Cinema City International N.V.

Annual Report

for the year ended
31 December 2010

GENERAL INFORMATION

Management Board

Moshe Greidinger
Amos Weltsch
Israel Greidinger

Supