapid modernisation, an improvement in living standards and a significant increase in disposable income per capita. This process has been only accelerated for those countries that have gained full membership into the European Union and are in the process of converting their financial systems into euro-based economies. During the past year, the real estate market in the region has been the most negatively impacted by the financial crisis that has swept through the United States, Western Europe and much of the rest of the developed world. Most recently, concerns about over lending by the regional banks has led to significant devaluation of many of the local currencies. Through the end of 2008 and early into 2009, however, the Company has not seen any negative impact on its theatre admissions as a consequence of the current economic environment. The Company continues to believe that in the long run, economically and demographically Central and Eastern Europe will continue to be very favourable regions for future development, as these regions move ahead in closing the economic gap with the rest of Western Europe.

Nonetheless, the recent economic upheaval has proven to be very challenging in connection with managing foreign exchange risk as the past year revealed unusual volatility in currency exchanges. For the most part, this is not a significant concern for the overall financial health of the Company because while it realises income in local currencies, it also incurs most of its costs in local currencies as well. However, some of the Company's long term leases are denominated either in US dollars or in Euros and the Company reports is results overall in Euros. As a result, the Company can be negatively impacted by devaluation of the local currencies against the Euro and the dollar. In order to minimise this impact, the Company has entered into currency hedge contracts to protect its currency exposure. The Company currently has contracts in place for both 2009 and 2010, and believes these contracts will mitigate in large part any volatility in its local currencies for these two years. The Company will evaluate during the course of 2009 whether it should consider acquiring new hedging instruments for 2011 and beyond.

In addition, because the Company reports its financial results in Euros, even with the benefit of the currency hedges, the Company's absolute numbers may be impacted by a significant devaluation. For example, the Company revenues reported in Euros may decrease as and when the Company's major local currencies, such as the Polish zloty, are devalued against the Euro.

Cinema market

In spite of the economic downturn throughout Central and Eastern Europe, the Company continues to believe that the movie exhibition market will continue to grow in the region for a number of reasons. First, throughout these territories, there continues to be a very low supply of quality cinemas per capita – the multiplex screen density in the Company's markets of operation in Poland, Hungary and the Czech Republic in comparison to Western Europe remains relatively low, while the multiplex penetration in Romania and Bulgaria compared to Western Europe remains particularly low. Second, per capita income has grown rapidly in the region over the past decade, and, in spite of the current downturn, these populations continue to have significantly more disposable income than they had a few years ago. Third, over the past decade, Central Europe has begun to develop a "movie going" culture that has been reflected in increasing year over year multiplex admissions. Fourth, movies are a relatively inexpensive form of outside entertainment, and the Company has found through the years that economic downturns have tended to have a relatively small impact on movie going habits, and indeed, in some cases has resulted in increased movie admissions. As a result, the Company remains overall "bullish" in its approach to developing theatres in its countries of operations.

Competitive environment

Poland

Cinema City remains the clear leader in the Polish movie exhibition market. As of 31 December 2008, the Company operated 278 screens, and had in 2008 a 34.7% share of the total market as measured by admissions (not including the IMAX® theatres) and a 42.1% share of multiplex admissions. Moreover, the Company has a leading position in Warsaw, currently accounting for over 55% in market share for admissions in the metropolitan region.

2008 was a year of consolidation in the Polish movie exhibition market. All four of Cinema City's main competitors were involved in merger transactions. Multikino acquired Silver Screen and Helios purchased Kinoplex. As a result, the Company now has two main competitors – Multikino (19 theatres) and Helios (17 theatres) – in the Polish market.

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

Hungary

At 31 December, 2008, The Company was the largest exhibitor in Hungary in number of screens (102 screens). The Company, which last year had an approximate 32% share of the Hungarian market, has historically operated its multiplexes primarily in the secondary cities outside of Budapest. In January 2008, the Company opened a 22-screen multiplex and an IMAX® theatre in the Arena shopping mall in Budapest, which is one of the largest shopping centres in all of Central-Eastern Europe, and by doing so began to execute on its strategy to have a major presence in the capital city as well. Towards the end of 2009 the Company plans to open an additional 13-screen multiplex in a new shopping mall in Budapest. This will help to secure the Company's leading position in Budapest as well.

The main competitors in Hungary are Palace Cinemas (95 screens) and Budapest Film (18 screens).

Apart from being the market leader in the movie exhibition industry in Hungary, Cinema City owns and operates the leading cinema advertising sales house, New Age Media, and is a major film distributor through its Forum Film Hungary subsidiary. Forum Film Hungary is the exclusive distributor of Buena Vista International, distributing movies of Disney and Touchstone. In addition, Forum Film Hungary distributes films from Spyglass and several other independent producers. The Company is also active in DVD distribution in Hungary. The Company's distribution entity is the exclusive distributor of films on DVDs for two major US studios: Warner Bros and Sony (Columbia), as well as a number of smaller studios.

Czech Republic

Cinema City is one of the largest cinema operators in the Czech Republic with a strong presence in Prague. As of 31 December 2008, the Company operated 38 screens, and had a 12% share of the total market as measured by admissions (not including the IMAX® theatres) and a 21% share of multiplex cinemas.

The cinema market in the Czech Republic outside Prague has been relatively undeveloped. In 2008, the Company began to penetrate this market with the opening of a multiplex in the city of Pilzen (one of the Czech Republic's larger secondary cities) and in Pardubice, a smaller city some 100 kilometres from Prague.

The Company's main competitors in the Czech market are Palace Cinemas 56 screens, Cinestar 61 screens and Village Roadshow 22 screens.

In addition to its cinema operations, in 2007, the Company established a Czech DVD distribution business and began to distribute DVDs for Buena Vista International in the Czech Republic. In June 2008, the Company established in the Czech Republic a wholly-owned local screen advertisement company called New Age Media and has begun to offer advertisement services throughout the country.

Bulgaria

The cinema exhibition market in Bulgaria remains relatively underdeveloped. The Company currently operates one 13 screen modern multiplex cinema and IMAX® theatre in Bulgaria, located in the Mall of Sofia, Sofia. In the first quarter of 2009, the Company plans to open a second multiplex in a new shopping mall developed by the Company in the city of Plovdiv. The Company has signed contracts for a number of additional multiplexes, which it plans to open in the coming 3 years. The Company's main strategy to date in Bulgaria has been to acquire and develop mall projects, sell them upon completion, while maintaining a favourable long term lease on the multiplex facility in the mall. In addition, the Company is in the initial stage of commencing screen advertising and film distribution activities in Bulgaria.

Romania

Cinema City is the largest operator of multiplex theatres in Romania. The Company currently runs 4 modern multiplexes, two of which were opened in November 2007, one in October 2008, and one in January 2009. The Company has entered into 29 lease agreements to open an additional 280 screens in the country over the next 3 years.

Romania is the largest underdeveloped movie theatre market in Central Europe. With admissions per capita at about 0.15, one of the lowest rates in all of Europe, the Company believes that Romania, with over 20 million people and with an emerging growth economy, presents a very compelling opportunity for the Company.

Lack of investment in cinemas through the years led to a dramatic decrease in the number of cinema screens. Old cinemas were closed down and admissions decreased dramatically. Outside of Cinema City's recent activity, the country currently has very few multiplexes. Two of the country's multiplexes are owned by a private company, Hollywood Multiplex Romania, which operates one multiplex in Bucharest with 10 screens and another one in the city of Oradea with 5 screens, as well as a single screen cinema in

Bucharest. In addition, there are approximately 75 single screen cinemas in Romania, most of which are state-owned.

Apart from being the market leader in the movie exhibition industry in Romania, in 2008 Cinema City established a local New Age Media subsidiary to capture the nascent screen advertising market.

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 31 December 2008, the Company is the largest cinema operator in Israel, based on number of theatres (113 screens in 16 theatres). Globus is the second largest operator with 113 screens in 15 theatres.

The Company is in the midst of an ongoing process to modernise and upgrade its Israeli chain, and strengthen its position in the Israeli market, through the closing of its smallest and oldest multiplexes whilst opening modern state-of-the-art larger multiplex theatres. To that end, in July 2008, the Company opened a 23 screen multiplex in Haifa, Israel. This is the second of the Company's new generation of "Planet" theatres in Israel, and has already begun to demonstrate the same success as the Company's "Yes" sponsored Planet theatre that was opened in Ramat Gan in 2006. In parallel to the Haifa opening, per the Company's original plan, the Company closed its three older cinemas in Haifa, with a total of 15 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 in the distribution business is Globus which, through its own distribution channel, acts as a distributor for Warner and UIP. Other players in the cinema market in Israel include Lev Cinemas and Cinema City (a brand registered by a competitor).

The Company is also actively involved in pursuing the growing screen advertising market in Israel.

Business highlights during 2008

The twelve months ended 31 December 2008 was a successful year for the Company, with revenues, EBITDA (Earnings Before Interest, Taxation, Depreciation and Amortization) and net income all having increased in comparison to the twelve months ended 31 December 2007 (which itself was also a strong year). Consolidated EBITDA increased from EUR 33.9 million in 2007 to EUR 41.0 million in 2008. Net income increased from EUR 16.6 million in 2007 to EUR 17.7 million in 2008.

The Company's theatre operations performed well during the twelve months ended 31 December 2008, supported, mainly by the continued growth of the Company's cinema activities. The new screens the Company opened during 2007 had their first full year of operations in 2008, which, together with the opening of new theatres in 2008 comprising 23 screens in Budapest (Hungary), 10 screens in Pilzen (the Czech Republic), 13 screens in Bydgoszcz (Poland), 9 screens in Zielona Gora (Poland), 6 screens in Modiin (Israel), 23 screens in Haifa (Israel) and 10 screens in Cluj (Romania), all of which opened during 2008, added to the positive results of the Company's theatre operations, both in terms of number of admissions sold and in EBITDA.

Directors' report

During the year, the Company continued to close older theatre operations in sites where newer multiplexes were being opened and in selected locations where performance did not meet up to the Company's expectations.

The Company's real estate activities continued to contribute to the Company's results during the year ended 31 December 2008, primarily driven by the revaluation of the Company's long-term interest in the Mall of Russe to its increased fair market value.

Theatre operation activities

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

In March 2008, the Company opened a 10-screen multiplex site in Pilzen in the Czech Republic.

Also In March 2008, the Company closed its 8 screen multiplex in the Arena mall in Herzelia, Israel. Unlike previous closures, Arena was not closed for obsolescence, but rather because the mall owner, which is a third party, was interested in using the multiplex space for other purposes and offered the Company compensation in return for an early termination of the lease. As the Company owns a second multiplex in the same city, it accepted the mall owner's offer. The compensation was included in Revenues from Theatre Operations, and therefore contributed to the results of the year. In a similar vein, the Company's revenues from theatre operations for the year ended 31 December, 2007, included compensation for the termination of the lease agreements in two Polish theatres that were under dispute.

In April 2008, the Company opened a 13 screen multiplex in Bydgoszcz, Poland.

In June 2008, the Company opened a 6 screen multiplex in Modiin, Israel.

In June 2008, the Company closed a 7 screen multiplex in Csepel, Hungary, with the expiration of its 10-year lease agreement that had commenced in December 1997 and was extended for 6 months past its original term. The Company decided not to extend the lease in the light of the new megaplex which the Company had opened in Budapest earlier in the year and the relatively poor performance of this older multiplex in 2007.

In July 2008, the Company opened a 23 screen multiplex in Haifa, Israel. At the time the new Haifa theatre opened, as planned, the Company closed its three older cinemas in Haifa, with a total of 15 screens, thereby creating a net increase of 8 screens in Haifa.

In September 2008, the Company closed a 4 screen multiplex in Netanya, Israel. The theatre in Netanya opened in 1989. Its original lease was extended in 1999 for a second 10-year period, which was expected to end in February 2009. However, due to the recent relative low performance of this cinema, the Company agreed with the landlord on a slightly early termination of the lease at the end of August 2008 (which coincided with the end of the strong summer movie season).

In October 2008, the Company opened a 9 screen multiplex in Zielona Cora, Poland and a 10 screen multiplex in Cluj, Romania.

Directors' report

In December 2008, the Company closed a 5 screen multiplex in Prague, the Czech Republic. The performance of this multiplex was disappointing, and the Company used the option under the lease agreement to close the cinema after two consecutive years of disappointing results.

The Company's total screen count at 31 December 2008, taking into account the above openings (and closings) is 566 (including 8 IMAX® theatres), as compared to 511 screens (including 7 IMAX® theatres) at 31 December 2007.

In January 2009, the Company opened an 8 screen multiplex in Pardubice, the Czech Republic and an 8 screen multiplex in Bacau, Romania.

Digital Projection

In a number of the Company's newest multiplexes opened during 2008, including in Budapest, Hungary and Haifa, Israel, and in some of the Company's existing leading multiplexes, the Company has begun to install state-of-the-art digital projectors. Currently, the Company has installed 60 such projectors, and intends to install up to 50 more projectors in its leading multiplexes throughout its cinema chain by the end of 2009. The digital projectors will provide higher quality, sharper resolution viewing experience, the ability to display new generation of 3D movies and the possibility to show alternative content like Operas, Ballet, leading concerts and sport events from the leading theatres and places in the world. In this regard, during 2008 the Company signed a distribution agreement for such alternative content, with Digiscreen, which is distributing among other things the content from The Royal Opera House in London. The Company believes that in the long term, digital technology can help reduce cinema labor costs as digital projectors require less ongoing manpower than traditional reel to reel projectors.

Cinema Park

Over the past two years, the Company piloted a project in one of its Warsaw multiplexes called "Cinema Park". The pilot provided school groups with special programs in the cinemas that were mainly run during the less busy times in the multiplexes – during weekday mornings and afternoons. As the pilot project proved successful, the Company plans to open at least one more Cinema Park, in the Polish city of Poznan during 2009.

Film distribution activities/ DVD rental-sale activities

Over the past several years, the Company has begun to aggressively pursue the DVD distribution business in each of its territories of operations. The Company believes this is an important component to its offering as a full service movie entertainment company in each country in which it operates.
During the twelve months ended 31 December 2008, the Company's film distribution business benefited from the expansion of its DVD distribution activities to the Czech Republic. The Czech DVD distribution business, which had been established and commenced operation during the second half of 2007, focuses mainly on distributing DVDs for Buena Vista International Pictures. Moreover, total film distribution operations EBITDA and net income also increased during the twelve months ended 31 December 2008 in comparison to the twelve months ended 31 December 2007.
In 30 October 2008, the Company, together with its 50% joint venture partner, sold its Israeli video and DVD film rental and sale business, which had been conducted through Blockbuster Israel. NMC-United purchased the business for NIS 6.8 million (approximately EUR 1.4 million). Following the sale the Company ceased this line of activity, which had become increasingly immaterial to the Company's overall operations in recent years. For the financial year 2008, the business accounted for less than 2% of the Company's total revenues.

Real estate activities

The Company's real estate operation consists mainly of three projects in Bulgaria: the Malls of Plovdiv, Russe and Stara Zagora.

The Mall of Plovdiv is close to completion, and is scheduled to open in March 2009. It will comprise 25,000 square meters of leasable space, including an 11 screen multiplex. In August 2007, the Company sold half of its then 30% interest in the Mall of Plovdiv. In accordance with the agreement signed in August 2007 (the "Agreement"), the Company's then remaining 15% holding in the Mall of Plovdiv will be sold to the same buyers based on an agreed formula prior to the opening. Subsequently in September 2008 (see below), as part of it's acquisition of various properties from Ocif eastern Europe ltd ("Ocif"), the Company purchased an additional 15% interest in the Mall of Plovdiv. Such interest will be sold to the same buyers on the same terms and conditions set forth in the Agreement.

The construction of the Mall of Russe commenced in the second half of 2008. As of the end of 2008 close to 50% of the mall's leasable space was already pre-leased. The shopping centre will comprise 35,000 square meters of leasable area and will include a multiplex. Cinema City's 2008 results were also positively impacted by the Company's previously disclosed revaluation of its investment in the Mall of Russe, which accounted for EUR 6,845,000 in revenue.

In July 2008, the Company finalized the purchase of 55% of the equity in the Mall of Stara Zagora (M.O. Stara Zagora OOD), which included the 27.5% interest that was initially to be purchased by its original partner Ocif. The other 45% of the Mall of Stara Zagora's equity is still held by the original shareholders of the local company. The total purchase price was EUR 5.4 million. The Stara Zagora project includes a plot of land that will be used for the construction of a shopping mall with a Cinema City multiplex located therein.

In September 2008, the Company completed its EUR 18 million acquisition from its former partner, Ocif, of its 15% interest in the Mall of Plovdiv and its 45% interest in the Mall of Russe. With the closing of the transaction, the Company increased its interest in the Mall of Plovdiv from 15% to 30%, and its interest in the Mall of Russe from 45% to 90%. In October 2008, the Company purchased the remaining 10% in the Russe project from the minority partner for a price of EUR 3 million pursuant to an option arrangement that the parties put in place at the time of the original land purchase in July 2007.

The transaction with Ocif in September 2008 was driven by Ocif's failure to satisfy certain commitments to the Company (including meeting payment deadlines) under the Bulgarian partnership agreement, and the Company's subsequent decision to buy out Ocif's interest because of ongoing concerns on Ocif's ability to meet future obligations. Management currently plans to seek a new joint venture partner to replace Ocif in the Stara Zagora and the Russe projects with an equal shareholding.

Considering the Company's decision to hold its initial interest in these Bulgarian shopping mall projects as investments for the foreseeable future and to benefit from future rental income out of the shopping mall once completed and from its capital appreciation, the 27.5% long-term interest in Mall of Stara Zagora and the 45% long-term investment in Mall of Rouse are now accounted for under investment properties (land portion) and property and equipment (construction part), respectively. The other half of the interests in the Mall of Stara Zagora and in the Mall of Russe which the Company is seeking to sell to a new partner as well as the entire 30% interest in the Mall of Plovdiv, which is to be sold prior to the opening of the mall (expected opening in the spring of 2009), are carried in the consolidated balance sheet as "held for sale".

Overview of results

The Company's net income for 2008 was EUR 17,656,000. An analysis of net income is shown below.

	For the year ended 31 December 2008	2007 restated [1]
	EUR (thousands, except per share data)	
Revenues	**189,051**	157,449
Operating costs, excluding depreciation and amortisation	**137,491**	115,214
Gross result	**51,560**	42,235
General and administrative expenses	**10,608**	8,385
EBITDA [2]	**40,952**	33,850
Depreciation and amortisation	**17,757**	14,563
Operating profit	**23,195**	19,287
Financial income	**1,849**	1,557
Financial expenses	**(4,868)**	(5,042)
Loss on disposals, write-off of other investments and other costs	**(197)**	(416)
Net income before taxation	**19,979**	15,386
Income tax (expense)/benefit	**(1,914)**	575
Net income from continuing operation	**18,065**	15,961
Discontinued operation		
Loss from discontinued operation	**(1,891)**	(371)
Net income before minority interests	**16,174**	15,590
Minority interests related to continued operation	**264**	784
Minority interests related to discontinued operation	**1,218**	250
Net income attributable to equity holders of the parent company	**17,656**	16,624
Net earnings per ordinary share of EUR 0.01 each (basic and diluted)	**0.35**	0.33

[1] Reclassified to show the discontinued operation of DVD and Video rental business separately from the continuing operations.

[2] 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 20.1% from EUR 157.4 million during the year ended 31 December 2007 to EUR 189.1 million during the year ended 31 December 2008.

Theatre operating revenues increased by 24.7% from EUR 124.1 million during the year ended 31 December 2007 to EUR 154.7 million during the year ended 31 December 2008. The increase in theatre revenues mainly resulted from an increase in the number of admissions, driven mainly by the contribution of new cinemas opened in 2007 and in 2008, and an increase in sales of cinema advertising mainly in Poland, Hungary and Romania.

Distribution operating revenues increased by 6.5% from EUR 23.0 million during the year ended 31 December 2007 to EUR 24.5 million during the year ended 31 December 2008. This can be explained as the net effect of the commencement of the distribution activities in the Czech Republic during the second half of 2007 having a full first year of activities in 2008 and an increase in revenues in Poland due to strong supply of movies, partly offset by a reduction in distribution revenue in Hungary.

Other revenues, which include real estate activities, decreased by 4.8% from EUR 10.4 million during the year ended 31 December 2007 to EUR 9.9 million during the year ended 31 December 2008. This was mainly attributed to the fact that the revenue generated from the revaluation of the Company's interest in the Mall of Russe was lower than the revenue generated from the sale of the first 50% of the Mall of Plovdiv during 2007. The contribution of the above revaluation to the profit remained, however, at a similar level to the contribution from the above sale.

Operating costs

Operating costs, excluding depreciation and amortization, increased by 19.4% from EUR 115.2 million during the year ended 31 December 2007 to EUR 137.5 million during the year ended 31 December 2008. 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 increased slightly to 74.0% for the year ended 31 December 2008, from 72.8% for the year ended 31 December 2007; and

- an increase in distribution operating expenses as result of increased revenue. Distribution operating expenses, excluding depreciation and amortization, as a percentage of total distribution revenue decreased to 91.9% for the year ended 31 December 2008, from 93.3% for the year ended 31 December 2007.

General and administrative expenses

General and administrative expenses increased by 26.2% from EUR 8.4 million for the year ended 31 December 2007 to EUR 10.6 million during the year ended 31 December 2008. General and administrative expenses as a percentage of total revenue increased only slightly to 5.6% for the year ended 31 December 2008, from 5.3% for the year ended 31 December 2007. The increase was mainly a result of the increase in the size of the operation in Poland, the first full year of revenue generating theatre activities in Romania and DVD distribution activities in the Czech Republic, and the increase in the size of the real estate activities in Bulgaria.

EBITDA

As a result of the factors described above, the Earnings before Interest Tax Depreciation and Amortisation (EBITDA) increased by 20.9% from EUR 33.9 million for the year ended 31 December 2007 to EUR 41.0 million for the year ended 31 December 2008.

Depreciation and amortisation

Depreciation and amortisation expenses increased by 21.9% from EUR 14.6 million for the year ended 31 December 2007 to EUR 17.8 million for the year ended 31 December 2008. This was primarily due to the commencement of operations of the Company's new multiplexes added during 2007 and 2008 and also due to the additional write-offs of fixed assets related to the closing of the Arena Multiplex in Israel during the year 2008.

Operating profit

As a result of the factors described above, the operating profit increased by 20.2% from EUR 19.3 million during the year ended 31 December 2007 to EUR 23.2 million during the year ended 31 December 2008.

Financial income/expense

The balance of financial income and expenses resulted in a net expense of EUR 3.0 million during the year ended 31 December 2008 compared to a net expense of EUR 3.5 million during the year ended 31 December 2007. During 2008 the Company secured additional bank loans in order to finance its real estate investment activities in Bulgaria and the construction of new cinemas, primarily in Romania, Poland and Israel. Since the increase in the bank debt costs were mainly capitalized directly to the investments, a net financial expense was not increased. The decrease in net financial expenses was mainly due to exchange rate changes.

Disposals, write-off of other investments and other costs

Loss on disposals, write-off of other investments and other costs decreased to EUR 0.2 million during the year ended 31 December 2008 from EUR 0.4 million during the year ended 31 December 2007.

Income tax

The income tax expense as a percentage of profit before income tax was 9.6% for the year ended 31 December 2008 compared to a 0.4% benefit for the year ended 31 December 2007. The income tax benefit in 2007 was partly due to utilization of tax losses carried forward from previous years against current taxable income in Poland, and partly to recognizing tax losses from previous years available for carry forward as deferred tax assets. Such was done based on Management's estimation that these can be used to set off future taxable income in Poland. No such tax losses have been recognized as deferred tax assets in 2008. The 2008 tax expense is mainly due to classification of local and cultural taxes in Hungary to income tax, and due to realisation of deferred tax liabilities in relation to the revaluation of the Company's investment in the Mall of Russe in Bulgaria.

Minority interests

Minority interests for the year ended 31 December 2008 and 31 December 2007 was comprised of the share of minority shareholders in losses from subsidiaries that are not 100% owned by the Company (EUR 1.5 million and EUR 1.0 million respectively).

Net income

As a result of the factors described above, the Company realized a net income of EUR 17.7 million during the year ended 31 December 2008 compared to net income of EUR 16.6 million during the year ended 31 December 2007.

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 29.7 million and EUR 28.8 million for the years ended 31 December 2008 and 2007, 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 18.4 million and EUR 15.4 million in 2008 and 2007, 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 77.2 million and EUR 35.1 million during 2008 and 2007, respectively. The Company has funded its capital expenditures principally from cash flow generated by its operating activities and bank borrowings.

Cash flows from financing activities

The Company's net cash flow provided by financing activities for the year ended 31 December 2008 amounted to EUR 50.2 million which compares to a net cash outflow used in financing activities during the year ended 31 December 2007 of EUR 38.9 million. The large amount of cash flow provided by financing activities for the year ended 31 December 2008 is mainly explained by the proceeds from new long term loans assumed (EUR 37.8 million) partly offset by a repayment of long term loans (EUR 4.6 million). The cash outflow in respect of financing activities for the year ended 31 December 2007 is mostly explained by the repayment of long term loans (EUR 57.4 million) partly offset by proceeds from new long term loans assumed (EUR 19.6 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.

Debt and operational debt

As of 31 December 2008, the Company's total debt to banks amounted to EUR 101.4 million (31 December 2007: EUR 53.4 million). Taking into account the Company's available cash position at 31 December 2008 amounting to EUR 11.8 million (31 December 2007: EUR 8.0 million), the net debt position of the Company amounted to EUR 89.6 million at the end of 2008 (end of 2007: EUR 45.4 million). Out of this net debt, EUR 5.2 million has been used to finance non-operational assets and EUR 56.1 million in real estate under development. The Company's non-operational assets consist mainly of investments in theatres under development (EUR 1.7 million) and investments in non-operational IMAX® and cinema equipment (EUR 3.5 million). The Company's real estate under development consists of investment in the real estate projects in Bulgaria namely Mall of Plovdiv, Mall of Russe and Mall of Stara Zagora.

Employees

The average number of personnel employed by the Company and its subsidiaries – on a fulltime equivalent basis – increased from 1,617 in 2007 to 1,943 in 2008. 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 and Hungary.

Outlook for 2009

In spite of the challenging economic environment throughout the Company's countries of operation, 2009 has started well, with a strong supply of movies supporting solid results in the majority of the Company's territories. In January 2009, Cinema City opened two multiplexes, one in Romania and one in the Czech Republic. A third one is scheduled to open in Plovdiv Bulgaria in March.

The Company is currently planning to open an additional 10 multiplexes with 113 screens during the rest of 2009, including 4 theatres (44 screens) in Poland, 5 theatres (55 screens) in Romania and 1 theatres in Hungary (14 screens). In addition, the Company continues to progress in signing additional lease agreements for future multiplexes in Romania. The Company currently has binding commitments for an additional 29 sites (representing approximately 280 screens) throughout Romania, and is in advanced negotiations in respect of a further number of sites

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. As previously noted, because the mall opening dates are dependent on the mall developers and there is a continuing tendency in the Romanian market to complete mall construction behind schedule, it remains difficult for the Company to accurately estimate the opening dates of its projects.

This issue has been particularly exacerbated by the slowdown in real estate development brought on by the worldwide financial and real estate crisis. As a result of this crisis, there is an increased risk that the construction of some of the malls for which lease agreements have already been signed will not commence or will not finish. While the Company believes that most of the signed contracts will result in the planned multiplexes opening, because in most cases the Company has not entered into definitive agreements until very close to the scheduled openings, the risk that any mall may not be built is clearly heightened in this market environment. Nonetheless, the failure to complete any particular mall project or even a number of projects will not have a material negative impact on the Company's ongoing operations, since such a failure would not pose a financial risk to the Company. If malls are delayed or cancelled, only the rate of the Company's growth would likely be impacted.

While the Company's management currently believes that the existing trends supporting strong admissions will continue for the foreseeable future, there can be no assurance that the Company will not be materially adversely impacted if the financial crisis continues to deepen. A sustained economic downturn could result in a material drop in "mall" traffic, which has historically supported theatre admissions. In addition, if consumers have considerably less disposable income, discretionary entertainment choices, such as movie going, could be adversely impacted. Even if movie going itself is not materially adversely impacted, movie goers could determine to spend less money at the Company's high-margin concession stands. Moreover, advertisers could decrease their use of the Company's expanding theatre and screen advertising services.

Management has noted, however through the years that during economic downturns, movie going often increases. Consumers desire to spend their smaller pools of discretionary funds on relatively inexpensive forms of "escapist" entertainment such as movie going. For example, through mid-February 2009, the United States movie industry reported record attendance, with movie receipts more than 20% ahead of 2008, which itself was a record setting year. The Company has also seen its own very strong admissions trends through mid-February 2009 and as of the date of this report has not seen evidence of any downturn resulting from external economic factors.

Additional information to the report

Major shareholders

To the best of the Company's knowledge and in accordance with official notifications received by the Company as of the date of publication of the annual report for the year ended 31 December 2008 (11 March 2009), the following shareholders are entitled to exercise over 5% of voting rights at the General Meeting of Shareholders in the Company:

	As of 11 March 2009 Number of shares/% of shares	**Increase/ (decrease) Number of shares**	**As of 31 December 2008 Number of shares/% of shares**	**Increase/ (decrease) Number of shares**	**As of 31 December 2007 Number of shares/% of shares**
I.T. International Theatres Ltd. (1)	32,709,996 / 64.35%	-	32,709,996 / 64.35%	109,000	32,600,996 / 64.13%
Commercial Union Powszechne Towarzystwo Emerytalne BPH CU WBK SA	5,236,369 /10,30%.	-	5,236,369 /10,30%.	5,236,369	n.a.
ING Nationale-Nederlanden Polska Otwarty Fundusz Emerytalny	2,700,000 / 5.31%	-	2,700,000 / 5.31%	-	2,700,000 / 5.31%
BZ WBK TFI SA(2)	2,661,049 /5.23%	-	2,661,049 /5.23%	2,661,049	n.a.
BZ WBK AIB Asset Management SA(2)	2,542,345 / 5.00%	-	2,542,345 / 5.00%	2,542,345	n.a.

(1) In addition, Israel Theatres Ltd, the shareholder who holds 100% of I.T. International Theaters Ltd., holds 104,988 shares in Cinema City International N.V. (representing 0.2% of the shares).

(2) BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych SA, with its registered office in Poznań has engaged BZ WBK AIB Asset Management S.A. to manage the investment funds until now managed by the BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych SA ("Funds"). Consequently, should it transpire that the Funds hold shares in Cinema City International NV and BZ WBK AIB Asset Management S.A. undertakes to incorporate them in any notification

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 during 2008 and until the date of publication of the report

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

	As of 11 March 2009 Number of shares/ % of shares	**Increase/ (decrease) Number of shares**	**As of 31 December 2008 Number of shares/ % of shares**	**Increase/ (decrease) Number of shares**	**As of 31 December 2007 Number of shares/ % of shares**
Moshe Greidinger*	11,603,379 / 22.83%	-	11,603,379 / 22.83%	73,940	11,529,439 / 22.68%
Amos Weltsch	none	-	none	-	none
Israel Greidinger*	11,603,379 / 22.83%	-	11,603,379 / 22.83%	73,940	11,529,439 / 22.68%

*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 2007 until 11 March 2009.

Changes in ownership of shares and rights to shares by Supervisory Board members during 2008 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 2008 until 11 March 2009.

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
- The inability of the Company's mall development partners to build or complete mall projects could adversely affect the Company's ability to effectively pursue its business strategy

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

Statement relating to the system of internal control

In line with best practice provision II.1.4 of the Dutch Code and bearing in mind the recommendations of the Monitoring Committee Corporate Governance Code, the Company issues a declaration about the effectiveness of the system of internal control of the processes on which the financial reporting is based.

In 2008, the Management Board assessed the effectiveness of the system of internal controls for financial reporting. During the investigation on which this assessment was based, no shortcomings were identified that might possibly have a material impact on the financial reporting. On the basis of the results of the above assessment and the risk analyses that were carried out at the Company within the framework of governance and compliance, the Management Board is of the opinion - after consulting with the Audit Committee and with the approval of the Supervisory Board - that the system of internal controls provides a reasonable degree of certainty that the financial reporting contains no inaccuracies of material importance. An inherent element in how people and organisations work together in a dynamic world is that systems of internal control cannot provide an absolute degree (though they can provide a reasonable degree) of certainty as regards the prevention of material inaccuracies in the financial reporting and the prevention of losses and fraud.

In our view the system of internal controls, focused on the financial reporting, functioned effectively over the past year. There are no indications that the system of internal controls will not function effectively in 2009.

Additional information to the report (cont'd)

Representation concerning financial statements and report of the Management Board

The Management Board confirms that, to the best of its knowledge, the consolidated financial statements, together with comparative figures, have been prepared in accordance with applicable IFRS. The consolidated financial statements, together with the stand alone company financial statements give a true and fair view of the state of affairs of the Group at 31 December 2008 and of the net result for the period then ended.

The management board report in this annual report gives a true and fair view of the situation on the balance sheet date and of developments during the financial year, and includes a description of the 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.

Other

As of 31 December 2008, the Group has issued guarantees for loans that in total amount to EUR 12 million and PLN 115.5 (EUR 27.8) million in connection with loans provided to subsidiaries.

As of 31 December 2008, 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 2008:

- an increase in the provision for deferred tax liabilities of EUR 1,364,000.
- an increase in the provision for accrued employee retirement rights of EUR 129,000.
- a decrease in the provision related to onerous lease contracts of EUR 1,608,000.

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, 11 March 2009

To: The Annual General Meeting of Shareholders of Cinema City International N.V.

AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying 2008 financial statements of Cinema City International N.V., Rotterdam as set out on pages 30 to 101. 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 2008, the income statement, statement of changes in shareholders' equity and the statement of cash flows 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 2008, the company income statement, statement of changes in shareholders' equity and the statement of cash flows for the year then ended and the notes**.**

Management's responsibility

Management 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 whether 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 2008, and of its result and its cash flows 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 2008, 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 f of the Netherlands Civil Code, we report, to the extent of our competence, that the directors' report set out on pages 10 to 27 is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 11 March 2009

KPMG ACCOUNTANTS N.V.

P. Mizrachy RA

Consolidated Balance Sheet

	Note	31 December 2008	2007 *
		EUR (thousands)	
ASSETS			
NON CURRENT ASSETS			
Intangible assets	6	**1,285**	1,041
Property and equipment	7	**185,474**	183,239
Deferred tax assets	29	**1,055**	1,210
Investment properties	8	**26,407**	12,017
Foreign currency exchange contracts	31	**1,894**	-
Total non current assets		**216,115**	197,507
CURRENT ASSETS			
Inventories	9	**4,859**	4,380
Receivables			
Trade accounts receivable	10	**16,415**	13,392
Receivable from related parties	30	**750**	299
Income taxes receivable		**355**	876
Other accounts receivable and prepaid expenses	11	**14,294**	16,084
Total receivables		**31,814**	30,651
Financial assets			
Foreign currency exchange contracts	31	**1,179**	-
Marketable securities		**1,358**	60
Assets classified as held for sale	12	**33,564**	2,400
Total financial assets		**36,101**	2,460
Liquid funds			
Cash and cash equivalents	13	**11,780**	8,012
Short-term bank deposits – collateralized	14	**345**	349
Short term bank deposit		**591**	-
Total liquid funds		**12,716**	8,361
Total current assets		**85,490**	45,852
TOTAL ASSETS		**301,605**	243,359

The notes on pages 36 to 93 are an integral part of these consolidated financial statements.

* Restated to reflect the reclassification of a jointly controlled entity as held for use (see Note 4A)

Consolidated Balance Sheet

	Note	31 December 2008	2007 *
		EUR (thousands)	
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY	15		
Share capital		**508**	508
Share premium reserve		**90,377**	90,377
Accumulated currency translation adjustment		**(4,852)**	11,605
Hedge reserve		**2,483**	-
Retained earnings		**71,510**	53,681
Total equity attributable to equity holders of the Company		**160,026**	156,171
Minority interests	17	**(3,483)**	(1,908)
Total equity		**156,543**	154,263
NON CURRENT LIABILITIES			
Long-term loans, net of current portion	20	**67,182**	34,802
Accrued employee retirement rights, net	18	**346**	217
Deferred tax liabilities	29	**3,332**	1,968
Provision related to onerous lease contracts	19	**1,957**	3,565
Financial lease	23(1)h	**1,398**	1,467
Other long-term payables		**1,828**	1,070
Total long-term liabilities		**76,043**	43,089
CURRENT LIABILITIES			
Short-term borrowings	21	**34,177**	18,575
Trade accounts payable		**13,007**	11,320
Payable to related parties	30	**1,334**	428
Employee and payroll accruals		**1,694**	1,543
Other accounts payable	22	**18,807**	14,141
Total current liabilities		**69,019**	46,007
Total liabilities		**145,062**	89,096
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**301,605**	243,359

The notes on pages 36 to 93 are an integral part of these consolidated financial statements.

* Restated to reflect the reclassification of a jointly controlled entity as held for use (see Note 4A)

Consolidated Income Statement

	Note	2008	2007 (*)
		For the year ended 31 December	
		EUR (thousands, except per share data)	
Continuing operations			
Revenues	25	**189,051**	157,449
Operating costs	26	**155,248**	129,777
Gross margin		**33,803**	27,672
General and administrative expenses		**10,608**	8,385
Operating profit		**23,195**	19,287
Financial income	27	**1,849**	1,557
Financial expenses	27	**(4,868)**	(5,042)
Net finance expenses		**(3,019)**	(3,485)
Loss on disposals, and write-off of other investments	28	**(197)**	(416)
Operating income before taxation		**19,979**	15,386
Income tax (expense)/benefit	29	**(1,914)**	575
Net income from continuing operations		**18,065**	15,961
Discontinued operations			
Loss from discontinued operations	24	**(1,891)**	(371)
Net income before minority interests		**16,174**	15,590
Attributable to:			
Equity holders of the Company		**17,656**	16,624
Minority interests related to continued operation	17	**(264)**	(784)
Minority interests related to discontinued operation	17	**(1,218)**	(250)
Net income before minority interests		**16,174**	15,590
Earnings per share			
Net earnings per share (basic and diluted)	16	**0.35**	0.33
Continuing operations			
Net earnings per share (basic and diluted)	16	**0.35**	0.33

The notes on pages 36 to 93 are an integral part of these consolidated financial statements.

(*) Reclassified to show the discontinued operation of DVD and Video rental business separately from the continuing operations (see Note 24)

Consolidated Statement of Changes in Shareholders' Equity

	Share capital	Share premium	Trans -lation reserve	Hedge Reserve	Retained earnings	Total	Minority interest	Total Equity
				EUR (thousands)				
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
Share based payments under the stock option plan	**-**	**-**	**-**	**-**	**173**	**173**	**-**	**173**
Net income for the year 2008	**-**	**-**	**-**	**-**	**17,656**	**17,656**	**(1,482)**	**16,174**
Foreign currency translation adjustment	**-**	**-**	**(16,457)**	**-**	**-**	**(16,457)**	**(93)**	**(16,550)**
Effective portion in fair value of cash flow hedges **	**-**	**-**	**-**	**2,483**	**-**	**2,483**	**-**	**2,483**
Balance as of 31 December 2008	**508**	**90,377**	**(4,852)**	**2,483**	**71,510**	**160,026**	**(3,483)**	**156,543**

* Represents additional costs directly attributed to the 2006 initial public offering.
** Represents changes in fair value adjustment of cash flow hedges related to part of the Company's future transactions denominated in currencies other than the functional currency (see Note 2 (O) and Note 31).

The notes on pages 36 to 93 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	For the year ended 31 December 2008	2007 *
		EUR (thousands)	
Cash flows from operating activities			
Operating profit		**23,195**	19,287
Discontinued operation adjustment to operating profit		**-**	(127)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortisation	**26**	**18,378**	15,440
Decrease in value of other assets (including write-offs)		**-**	3
Decrease in provision related to onerous lease contracts	**19**	**(1,608)**	(1,608)
Increase in accrued employee rights upon retirement, net	**18**	**115**	177
Fair value adjustment to investment property	**8**	**(6,948)**	-
Interest received		**3,251**	2,045
Interest paid		**(6,207)**	(5,714)
Income taxes paid		**(436)**	(687)
Operating income before working capital		**29,740**	28,816
Increase in inventories		**(812)**	(785)
Increase in accounts receivable		**(4,334)**	(1,539)
Increase in prepaid expenses		**(2,210)**	(246)
Decrease/(increase) in governmental institutions		**1,704**	(155)
Increase in long-term film distribution costs and deferred expenses		**(140)**	(602)
Increase in accounts payable		**6,586**	1,038
Increase in employee and payroll accruals		**136**	245
Net changes in related parties		**569**	1,522
Decrease in income received in advance		**(33)**	(90)
Equity share-based payment		**173**	300
Net cash from operating activities		**31,379**	28,504
Cash flows from investing activities			
Purchase of property and equipment and other assets **		**(39,341)**	(20,797)
Investment in intangible fixed assets	**6**	**(666)**	(686)
Investments in investment properties	**8**	**(7,442)**	(12,017)
Acquisition of Held for sale financial assets		**(3,419)**	(1,446)
Acquisition of interests in subsidiaries	**5**	**(20,990)**	-
Proceeds from disposition of property and equipment and intangible assets		**533**	1,303
Disposal of discontinued operation, net of cash disposed of	**24**	**-**	-
Short-term bank deposits - collateralized		**(587)**	(349)
Loans to unconsolidated subsidiary		**(4,310)**	238
Changes in Loans with third parties		**276**	18
Changes in marketable securities		**(1,294)**	(4)
Proceeds from sale of subsidiaries		**-**	2,517
Other long-term receivables		**-**	(3,917)
Net cash used in investing activities		**(77,240)**	(35,140)

The notes on pages 36 to 93 are an integral part of these consolidated financial statements.

* Restated to reflect the reclassification of a jointly controlled entity as held for use (see Note 4A)
** Taking into account movements in Investment creditors

Consolidated Statement of Cash Flows

	For the year ended 31 December 2008	2007 *
	EUR (thousands)	
Cash flows from financing activities		
Proceeds from new shares issued	**-**	586
Costs directly attributed to the new shares issued	**-**	(153)
Proceeds from long-term loans	**37,765**	19,570
Repayment of long-term loans	**(4,562)**	(57,360)
Increase in long-term payables	**1,032**	30
Short-term bank credit, net increase/(decrease)	**15,956**	(1,532)
Net cash provided by/ (used in) financing activities	**50,191**	(38,859)
Foreign currency exchange differences on cash and cash equivalents	**(562)**	313
Increase/ (decrease) in cash and cash equivalents	**3,768**	(45,182)
Cash and cash equivalents at beginning of year	**8,012**	53,194
Cash and cash equivalents at end of year	**11,780**	8,012

The notes on pages 36 to 93 are an integral part of these consolidated financial statements.

* Restated to reflect the reclassification of a jointly controlled entity as held for use (see Note 4A)

Note 1 - General and principal activities

Cinema City International N.V. ("the Company" or "Cinema City") 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 including its subsidiaries and joint ventures (together referred to as "the Group") and the Group's interest in associates.

The shares of the Company are traded on the Warsaw stock exchange. As at 31 December 2008, 64.35% of the outstanding shares are held by I.T. International Theatres Ltd. ("ITIT"), incorporated in Israel (31 December 2007: 64.13%).

The Group is principally engaged in the operation of entertainment activities in various countries including Poland, Hungary, the Czech Republic, 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. 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 2008.

The financial statements were authorised for issue by the directors on 11 March 2009**.**

The accounting policies set out below have been applied consistently for all periods presented in these consolidated financial statements and by all Group entities, except for derivative financial instruments (see Note 2(O)), which is applied from 1 January 2008, since the criteria for hedge accounting were not met in the financial year ended 31 December 2007.

Certain comparative amounts have been reclassified to conform to the current year's presentation (see Note 4). In addition, the comparative income statement has been represented as if an operation discontinued during the current period had been discontinued from the start of the comparative period (see Note 24).

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 except for derivatives, marketable securities and investment property that are measured 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. The functional currency for the Dutch operation is the Euro.
The financial statements of foreign operations are translated from the functional currency into euros (presentation currency) 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.

C. 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 an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.
The following accounting policies are particularly sensitive to management estimates:
- Investment property.
- Marketable securities and Assets classified as held for sale.
- Accounting for real estate transactions.
- Related parties transactions and disclosures.

D. 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.

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

D. Principles of consolidation (cont'd)

The 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 and joint ventures. 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 36 to these financial statements.

E. 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 2008	**26.64**	**267.59**	**4.15**	**1.41**	**5.30**	**4.04**
31 December 2007	26.67	255.46	3.63	1.47	5.66	3.63
Change during the period	%	%	%	%	%	%
2008 (12 months)	**(0.11)**	**4.75**	**14.33**	**(4.08)**	**(6.36)**	**11.29**
2007 (12 months)	(3.12)	1.01	(5.22)	11.36	1.80	6.45

	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)
2008 (12 months)	**24.99**	**252.43**	**3.52**	**1.47**	**5.26**	**3.70**
2007 (12 months)	27.78	252.05	3.79	1.37	5.63	3.35
Change year over year	%	%	%	%	%	%
2008 (12 months)	**(10.04)**	**0.15**	**(7.12)**	**7.30**	**(6.57)**	**10.45**
2007 (12 months)	(2.08)	(4.85)	(2.82)	8.73	0.71	(5.37)

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.

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

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. Amortisation methods, useful lives and residual values are reviewed at each reporting date.
Costs incurred in relation of the purchase of software are treated as intangible fixed assets and are usually amortised over period between 3 to 5 years.
Costs incurred in relation to exclusive distribution rights for DVDs and movies to video libraries or to theatres are capitalised and treated as intangible fixed assets and are usually amortised over 5 to 10 years.

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.

J. Investment properties

Investment properties are those which are held either to earn rental income or for capital appreciation or for both but not for the sale in the ordinary course of business. Investment properties are stated at fair value as determined by independent external appraisers on an annual basis. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing. Any gain or loss arising from a change in fair value is recognised in the income statement.

Property that is being constructed or developed for future use as investment property is accounted for – at cost – under Property and equipment during the construction phase, insofar the building is concerned. The land component of the property under development is included – at fair value – under Investment properties.

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

K. 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 for impairment annually. Assets that are subject to amortisation or depreciation 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.

L. 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.

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, financial assets at fair value through profit and loss 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. These are initially recognised at fair value, but subsequently at amortised cost. 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 less impairment losses if the fair value cannot be measured reliably. 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.

(D) Financial assets at fair value through profit or loss

This includes derivatives. See "Derivative financial instruments" under O.

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

N. 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.

O. 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. The fair value of foreign contracts is based on the relevant current exchange rates at balance sheet date. Changes in fair value of contracts signed before 1 January 2008 are accounted for in the profit and loss account. The change in the fair value of contracts signed as of 1 January 2008 onwards that are effective hedges is booked directly into equity in a separate Hedge reserve net of deferred taxation. The Company designates these contracts to hedge future cash flow fluctuations deriving from differences between the EUR and the USD against local currencies. Amounts are released from the Hedge reserve to profit or loss when the future transaction is settled.

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.

P. 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. Cash and cash equivalents are stated at fair value.

Q. Employee benefits-defined contribution plans

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

R. 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 settled 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.

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

S. 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.

T. 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 19).

U. 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 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, as well as through the amortisation process.
For information regarding the fair value of long-term liabilities reference is made to Note 31.

V. Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period.

W. Assets classified as held for sale

Assets classified as held for sale (or disposal groups comprising assets and liabilities) are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are valued in accordance with the Group's accounting policies. Thereafter, generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be valued in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on revaluation are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

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

X. 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.
(9) Revenues from investment properties comprise gains arising from a change in fair value.

Y. Cost of revenues

(1) Cost of theatre sales include direct concession product and 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.

Z. Net financing cost

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

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

AA. 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.

Deferred tax assets and liabilities are offset if there is a legal enforceable right to offset current tax assets and liabilities, and they relate to income taxes received by the same tax authority.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

BB. 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.

CC. 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.

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

DD. 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 2008, 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 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 to 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 segment information to be presented on the basis of operating segments. Operating segments are components of an entity for which separate financial information is available and evaluated regularly by management when deciding on the allocation of resources and when assessing performance. The Group has not yet completed its analysis of the impact of IFRS 8 on the consolidated financial statements.

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 statements.

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.

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The possible impact of the amendments, which become mandatory for the Group's 2009 consolidated financial statements, with retrospective application required, are not yet examined by the company.

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

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

Revised IFRS 3 Business Combinations (2008) incorporates the following changes that are likely to be relevant to the Group's operations:

- the definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
- contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss.
- transaction costs, other than share and debt issue costs, will be expensed as incurred.
- any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss.
- any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised IFRS 3, which becomes mandatory for the Group's 2010 consolidated financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2010 consolidated financial statements.

Amended IAS 27 Consolidated and Separate Financial Statements (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss.
The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.

Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Group's 2009 consolidated financial statements, with retrospective application. The Group has not yet determined the potential effect of the amendment.

EE. 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 – Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) **Investment properties**

The fair values of investment properties are determined by independent external appraisers on an annual basis and are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing.

(b) **Marketable securities**

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.

(c) **Available for sale financial assets**

The fair value of available for sale financial assets is stated at bid prices for quoted investments, or estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. If the fair value of these investments cannot be measured at reliable bases, the investments are stated at cost.

(d) **Trade and other receivables**

The fair value of trade and other receivables, which is determined for disclosure purposes, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(e) **Derivative financial instruments**

The fair value of foreign contracts is estimated by discounting the difference between the contractual forward price and the relevant current exchange rates at balance sheet date using a risk-free interest rate (based on government bonds).

(f) **Non-derivative financial instruments**

The fair value of non-derivative financial instruments, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

(g) **Share based payments**

The fair value of employee stock options is measured using a binomial lattice model. Fair value of share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Note 4 - Changes in consolidated entities

A. Changes in consolidated and associated entities during 2008:

(a) MO Russe AD (formerly known as Cinema City Malls AD), is a Bulgarian company in which the Company, through its 100% subsidiary IT Sofia 2007 B.V. incorporated in the Netherlands, holds 100% of the shares. This Bulgarian company which commenced its activities in July 2007 under the name Cinema City Malls AD, owns a plot of land in Russe, Bulgaria, on which a shopping mall is being developed. Before 19 September 2008, the entity was jointly controlled by the Company and a third party, each owning 45% of the shares (10% was owned by the original owner of the Land).

Up to and including the quarter ended 31 March 2008, the interest in Cinema City Malls AD (45% at the time) was not consolidated in view of the Company's initial intention to sell this interest in the short term in line with the Company's strategy for real estate projects. Accordingly, the 45% interest in Cinema City Malls AD as well as the loans granted by the Company to Cinema City Malls AD were classified as assets held for sale.

During the second quarter ended 30 June 2008, the Company reconsidered its strategy for this real estate project and decided to hold its (45%) interest in the Mall of Russe as investment for the foreseeable future and to benefit from future rental income out of the shopping mall once completed and from its capital appreciation. As a consequence, the interest in Cinema City Malls A.D. was reclassified as held for use, i.e. investment and – bearing in mind the jointly controlled ownership at the time – was accounted for using the proportionate consolidation method in the Company's Consolidated Financial Statements retrospectively from the date of its classification as held for sale, being the date of its inception in July 2007. The Consolidated Balance Sheet as of 31 December 2007 has been amended accordingly. The amendment relating to the financial year 2007 did not result in a restatement of retained earnings per 1 January 2008; however this amendment resulted in an increase of EUR 12,249 thousand in non-current assets, a decrease of EUR 11,934 thousand in current assets and increase of EUR 315 thousand in current liabilities.

In August 2008, the Bulgarian subsidiary changed its name from Cinema City Malls AD into MO Russe AD. As of 19 September 2008, when the Company acquired the 45% interest from the other joint venture partner thereby increasing its interest in MO Russe AD to 90% and as of October 2008, when the Company acquired the remaining 10% interest from the original owner of the plot of land thereby increasing its interest in MO Russe AD to 100%, this subsidiary is accounted for in the Company's Consolidated Financial Statements on a fully consolidated basis. Since the Company is seeking to sell half of its interest in the Mall of Russe to a new partner in the near future, this 50% interest in the Mall of Russe project is carried in the Company's consolidated balance sheet as "held for sale", whereas the other 50%, which is considered to be held as long-term investment, is accounted for as Investment property (land) and Property and equipment (construction part), respectively (see also Notes 7 and 8).

(b) New Age Cinema Czech S.R.O., 100% owned by the Company, was incorporated in the Czech Republic. The Company commenced operations in June 2008 and specializes in screen advertising.

Note 4 - Changes in consolidated entities (cont'd)

A. Changes in consolidated and associated entities during 2008 (cont'd):

(c) M.O. Stara Zagora EOOD is a Bulgarian company in which the Company holds a 55% interest and which owns the Mall of Stara Zagora. The other 45% of the shares in M.O. Stara Zagora AD is held by third parties. As the ownership of M.O. Stara Zagora AD is jointly controlled, the interest in M.O. Stara Zagora is accounted for using the proportionate consolidation method in the Company's Consolidated Financial Statements. Since the Company is seeking to sell the other half of its interest in the Mall of Stara Zagora to a new partner in the near future, this 27.5% interest in the Mall of Stara Zagora is carried in the Company's consolidated balance sheet as "held for sale", whereas the other 27.5% interest, which is considered to be held as long-term investment, is accounted for as Investment property (land) and Property and equipment (construction part), respectively (see also Notes 7 and 8).

(d) RESB EOOD, 100% owned by the company, was incorporated in Bulgaria. This entity commenced operations in August 2008 and specializes in management of real estate and construction.

B. Changes in consolidated 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, an 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 Romania 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 merger is effective as of 1 January 2007.

Note 5 – Acquisition of interests in subsidiaries

During 2008, the Company acquired a 55% interest in MO Russe AD, a Bulgarian company owning a plot of land in Russe, Bulgaria, on which a shopping mall is being developed, and a 55% interest in M.O. Stara Zagora EOOD, a Bulgarian company, owning a plot of land in Stara Zagora, Bulgaria, on which a shopping mall is being developed. The 45% interest in MO Russe AD was acquired from the other joint venture partner after which the Company's total interest in MO Russe AD was increased to 90%. A further 10% was acquired from the original owner of the land after which the Company's total interest in MO Russe AD was increased to 100%. The interest in MO Russe AD is fully consolidated whereas the interest in MO Stara Zagora AD is proportionally consolidated (see Note 4A).

As the Company is seeking to sell half of its interests in both projects to a new partner in the near future, the 50% interest in the site on which Mall of Russe is being developed and the 27.5% interest in the site on which Mall of Stara Zagora is being developed, are carried in the Company's consolidated balance sheet as "held for sale", whereas the other 50% and 27.5%, respectively, which are considered to be held as long-term investment, are accounted for as Investment property (land) and Property and equipment (construction part), respectively (see also Notes 7 and 8).

The acquisitions* had the following effect on the Group's assets and liabilities at recognised values on their respective acquisition dates:

	2008
	EUR (thousands)
Property and equipment	**4,372**
Deferred tax assets	**90**
Cash and cash equivalents	**1**
Non marketable securities held for sale	**19,386**
Deferred tax liabilities	**(88)**
Other short term assets and liabilities	**(2,770)**
Consideration paid in cash	**20,991**
Cash acquired	**(1)**
Net cash outflow	**20,990**

* Of 55% interest in Mo Stara and 45% interest in Mo Russe.

Note 6 - Intangible fixed assets

The intangible fixed assets comprise mainly investments in the development of Cinema Megaplex, software and other costs related to exclusivity rights and are stated at cost less accumulated amortisation and impairment losses, if any.

Composition:

	Financial year 2008					
	Balance at beginning of the year	**Additions during the year**	**Foreign currency translation adjustments**	**Sales and disposals**	**Classification from property and equipment**	**Balance at end of year**
	EUR (thousands)					
Cost	**1,414**	**666**	**7**	**(357)**	**324**	**2,054**
Accumulated amortisation	**(373)**	**(335)**	**2**	**149**	**(212)**	**(769)**
Carrying value	**1,041**	**331**	**9**	**(208)**	**112**	**1,285**

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

Note 7 - Property and equipment

	Financial year 2008					
	Balance at beginning of the year	Additions during the year (1)	Foreign currency translation adjustments	Sales and disposals	Classification (3)	Balance at end of year
	EUR (thousands)					
Cost						
Land and buildings (2)	69,102	3,368	(6,781)	-	-	65,689
Cinema equipment (2)	91,508	22,115	(7,711)	(4,461)	(2,548)	98,903
Leasehold improvements	95,712	12,178	(8,429)	(1,577)	3,917	101,801
Computers, furniture and office equipment	9,745	762	420	(1,435)	(2,311)	7,181
Vehicles	1,523	386	29	(274)	(19)	1,645
Video movies	4,003	587	(171)	(2,216)	-	2,203
Video machines	42	2	2	(46)	-	-
	271,635	39,398	(22,641)	(10,009)	(961)	277,422
Accumulated depreciation						
Land and buildings	15,286	2,395	(1,994)	-	-	15,687
Cinema equipment	41,798	7,380	(2,612)	(3,186)	626	44,006
Leasehold improvements	20,255	6,675	(1,649)	(1,725)	2,621	26,177
Computers, furniture and office equipment	6,936	641	335	(327)	(2,551)	5,034
Vehicles	516	263	3	(166)	2	618
Video movies	3,122	680	182	(2,507)	(1,051)	426
Video machines	483	9	14	(10)	(496)	-
	88,396	18,043	(5,721)	(7,921)	(849)	91,948
Carrying value	183,239	21,355	(16,920)	(2,088)	(112)	185,474

(1) Included under "Additions during the year – at cost" are borrowing costs amounting to EUR 2,541,000 capitalised using an average rate of 5.42%.

(2) The balance as of 31 December 2008 includes EUR 1,654,000 construction in progress, cinema equipment to an amount of EUR 3,527,000 not operational yet and EUR 3,039,000 investment in real estate under development.

(3) Including reclassification in the amount of EUR 638,000 in the cost and in the accumulated depreciation and further classification to intangible assets of carrying amount of EUR 112,000.

Note 7 - Property and equipment (cont'd)

	Financial year 2007 *				
	Balance at beginning of the year	**Additions during the year (1)**	**Foreign currency translation adjustments**	**Sales and disposals**	**Balance at end of year**
			EUR (thousands)		
Cost					
Land and buildings (2)	65,071	425	3,606	-	69,102
Cinema equipment (2)	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	671	(8)	(376)	1,523
Video movies	3,181	724	98	-	4,003
Video machines	59	20	(1)	(36)	42
	241,976	21,478	9,674	(1,493)	271,635
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	200	(3)	(246)	516
Video movies	2,255	932	(44)	(21)	3,122
Video machines	21	475	21	(34)	483
	71,422	15,287	2,100	(413)	88,396
Carrying value	170,554	6,191	7,574	(1,080)	183,239

(1) Included under "Additions during the year – at cost" are borrowing costs amounting to EUR 63,000 capitalised using an average rate of 6.2%

(2) The balance as of 31 December 2007 includes EUR 2,339,000 construction in progress, cinema equipment to an amount of EUR 7,724,000 not operational yet and EUR 196,000 investment in real estate under development.

* Restated to reflect the reclassification of a jointly controlled entity as held for use (see Note 4A)

Note 8 – Investment properties

Investment properties as at 31 December 2008 comprise the Company's long-term investments in two plots of lands, on both which a shopping mall is being developed: in Russe, Bulgaria and in Stara Zagora, Bulgaria. The carrying amount of the investment properties is the fair value of the properties (i.e. the land) as determined by independent external appraisers. Any difference between fair value and previous carrying value is recognised in the income statement.
The building component (under development) that is being constructed on the investment property is included in Property and equipment (valued at cost less impairment losses, if any).

Movements:	**Financial year**	
	2008	**2007**
	EUR (thousands)	
Balance at beginning of the year	**12,017**	-
Acquisitions and investments	**7,442**	12,017
Fair value adjustment	**6,948**	-
Balance at end of the year	**26,407**	12,017

Note 9 – Inventories

Composition:

	31 December	
	2008	**2007**
	EUR (thousands)	
Concession products	**1,163**	898
Video cassettes and DVDs	**1,352**	1,277
IMAX® films inventories	**1,936**	1,997
Spare parts	**408**	208
	4,859	4,380

Valuation:

	31 December	
	2008	**2007**
	EUR (thousands)	
At cost	**4,859**	4,380
Provision for net realisable value	**-**	-
	4,859	4,380

All inventories included above are valued at cost.

Note 10 - Trade accounts receivable

Composition:

	31 December	
	2008	2007 *
	EUR (thousands)	
Trade accounts receivable	**16,543**	13,515
Allowance for doubtful accounts	**(128)**	(123)
	16,415	13,392

Note 11 - Other accounts receivable and prepaid expenses

Composition:

	31 December	
	2008	2007 *
	EUR (thousands)	
Government institutions	**2,314**	4,018
Advances to suppliers	**572**	399
Prepaid expenses	**5,401**	5,268
Prepaid cinema film and video film distribution costs (1)	**3,792**	3,652
other	**2,215**	2,747
	14,294	16,084

(1) Stated at cost, in respect of video and cinema films which have not yet been distributed, after being reviewed for recoverability

Note 12 - Assets classified as held for sale

As at 31 December 2008, the Non-marketable securities held for sale comprise the Company's 30% interest in Mall of Plovdiv, 50% interest in Mall of Russe and 27.5% interest in Mall of Stara Zagora (31 December 2007: a 15% interest in Mall of Plovdiv and a 45% interest in Mall of Russe).

Mall of Plovdiv
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, i.e. 15%, in the Mall of Plovdiv.

* Restated to reflect the reclassification of a jointly controlled entity as held for use (see Note 4A)

Note 12 - Assets classified as held for sale (cont'd)

Mall of Plovdiv (cont'd)

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.

In September 2008, the company purchased from its partner, Ocif, its (15%) interest in the Mall of Plovdiv, thereby increasing the interest in Mall of Plovdiv back to 30%.

Mall of Russe

MO Russe AD (formerly known as Cinema City Malls AD) is a Bulgarian company in which the Company, through its 100% subsidiary IT Sofia 2007 B.V. incorporated in the Netherlands, holds 100% of the shares. This Bulgarian company owns a plot of land in Russe, Bulgaria, on which a shopping mall is being developed. Before 19 September 2008, the entity was jointly controlled by the Company and a third party, each owning 45% of the shares.

On 19 September 2008, the Company acquired the 45% interest from the other joint venture partner thereby increasing its interest in MO Russe AD to 90%. In October 2008, when the Company acquired the remaining 10% interest from the original owner of the plot of land, the Company increased its interest in MO Russe AD to 100%. Since the Company is seeking to sell half of its interest in the Mall of Russe to a new partner in the near future, this 50% interest in the Mall of Russe is carried in the Company's consolidated balance sheet as "held for sale", whereas the other 50%, which is considered to be held as long-term investment, is accounted for as Investment property (land) and Property and equipment (construction part), respectively (see also Notes 7 and 8).

Mall of Stara Zagora

M.O. Stara Zagora EOOD is a Bulgarian company in which the Company holds a 55% interest and which owns the Mall of Stara Zagora. The other 45% of the shares in M.O. Stara Zagora AD is held by third parties. As the ownership of M.O. Stara Zagora AD is jointly controlled, the interest in M.O. Stara Zagora is accounted for using the proportionate consolidation method in the Company's Consolidated Financial Statements. Since the Company is seeking to sell the other half of its interest in the Mall of Stara Zagora to a new partner in the near future, this 27.5% interest in the Mall of Stara Zagora is carried in the Company's consolidated balance sheet as "held for sale", whereas the other 27.5% interest, which is considered to be held as long-term investment, is accounted for as Investment property (land) and Property and equipment (construction part), respectively (see also Notes 7 and 8).

Impairment

There were no impairment provisions on Non-marketable securities held for sale as at 31 December 2008 and 31 December 2007.

Note 13 - 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 2008	31 December 2007 *
	EUR (thousands)	
Cash at bank and in hand	**7,008**	5,991
Short-term deposits	**4,772**	2,021
	11,780	8,012

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 1% - 4%. (For 2007: 3%- 4%).

Note 14 – Short-Term Bank Deposits - collateralized

In 2008, deposits with banks in Central Europe denominated in EUR for a total amount of EUR 345,000 (2007: 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 15 - 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 2007 was 50,724,000. At 18 December 2007, the Company issued 110,000 ordinary shares. As a result of the share issue in 2007, the total number of shares issued and outstanding at 31 December 2007 totalled 50,834,000 which remained unchanged during the financial year ended 31 December 2008. All shares issued and outstanding at 31 December 2008 have been fully paid. Ordinary shares carry the right of one vote per share and participation in payments of dividends.

* Restated to reflect the reclassification of a jointly controlled entity as held for use (see Note 4A)

Note 15 - Shareholders' equity (cont'd)

b. Share premium

	Financial year	
	2008	2007
	EUR (thousands)	
Balance at beginning of the year	**90,377**	89,945
Public offering related costs *	**-**	(153)
Net proceeds of new shares issued in excess of par value	**-**	585
Balance at end of the year	**90,377**	90,377

* 2007: represents additional costs directly attributed to the 2006 initial public offering.

c. Accumulated currency translation adjustments

The Accumulated translation adjustments comprise all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

d. Hedge reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

e. Share options

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, share options can be granted to members of the Management Board and selected employees. The exercise price of the granted options is 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 maximum 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. On 17 September 2008, a further total number of 105,000 options with an exercise price of PLN 25 each, vesting in 3 years and having an option term of 4 years, were granted to certain employees of the Group. Members of the Management Board did not receive any options during 2008, 2007 and 2006.

In December 2007, a total number of 110,000 options that were granted in 2006 were exercised. The average share price at the time of exercise was EUR 9.42 per share. The weighted average exercise price of options outstanding (vested but not yet exercised and not vested) is EUR 5.27. The number of exercisable options at 31 December 2008 is 235,000.

Note 15 - Shareholders' equity (cont'd)

e. Share options (cont'd)

The details of the number of options outstanding as at 31 December 2008 are as follows:

	Number of options		
Vesting date	**Granted**	**exercised**	**outstanding**
6 December 2007	159,000	110,000	49,000
6 December 2008	186,000	-	186,000
6 December 2009	186,000	-	186,000
6 September 2010	51,000	-	51,000
	582,000	110,000	472,000

The weighted average fair value at grant date 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 weighted average fair value at grant date of options granted in 2008 using the Black-Scholes valuation model was approximately EUR 1.1 per option. The significant inputs into the model were a weighted average share price of PLN 20 at the grant date, the exercise price of PLN 25, volatility of 43%, 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 2008 was an expense of EUR 173,000 (2007: EUR 300,000) recognised in the income statement with a corresponding increase in equity.

During the years 2008 and 2007 no options were forfeited

Note 16 - Net earnings per share

The calculation of basic and diluted net earnings per share at 31 December 2008 was based on the profit attributable to ordinary shareholders of EUR 17,656,000 (2007: EUR 16,624,000), and a weighted average number of ordinary shares outstanding as presented below:

Weighted average number of ordinary shares (basic):

	Financial year	
	2008	**2007**
	number of shares	
Number of ordinary shares at beginning of the year	**50,834,000**	50,724,000
Effect of shares issued during the year	**-**	3,918
Weighted average number of ordinary shares (basic)	**50,834,000**	50,727,918

Weighted average number of shares (diluted):

	Financial year	
	2008	**2007**
	number of shares	
Weighted average number of ordinary shares (basic)	**50,834,000**	50,727,918
Effect of share options issued and outstanding	**83,196**	174,993
Weighted average number of ordinary shares (diluted)	**50,917,196**	50,902,911

Note 17 - Minority interests

	Financial year	
	2008	**2007**
	EUR (thousands)	
Balance at beginning of the year	**(1,908)**	(895)
Minority interests in (losses) related to continued operation	**(264)**	(784)
Minority interests in (losses) related to discontinued operation	**(1,218)**	(250)
Translation adjustments	**(93)**	21
Balance at end of the year	**(3,483)**	(1,908)

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 18 - 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 assumptions:

Discount at 31 December 2008	3.18% (3.10% at 31 December 2007)
Expected return on plan assets at 1 January 2009	3.87% (3.00% at 1 January 2008)

Note 18 - Accrued employee retirement rights (cont'd)

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

	31 December 2008	31 December 2007
	EUR (thousands)	
Present value of unfunded obligation	**1,625**	1,581
Less: fair value of plan assets	**(1,279)**	(1,364)
	346	217

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

	Financial year 2008		
	Gross amount	Amount deposited	Net amount
	EUR (thousands)		
Balance at beginning of the year	**1,581**	**(1,364)**	**217**
Translation difference	**107**	**(93)**	**14**
Payments made upon retirement	**-**	**178**	**178**
Net movement in provision - charged to net profit	**(63)**	**-**	**(63)**
Balance at end of the year	**1,625**	**(1,279)**	**346**

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

Note 19 - 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, was recorded as part of the acquisition.
The provision is amortised over the non-cancellable periods of the lease contracts. Amortisation in 2008 amounted to EUR 1,608,000 (2007: EUR 1,608,000) and was credited to the lease expenses under operating expenses.

Movements:	Financial year	
	2008	**2007**
	EUR (thousands)	
Balance at beginning of the year	**3,565**	5,173
Amortisation during the year	**(1,608)**	(1,608)
Balance at end of the year	**1,957**	3,565

Note 20 - Long-term loans

A. Composition:

	Interest rates	31 December 2008	31 December 2007
	%	EUR (thousands)	
In CZK	(1)	**4,308**	4,729
In EUR	(2)	**53,262**	18,827
In HUF	(3)	**2,251**	-
In PLN	(4)	**11,858**	16,518
		71,679	40,074
Less - current portion		**(4,497)**	(5,272)
		67,182	34,802

(1) 6.03%
(2) EURIBOR + 1% - 2.2 %
(3) 10.98%
(4) 7.9%

The interest rates shown concern the rates per 31 December 2008.

B. The loans mature as follows:

	31 December 2008	31 December 2007
	EUR (thousands)	
First year - current maturities	**4,497**	5,272
Second year	**12,927**	5,462
Third year	**18,810**	5,528
Fourth year	**14,289**	5,600
Fifth year	**12,411**	6,300
Sixth year and thereafter	**8,745**	7,770
Undefined	**-**	4,142
	71,679	40,074

C. Liens - see Note 23 (2).

Note 21 - Short-term borrowings

Composition:

	Interest rates	31 December 2008	31 December 2007
	%	EUR (thousands)	
Current maturities of long term loans	See Note 20	**4,497**	5,272
Short-term bank credit:			
Unlinked (NIS)	(1) 3.65%	**25,580**	13,303
Unlinked (PLN)	(1) 7.5%	**4,100**	-
		34,177	18,575

(1) Variable

The interest rates shown concern the rates per 31 December 2008.

Note 22 - Other accounts payable

Composition:

	31 December 2008	31 December 2007 *
	EUR (thousands)	
Investment creditors	**1,211**	961
Accrued expenses	**9,294**	7,042
Deferred income	**1,250**	572 **
Government institutions	**2,325**	1,235
Advances and income received in advance (1)	**74**	41
Other	**4,653**	4,290 **
	18,807	14,141

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

* Restated to reflect the reclassification of a jointly controlled entity as held for use (see Note 4A)
** Reclassified for comparison purposes.

Note 23 - 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 2008. 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 2008 are as follows:

	EUR (thousands)*
2009	**20,090**
2010	**23,513**
2011	**24,177**
2012	**24,089**
2013	**23,636**
After 2013	**94,100**
	209,605

* 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 2007 were 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.

Rental expenses for theatres during 2008 amounted to EUR 22,894,000 (2007: EUR 20,752,000).

Note 23 - 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 2008, the Group has unpaid commitments to invest in the development of properties of approximately EUR 12.8 million and further commitments to acquire Cinema equipment of approximately EUR 9.9 million.(31 December 2007- EUR 11.2 million and EUR 14.8 million respectively).

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 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 2008 amounted to EUR 460,000 (2007- EUR 557,000).

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 2013.

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 2008 amounted to EUR 1,398,000 (31 December 2007: EUR 1,467,000), 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 23 - Commitments, contingent liabilities and liens (cont'd)

(2) **Liens**

a. The Company has entered into a loan facility agreement with a bank Leumi. 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 2008 and as at 31 December 2008.

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 2008, 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 27.8) 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 4.4 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 3.1 million (2007: 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 23 - 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 2008 and 31 December 2007, respectively.

In the first half of 2007, the Company sold one half of its interest in the Mall of Plovdiv (15%). The Company agreed to sell its then remaining 15% holding in the Mall of Plovdiv to the same buyers based on an agreed formula prior to the opening. In July 2008, the company purchased from its partner in the Mall of Plovdiv project, Ocif, a further 15% interest in the Mall of Plovdiv. The Company will also sell this 15% interest to the same buyers immediately prior to the opening of the mall 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 24 – Discontinued operations

On 30 October 2008, the Company signed an agreement to sell, together with its 50% joint venture partner, its Israeli video and DVD film rental and sale business, which had been conducted through Blockbuster Israel. NMC-United purchased the business for NIS 6.8 million (approximately EUR 1.4 million). Following this sale, the Company will no longer be active in the DVD film rental and sale business. This segment was not a discontinued operation or classified as held for sale as at 31 December 2007 and the comparative consolidated income statement has been re-presented to show the discontinued operation separately from continuing operations.

Note 24 – Discontinued operations (cont'd)

Results from discontinued operations

	Financial year 2008	Financial year 2007
	EUR (thousands, except per share data)	
Revenues	**2,557**	3,891
Operating costs, excluding depreciation and amortisation	**(2,108)**	(2,505)
Depreciation and amortisation	**(620)**	(879)
General and administrative expenses	**(560)**	(634)
Financial expenses	**(237)**	(244)
Income tax	**(32)**	-
Loss on disposal and write off other investments	**(891)**	-
Profit/(loss) before minority interests	**(1,891)**	(371)
Loss/(profit) attributable to minority interests	**1,218**	250
Net income/(loss) attributable to equity holders	**(673)**	(121)
Basic and diluted earnings/(loss) per share (in euro)	**(0.013)**	(0.002)
Cash flows from discontinued operations		
Net cash from/(used in) operating activities	**163**	381
Net cash from/(used in) investing activities	**(632)**	(507)
Net cash from/(used in) financing activities	**417**	53
Net cash from/(used in) discontinued operations	**(52)**	(73)

Effect of disposal on the financial position of the Group

	2008 EUR (thousands)
Property and equipment	**(460)**
Intangible assets	**(50)**
Inventories	**(136)**
Cash and cash equivalents	**1**
Trade and other accounts payable	**645**
Net assets and liabilities	**-**
Consideration received in cash	**1**
Cash disposed of	**(1)**
Net cash inflow	**-**

Note 25 – Revenues

	Continuing operations		Discontinued operations (see Note 24)		Total	
	Financial year					
	2008	2007	2008	2007	2008	2007
	EUR (thousands)					
Theatre sales	**154,674**	124,120	**-**	-	**154,674**	124,120
Distribution	**24,450**	22,972	**-**	-	**24,450**	22,972
Video and DVD	**-**	-	**2,557**	3,891	**2,557**	3,891
Other	**9,927**	10,357	**-**	-	**9,927**	10,357
Total revenues	**189,051**	157,449	**2,557**	3,891	**191,608**	161,340

Note 26 – Operating costs

	Continuing operations		Discontinued operations (see Note 24)		Total	
	Financial year					
	2008	2007	2008	2007	2008	2007
	EUR (thousands)					
Costs of theatre sales	**114,431**	90,356	**-**	-	**114,431**	90,356
Distribution costs	**22,475**	21,436	**-**	-	**22,475**	21,436
Video and DVD costs	**-**	-	**2,108**	2,505	**2,108**	2,505
Other	**584**	3,424	**-**	-	**584**	3,424
Depreciation and amortisation	**17,758**	14,561	**620**	879	**18,378**	15,440
Total operating costs	**155,248**	129,777	**2,728**	3,384	**157,976**	133,161

Note 27 - Financial income/expenses

A. Financial income

	Financial year	
	2008	**2007**
	EUR (thousands)	
Interest income	**549**	506
Currency exchange gains	**1,300**	1,051
Total financial income	**1,849**	1,557

B. Financial expenses

	Financial year	
	2008	**2007**
	EUR (thousands)	
Interest expenses incurred	**(6,107)**	(3,564)
Interest cost capitalised (1)	**2,541**	63
Currency exchange losses	**(1,539)**	(1,785)
Total financial expenses consolidated	**(5,105)**	(5,286)
Less: financial expenses of discontinued operations (see Note 24)	**(237)**	(244)
Total financial expenses of continuing operations	**(4,868)**	(5,042)

(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 28 - Loss on disposals, write-off on other investments and other costs

This item comprises mainly capital losses on the disposal of property, equipment and other assets.

Note 29 - 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% - (2007 - 25.5%)
Hungary	16% - (2007 - 16%)
Czech Republic	21% - (2007 - 24%)
Poland	19% - (2007 -19%)
Israel	27% - (2007 - 29%)
Bulgaria	10 % - (2007 - 15%)
Romania	16 % - (2007 - 16%)

In several countries in which the Group is operating, tax rates will change as of 1 January 2009 as follows:
- In Czech Republic to 20 %
- In Israel to 26%

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 29 - Income taxes (cont'd)

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

Deferred income tax included in assets:	31 December	
	2008	**2007***
	EUR (thousands)	
Accrued employee rights	**112**	83
Fixed assets	**1**	(1,940)
Operating tax loss carry – forwards	**426**	1,630
Long-term liabilities	**-**	1,365
Other	**516**	72
	1,055	1,210

Deferred income tax included in liabilities:	31 December	
	2008	**2007** *
	EUR (thousands)	
Accrued employee rights	**(65)**	-
Fixed assets	**5,656**	2,584
Operating tax loss carry - forwards	**(1,187)**	(559)
Long-term liabilities	**(1,794)**	-
Other	**722**	(57)
	3,332	1,968

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

	Financial year	
	2008	**2007**
	EUR (thousands)	
Current taxes	**1,652**	388
Deferred income taxes	**101**	(106)
In respect of previous years	**220**	(387)
Effect of reduction in tax rate	**(59)**	(470)
Income tax expense/(benefit)	**1,914**	(575)

* Restated to reflect the reclassification of a jointly controlled entity as held for use (see Note 4A)

Note 29 - 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	
	2008	**2007**
	EUR (thousands)	
Tax calculated at the regular rate (2008: 25.5%; 2007: 25.5%)	**4,612**	3,829
Adjustment for reduced tax rate in foreign subsidiaries	**(1,853)**	(796)
Effect of reduction in tax rates on deferred income taxes	**578**	(470)
Non-deductible expenses	**1,022**	1,142
Effect of tax losses utilised	**(1,733)**	(1,041)
Income exempt from taxes	**(508)**	(1,915)
Taxes in respect of previous years	**220**	(387)
Other differences	**(424)**	(937)
Actual income tax expense/(benefit)	**1,914**	(575)

Note 30 - 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 64.35% of the outstanding shares (2007 – 64.13%). The remaining 35.65% 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 30 - Related party transactions (cont'd)

Transactions with related parties:

a. Income (expenses):

	Financial year	
	2008	**2007**
	EUR (thousands)	
Rental fees	**(483)**	(444)
Management services	**915**	302

All outstanding balances with these related parties are priced on an arm's length basis. None of the balances is secured.

b. 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 332,000 (USD 488,000).

c. 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 337,000 (USD 496,000).

d. 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 in consideration of EUR 111,000 (NIS 586,000) per annum. The rental fees are linked to the Israeli CPI.

e. RESB EOOD, a 100% owned subsidiary by the Company provided during 2008 real estate management and consulting services in the amount of EUR 360,000 to Mo Plovdiv EOOD (not consolidated held for sale investment) and to Park Tower EOOD (100% owned Subsidiary of Israel theatres LTD).

Note 30 - Related party transactions (cont'd)

f. 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 2008 and 2007, no share options have been granted to members of the Management Board.

The Managing Directors of the Company received remuneration totalling EUR 1,911,000 (2007: EUR 1,662,000). The members of the Supervisory Board received fees totalling EUR 93,000 (2007: EUR 93,000). 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 2008 and 2007.

Note 30 - Related party transactions (cont'd)

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

	Financial year	
	2008	2007
	EUR (thousands)	
General director:		
Salary and other short-term benefits	**229**	207
Post-employment benefits	**13**	11
Management bonus	**634**	546
	876	764
Operational director:		
Salary and other related costs	**186**	166
Post-employment benefits	**11**	10
Management bonus	**317**	272
	514	448
Financial director:		
Salary and other related costs	**193**	168
Post-employment benefits	**11**	9
Management bonus	**317**	273
	521	450
Total	**1,911**	1,662

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.

g. 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 indirectly 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.

h. The minority interests mainly represent a 50% indirect share in the equity of Forum Film Ltd. by M.I. Greidinger Investment Limited (see Note 30 (g)). 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.

Note 30 - Related party transactions (cont'd)

i. 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 has obtained officers' and directors' liability insurance.

j. The Company is a subsidiary of I.T.I.T., which as aforesaid is a wholly-owned subsidiary of Israel Theatres Ltd. The Israel Theatres Group is comprised of all the entities directly or indirectly owned in whole or part by Israel Theatres. The Company is the Israel Theatres Group subsidiary that conducts all of the group's cinema related activities, which includes film and DVD distribution, screen advertising and real estate development (when the real estate activity is at least partly associated with a cinema project). Israel Theatres is involved directly and through other subsidiaries in various non-cinema related activities, including real estate activities in Israel and in Central and Eastern Europe not related to movie theatres.

   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.

Note 31 - Financial instruments and financial risk management

The Group's principal financial instruments, other than derivatives and cash and cash equivalents, comprise bank loans, loans from the shareholder 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.
The Group also enters into derivative transactions, principally forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance. It is, and has been throughout the financial years 2008 and 2007, the Group's policy that no trading in financial instruments shall be undertaken.
The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. 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's accounting policies in relation to derivatives are set out in Note 2.

Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) 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.
Assets classified as held for sale comprise interests in several malls in Bulgaria that are currently being developed (see Note 12). Due to the fact that the Group has already 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. The half of the interest in the other two mall developments is held principally for the purpose of selling them in the short term. Their performance is actively monitored and managed on a fair value basis.

Note 31 - Financial instruments and financial risk management (cont'd)

Market risk (cont'd)

(ii) 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. The Group entered into forward exchange contracts in order to Hedge some of its USD and EUR expenses-see below.

If the following rate movements as follows would occur than the effect on profit/ (loss) would be 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 +/- 12%
(b) the euro versus the US dollar by +/- 12.4%
(c) the euro versus the New Israeli shekel by +/- 11.4%
(d) the US dollar versus the Czech crown, the Hungarian forint, the Romanian new Lei or the Polish zloty by +/- 19.3%
(e) the US dollar versus the New Israeli shekel by +/- 14.6%

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 2008**				
	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)	**(8,286)**	**(23)**	**18**	**55**	**728**
Reasonable shift	**12%**	**12.4%**	**11.4%**	**19.3%**	**14.6%**
Total effect on profit of positive movements	**(793.2)**	**(1.05)**	**10.95**	**817**	**50.6**
Total effect on profit of negative movements	**793.2**	**1.05**	**(10.95)**	**(817)**	**(50.6)**

Total effect on profit/(loss)	**Financial year 2007**				
	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)	(11,014)	6	174	485	(35)
Reasonable shift	7%	10%	5%	13%	11%
Total effect on profit of positive movement	(777)	(5.5)	4.35	1,375	(24.3)
Total effect on profit of negative movement	777	5.5	(4.35)	(1,375)	24.3

Note 31 - Financial instruments and financial risk management (cont'd)

Market risk (cont'd)

(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 20 and 21). At 31 December 2008 and 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 530 thousand (2007: EUR 380 thousand).

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

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 carrying amount of the financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the balance sheet date was:

	31 December	
	2008	**2007** [1]
	EUR (thousands)	
Trade receivables	**16,415**	13,392
Receivables from related parties	**750**	299
Other receivables	**14,294**	16,084
Non-marketable securities held for sale	**1,358**	60
Cash and cash equivalents [2]	**10,509**	6,914
Short-term bank deposits	**936**	349
Foreign currency exchange contracts	**3,073**	-
	47,335	37,098

[1] Restated to reflect the reclassification of a jointly controlled entity as held for use (see Note 4A)

[2] The rest of the balance sheet item "Cash and cash equivalents" is cash on hand

Note 31 - Financial instruments and financial risk management (cont'd)

Credit risk (cont'd)

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	
	2008	**2007** [1]
	EUR (thousands)	
Trade receivables:		
Counterparty without/unknown external credit rating		
Group 1 [2]	**16,251**	13,320
Group 2 [3]	**164**	62
Group 3 [4]	**-**	10
Total Trade receivables	**16,415**	13,392
Cash at banks and short term bank deposits		
AAA	**8,303**	4,675
AA	**17**	1,445
A	**2,189**	794
Total Cash at banks [5]	**10,509**	6,914

Allowances for doubtful account remained on a similar level (EUR 128 thousand and EUR 123 thousand for 31 December 2008 and 2007 respectively).

[1] Restated to reflect the reclassification of a jointly controlled entity as held for use (see Note 4A)
[2] Group 1 – new receivables (less then 6 months)
[3] Group 2 – existing receivables (more than 6 months) with no defaults in the past
[4] Group 3 – existing receivables (more than 6 months) with some defaults in the past. All defaults were fully recovered.
[5] The rest of the balance sheet item "Cash and cash equivalents" is cash on hand

Note 31 - Financial instruments and financial risk management (cont'd)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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 2008			
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	EUR (thousands)			
Borrowings	**4,497**	**12,927**	**45,510**	**8,745**
Other long term payables	**108**	**108**	**1,259**	**1,751**
Current liabilities *	**32,914**	**535**	**69**	**-**

	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*	26,819	-	-	-

* excluding short term borrowing and income received in advance.

Derivative financial instruments

As at 31 December 2008 and 31 December 2007, the Company has hedged some of its USD and EUR expenses through 2008 and 2009 in respect of its Polish, Hungarian and the Czech theatre operations, against the Polish Zloty, the Hungarian Forint and the Czech crown, 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, and further commitments to buy EUR 300,000 and USD 500,000[1] at the beginning of each month until December 2010 at fixed prices denominated in Polish zloty.

The Company entered into further forward foreign exchange contracts comprising a commitment to buy USD 265,000 at the beginning of each month until December 2008 and further commitments to buy USD 255,000 at the beginning of each month[1] until December 2010 at fixed prices denominated in Hungarian Forint. These forward foreign exchange contracts have been valued in the consolidated balance sheet at 31 December 2008 at their fair value.

[1] Starting from 1 January 2009.

Note 31 - Financial instruments and financial risk management (cont'd)

Derivative financial instruments (cont'd)

The Company entered into further forward foreign exchange contracts comprising a commitment to buy USD 90,000 at the beginning of each month until August 2011 at fixed prices denominated in the Czech crown.

The change in fair value of contracts signed as of 1 January 2008 onwards that are effective Hedges is booked directly into equity in a separate Hedge reserve. The Company designates these contracts to hedge future cash flow fluctuations deriving from differences between the EUR and the USD against local currencies as described above. Amounts are released from the Hedge reserve to profit or loss when the future transaction is settled.

Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	As at 31 December 2008		As at 31 December 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
	EUR (thousands)			
Trade accounts receivable	**16,415**	**16,415**	13,392	13,392
Receivables from related parties	**750**	**750**	299	299
Income taxes receivable	**355**	**355**	876	876
Receivable from government institutions	**2,314**	**2,314**	4,018	4,018
Other receivables	**11,980**	**11,980**	12,066	12,066
Marketable securities	**1,358**	**1,358**	60	60
Assets classified as held for sale*	**33,564**	**33,564**	2,400	2,400
Cash and cash equivalents	**11,780**	**11,780**	8,012	8,012
Short-term bank deposits	**936**	**936**	349	349
Foreign currency exchange contracts**	**3,073**	**3,073**	-	-
Bank loans	**(71,679)**	**(71,679)**	(40,074)	(40,074)
Short-term bank credits	**(29,680)**	**(29,680)**	(13,303)	(13,303)
Financial leases	**(1,398)**	**(1,398)**	(1,467)	(1,467)
Other long-term liabilities	**(934)**	**(934)**	(1,070)	(1,070)
Trade payables	**(13,007)**	**(13,007)**	(11,320)	(11,320)
Payables to related parties	**(1,334)**	**(1,334)**	(428)	(428)
Investment creditors	**(1,211)**	**(1,211)**	(961)	(961)
Accrued expenses	**(9,294)**	**(9,294)**	(7,042)	(7,042)
Payable to government institutions	**(2,325)**	**(2,325)**	(1,235)	(1,235)
Other payables	**(5,977)**	**(5,977)**	(4,903)	(4,903)
	(54,318)	**(54,318)**	(40,331)	(40,331)

*As of 31 December 2008, the approximate fair value of the Assets classified as held for sale is not less the carrying value (EUR 33,564 thousands).
As of 31 December 2007, the approximate fair value of the Assets classified as held for sale is not less the carrying value (EUR 2,400 thousands).

** Both Non-current and current.

Note 32 - Capital 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 exist as per 31 December 2008 and 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 2008 and 2007 were as follows:

	31 December	
	2008	**2007** *
	EUR (thousands)	
Bank debt:		
Long-term borrowings, including current portion	**71,679**	40,074
Short-term bank credit	**29,680**	13,303
Total debt	**101,359**	53,377
Cash and cash equivalents	**(11,780)**	(8,012)
Net debt	**89,579**	45,365
Construction in progress (see Note 7)	**(1,654)**	(2,339)
Cinema equipment not operated yet (see Note 7)	**(3,527)**	(7,724)
Net debt financing assets in operation	**84,398**	35,302
Total equity	**160,026**	156,171
Total capital employed	**244,424**	191,473
Gearing ratio	**56.0%**	29.1%
Leverage	**36.6%**	23.7%

* Restated to reflect the reclassification of a jointly controlled entity as held for use (see Note 4A)

Note 33 - Linkage terms of monetary items

	31 December 2008			
	In or linked to EUR	**In or linked to USD**	**In or linked to foreign currencies**	**Total**
	EUR (thousands)			
Assets				
Cash and cash equivalents	**6,058**	**878**	**4,844**	**11,780**
Short-term bank deposits - collateralized	**345**	**-**	**-**	**345**
Short-term bank deposits over 3 months	**-**	**-**	**591**	**591**
Trade accounts receivable	**36**		**16,379**	**16,415**
Other accounts receivable	**2,586**	**442**	**11,266**	**14,294**
Related parties receivable	**228**	**-**	**522**	**750**
Marketable securities	**1,324**	**-**	**34**	**1,358**
Foreign currency exchange contracts	**784**	**2,289**	**-**	**3,073**
	11,361	**3,609**	**33,636**	**48,606**
Liabilities				
Short-term bank credit	**-**	**-**	**29,680**	**29,680**
Trade accounts payable	**1,004**	**416**	**11,587**	**13,007**
Employee and payroll accruals	**32**	**-**	**1,662**	**1,694**
Other accounts payable	**5,246**	**142**	**13,419**	**18,807**
Due to related parties	**849**	**-**	**485**	**1,334**
Long-term loans (including current - portion)	**53,262**	**-**	**18,417**	**71,679**
Accrued employee rights upon retirement	**-**	**-**	**346**	**346**
	60,393	**558**	**75,596**	**136,547**

	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	2,704	40	5,268	8,012
Short-term bank deposits - collateralized	349	-	-	349
Trade accounts receivable	31	2	13,359	13,392
Other accounts receivable	4,763	829	10,492	16,084
Related parties receivable	88	-	211	299
Short-term loans to subsidiaries	95	-	-	95
Marketable securities	60	-	-	60
	8,090	871	29,330	38,291
Liabilities				
Short-term bank credit	-	-	13,303	13,303
Trade accounts payable	2,230	204	8,886	11,320
Employee and payroll accruals	15	-	1,528	1,543
Other accounts payable	3,122	230	10,789	14,141
Due to related parties	-	-	428	428
Long-term loans (including current - portion)	18,827	-	21,247	40,074
Accrued employee rights upon retirement	-	-	217	217
	24,194	434	56,398	81,026

* Restated to reflect the reclassification of a jointly controlled entity as held for use (see Note 4A)

Note 34 - 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 2008							
	EUR (thousands)							
	Theatre Operations	**Distribution**	**Video & DVD (discon- -tinued)**	**Other**	**Elimi- nations**	**Conso- lidated**	**Less: Video& DVD (discon- tinued**	**Conti- nuing operations**
Revenues								
External sales	**154,674**	**24,450**	**2,557**	**9,927**	**-**	**191,608**	**2,557**	**189,051**
Inter-segment sales	**-**	**6,766**	**-**	**-**	**(6,766)**	**-**	**-**	**-**
Total revenues	**154,674**	**31,216**	**2,557**	**9,927**	**(6,766)**	**191,608**	**2,557**	**189,051**
Results								
Segment result before depreciation, amortisation & impairment write-downs	**33,287**	**434**	**(111)**	**7,231**	**-**	**40,841**	**(111)**	**40,952**
Depreciation, amortisation & impairment write-downs	**(17,296)**	**(423)**	**(620)**	**(38)**	**-**	**(18,377)**	**(620)**	**(17,757)**
Segment result	**15,991**	**11**	**(731)**	**7,193**	**-**	**22,464**	**(731)**	**23,195**
Net financial expense						**(3,256)**	**(237)**	**(3,019)**
Gain and loss on disposals						**(1,088)**	**(891)**	**(197)**
Income taxes						**(1,946)**	**(32)**	**(1,914)**
Minority interests						**1,482**	**1,218**	**264**
Net income						**17,656**	**(673)**	**18,329**

	31 December 2008					
	EUR (thousands)					
	Theatre operations	**Distribution**	**Video & DVD (discontinued)**	**Other**	**Unallocated**	**Consolidated**
Segment assets	**210,198**	**12,227**	**535**	**77,590**	**1,055**	**301,605**
Segment liabilities	**25,996**	**7,508**	**1,691**	**5,176**	**104,691**	**145,062**
Capital expenditure	**35,950**	**451**	**413**	**11,012**	**-**	**47,826**

Note 34 - Segment reporting (cont'd)

	Financial year 2007 EUR (thousands)							
	Theatre Operations	**Distribution**	**Video & DVD (discon- -tinued)**	**Other**	**Elimi- nations**	**Conso- lidated**	**Less: Video& DVD (discon- tinued**	**Conti- nuing operations**
Revenues								
External sales	124,120	22,972	3,891	10,357	-	161,340	3,891	157,449
Inter-segment sales	-	5,548	-	-	(5,548)	-	-	-
Total revenues	124,120	28,520	3,891	10,357	(5,548)	161,340	3,891	157,449
Results								
Segment result before depreciation, amortisation & impairment write-downs	28,378	(235)	752	5,705	-	34,600	752	33,848
Depreciation, amortisation & impairment write-downs	(14,008)	(456)	(879)	(97)	-	(15,440)	(879)	(14,561)
Segment result	14,370	(691)	(127)	5,608	-	19,160	(127)	19,287
Net financial expense						(3,729)	(244)	(3,485)
Gain and loss on disposals						(416)	-	(416)
Income taxes						575	-	575
Minority interests						1,034	250	784
Net income						16,624	(121)	16,745

	31 December 2007 EUR (thousands)					
	Theatre operations	**Distribution**	**Video & DVD (discontinued)**	**Other**	**Unallocated**	**Consolidated**
Segment assets *	200,360	14,960	2,087	24,742	1,210	243,359
Segment liabilities	23,942	6,869**	1,024 **	1,916	55,345	89,096
Capital expenditure	20,561	745	617	12,258	-	34,181

* Restated to reflect the reclassification of a jointly controlled entity as held for use (see Note 4A)
**reclassified for comparison purposes

Note 34- 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 2008 EUR (thousands)					
	Poland	**Israel**	**Hungary**	**Other**	**Un-Allocated**	**Conso-lidated**
Revenues						
External sales	**102,478**	**34,605**	**27,334**	**27,191**	**-**	**191,608**
Assets						
Segment assets	**138,939**	**39,515**	**16,442**	**105,654**	**1,055**	**301,605**
Capital expenditure	**14,225**	**13,587**	**3,095**	**16,919**	**-**	**47,826**

	31 December 2007 EUR (thousands)					
	Poland	**Israel**	**Hungary**	**Other**	**Un-allocated**	**Conso-lidated**
Revenues						
External sales	85,471	30,864	23,604	21,401	-	161,340
Assets						
Segment assets *	148,981	29,050	15,120	48,998	1,210	243,359
Capital expenditure	12,192	2,348	3,585	16,056	-	34,181

* Restated to reflect the reclassification of a jointly controlled entity as held for use (see Note 4A)

** Reclassified for comparison purposes

Note 35 - Personnel

Personnel costs are specified as follows:

	31 December 2008	31 December 2007
	EUR (thousands)	
Salaries and wages	**16,854**	14,580
Pension costs	**1,239**	1,038
Other social charges	**2,054**	1,220
Equity settled share-based payment transactions (see Note 15(e))	**174**	300
Total personnel costs	**20,321**	17,138

For 2008 and 2007, the pension costs comprise defined contribution expenses only.

The average number of personnel, in full-time equivalents, employed by the Company and its subsidiaries and joine ventures during the year 2008 were 1,943 (financial year 2007: 1,617). A geographical allocation of the average number of personnel is as follows:

	31 December 2008	31 December 2007
Israel	**464**	472
Poland	**860**	685
Hungary	**342**	260
Other Central Europe*	**277**	200
Total average number of personnel	**1,943**	1,617

* Including the Czech Republic, Bulgaria and Romania.

Note 36 - Details of corporations in the Group

	31 December 2008(*)			
	Direct/indirect voting right of the Company	**The Company's equity share in subsidiary**	**Consolidation**	**Currency**
	%	%	%	
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.Zoo	100%	100%	Full	(4)
New Cinemas Poland Sp.Zoo	100%	100%	Full	(4)
IT Development 2003 Sp.Zoo	100%	100%	Full	(4)
I.T. Czech Cinemas S.R.O.	100%	100%	Full	(3)
Forum Home Entertainment Czech S.R.O.	100%	100%	Full	(3)
New Age Cinema Czech 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.Zoo	100%	100%	Full	(4)
Forum Film Poland Sp.Zoo	100%	100%	Full	(4)
All Job Poland Sp. Zoo	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)
Cinema City Romania SRL	100%	100%	Full	(7)
New Age Media Romania SRL	100%	100%	Full	(7)
Mall of Plovdiv EOOD	30%	30%	Not consolidated-held for sale	(5)
Mall of Russe AD	100%	100%	Full	(5)
Mall of Stara Zagora AD	55%	55%	Proportionate	(5)
RESB EOOD	100%	100%	Full	(5)
Cinema City Stara Zagora B.V	100%	100%	Full	(1)
Cinema City Malls B.V	100%	100%	Full	(1)

(1) Dutch corporation. (3) Czech corporation. (5) Bulgarian corporation (7) Romanian corporation
(2) Hungarian corporation. (4) Polish corporation (6) Israeli corporation.

* *The details of corporations during the financial year ended 31 December 2007 were similar to the details of corporations as at 31 December 2008 as shown above, except for changes during the financial year 2008 disclosed in Note 4A.*

***include the discontinued operations- see note 24.*

Note 37 - Interest in joint ventures

As at 31 December 2008, the Group has a 55% interest in a Bulgarian joint venture, M.O. Stara Zagora EOOD, which owns a plot of land in Stara Zagora, Bulgaria, on which a shopping mall is being developed, and (indirectly) a 50% interest in an Israeli joint venture, Kafan et Anak limited partnership, which operates a video chain in Israel under the brand name Blockbuster. The comparative figures as at 31 December 2007, also include a 45% interest in MO Russe AD (formerly known as Cinema City Malls AD), a Bulgarian company which owns a plot of land in Russe, Bulgaria, on which a shopping mall is being developed.

The following amounts represent the Group's share of the assets and liabilities, and sales and results of the joint ventures. They are included in the consolidated balance sheet and consolidated income statement:

	31 December 2008	31 December 2007
	EUR (thousands)	
Assets:		
- Long-term assets	**3,028**	13,456
- Current assets	**1,800**	3,289
	4,828	16,745
Liabilities:		
- Long-term liabilities	**1,997**	8,209
- Current liabilities	**1,859**	8,588
	3,856	16,797
Net assets	**972**	(52)

	For the year ended 31 December 2008	For the year ended 31 December 2007
	EUR (thousands)	
Income	**2,636**	3,899
Expenses	**4,009**	3,879
Profit after income tax	**(1,373)**	20

There are no contingent liabilities relating to the group's interest in the joint ventures, and no contingent liabilities of the venture itself.

Note 38 – Subsequent events

None

Company Balance Sheet
(before appropriation of the result)

	Note	31 December 2008	2007
		EUR (thousands)	
ASSETS			
FIXED ASSETS			
Intangible fixed assets	3	**216**	-
Property and equipment	4	**31**	31
Financial fixed assets			
Investment in subsidiaries	5	**149,220**	144,472
Total fixed assets		**149,467**	144,503
CURRENT ASSETS			
Receivables			
Receivable from subsidiaries		**19,545**	21,753
Receivable from related parties		**60**	48
Income taxes receivable		**44**	44
Other accounts receivable and prepaid items		**1,258**	556
Marketable securities		**1,324**	-
Liquid funds			
Cash and cash equivalents		**3,516**	1,369
Total current assets		**25,747**	23,770
TOTAL ASSETS		**175,214**	168,273
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY	6		
Share capital		**508**	508
Share Premium reserve		**90,377**	90,377
Accumulated currency translation adjustments		**(4,852)**	11,605
Hedge reserve		**2,483**	-
Retained earnings		**53,854**	37,057
Net profit for the year		**17,656**	16,624
Total shareholders' equity		**160,026**	156,171
CURRENT LIABILITIES			
Trade accounts payable		**271**	219
Payable to subsidiaries		**14,581**	11,817
Other accounts payable		**336**	66
Total current liabilities		**15,188**	12,102
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**175,214**	168,273

The notes on pages 98 to 101 are an integral part of the Company Financial Statements.

Company Income Statement

	Note	31 December 2008	31 December 2007
		EUR (thousands)	
Revenue		**1,383**	325
General and administrative expenses		**(1,884)**	(1,082)
Net operating result		**(501)**	(757)
Financial income	7	**48**	372
Financial expenses	8	**(104)**	(268)
Operating result before taxation		**(557)**	(653)
Income taxes	9	**-**	-
Net result after taxation		**(557)**	(653)
Result from subsidiaries after taxation	5	**18,213**	17,277
Net income		**17,656**	16,624

The notes on pages 98 to 101 are an integral part of the Company Financial Statements.

Company Statement of Changes Shareholders' in Equity

	Share capital	Share premium reserve	Retained earnings	Accumulated currency translation adjustments	Effective portion in fair value of cash flow hedges	Net profit for the year	Total
				EUR (thousands)			
Balance as of 1 January 2007	507	89,945	25,019	4,967	-	11,738	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	11,605	-	16,624	156,171
Profit appropriation prior year	**-**	**-**	**16,624**	**-**	**-**	**(16,624)**	**-**
Share based payments	**-**	**-**	**173**	**-**	**-**		**173**
Net profit for the year 2008	**-**	**-**	**-**	**-**	**-**	**17,656**	**17,656**
Currency translation	**-**	**-**	**-**	**(16,457)**	**-**	**-**	**(16,457)**
Effective portion in fair value of cash flow hedges **	**-**	**-**	**-**	**-**	**2,483**	**-**	**2,483**
Balance as of 31 December 2008	**508**	**90,377**	**53,854**	**(4,852)**	**2,483**	**17,656**	**160,026**

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

** represents changes in fair value adjustment of cash flow hedges related to part of the Company's future transactions denominated in currencies other than the functional currency (see Note 31 to the Consolidated financial statements).

The notes on pages 98 to 101 are an integral part of the Company Financial Statements

Company Statement of Cash Flows

	For the year ended 31 December 2008	For the year ended 31 December 2007
	EUR (thousands)	
Cash flows from operating activities		
Net operating result	**(501)**	(757)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**11**	-
Effect of foreign currency exchange and others	**(99)**	(187)
Interest received	**48**	372
Interest paid	**(104)**	-
Income taxes paid	**-**	2
Net cash used in Operating activities before working capital	**(645)**	(570)
Movement in receivables and payables form subsidiaries	**4,972**	(49,091)
increase in prepaid expenses	**(703)**	(344)
Decrease in trade accounts payable	**-**	(1,809)
Increase in other accounts payable	**311**	1,427
Equity share based payments	**173**	300
Net cash (used in)/provided by operating activities	**4,108**	(50,087)
Cash flows from investing activities		
Purchase of property and equipment and other assets	**-**	(1)
Purchase of intangible assets	**(227)**	
Dividends received from subsidiaries	**-**	5,978
Investment in subsidiaries	**(423)**	(762)
Net changes in marketable securities	**(1,324)**	-
Proceeds from disposition of subsidiaries	**13**	50
Net cash provided by/(used in) investing activities	**(1,961)**	5,265
Cash flows from financing activities		
Proceeds from new shares issued	**-**	586
Costs directly attributed to new shares issued	**-**	(153)
Net cash (used in)/provided by financing activities	**-**	433
Increase/(decrease) in cash and cash equivalents	**2,147**	(44,389)
Cash and cash equivalents at beginning of period	**1,369**	45,758
Cash and cash equivalents at end of period	**3,516**	1,369

The notes on pages 98 to 101 are an integral part of the Company Financial Statements.

Notes to 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 2008, 64.35% 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 Company’s financial statements have been prepared under the option of clause 362.8 of Part 9 of Book 2 of the Netherlands Civil Code, meaning that 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), except for the valuation of subsidiaries which are valued using the equity method. 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 - Intangible fixed assets

The intangible fixed assets comprise of software and are stated at cost less accumulated amortisation and impairment losses, if any. During the financial year 2007, the Company held no Intangible fixed assets.

Composition:	**For the year ended 31 December 2008**			
	Balance at beginning of the year	**Additions during the year**	**Sales and disposals during the year**	**Balance at year-end**
	EUR (thousands)			
Cost	**-**	**227**	**-**	**227**
Accumulated amortisation	**-**	**(11)**	**-**	**(11)**
Carrying value	**-**	**216**	**-**	**216**

Note 4-Property and equipment

Composition:

	For the year ended 31 December 2008			
	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)	**13**	**-**	**-**	**13**
Computers, furniture and office equipment	**18**	**-**	**-**	**18**
Carrying value	**31**	**-**	**-**	**31**

	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

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

Note 5 - Investment in subsidiaries

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

The movements in subsidiaries are as follows:

	Financial year	
	2008	2007
	EUR (thousands)	
Balance at beginning of the year	**144,472**	125,903
Dividends received from subsidiaries	**-**	(5,978)
Sale of subsidiaries	**(13)**	(50)
Currency translation adjustment	**(13,875)**	6,558
Investments in subsidiaries	**423**	762
Net result subsidiaries during the year	**18,213**	17,277
Balance at the end of the year	**149,220**	144,472

Note 6- Shareholders' equity

As of 31 December 2008 and as of 31 December 2007, 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 2008 and 2007, reference is made to Note 15 of the Consolidated Financial Statements.

The Company's legal reserves comprise the Effective portion in fair value of cash flow hedges and share in results of associates.

Note 7 – Financial income

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

Note 8 – Financial expenses

The financial expense relates mainly to foreign currency exchange losses of EUR 6,000 (2007: EUR 208,000) and interest expense payable to Group companies of EUR 98,000 (2007: EUR 60,000).

Note 9 - 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 2008 are estimated to be EUR 3,579,000 (2007: EUR 3,701,000).

Note 10 - Personnel

The Company employed no employees during the years 2008 and 2007.

Note 11 - 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 1,911,000 during the year 2008 (2007: EUR 1,662,000). 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 2008 is EUR 93,000 (2007: EUR 93,000).

Note 12 - 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	
	2008	2007
	EUR (thousands)	
Remuneration for audit (1)	**445**	448
Remuneration for other services (2)	**149**	74
	594	522

(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 includes other services rendered by the auditor in 2008 and 2007.

* excluding fees for tax services.

Rotterdam,
11 March 2009

The Management Board

Moshe Greidinger	Amos Weltsch	Israel Greidinger

Supervisory Board

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

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 the 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 2008, Management proposes to allocate the net profit for the year 2008 amounting to EUR 17,656,000 to retained earnings. This proposal has not been reflected in the Company's balance sheet per 31 December 2008.

Auditor's report

The auditor's report is set out on page 28-29.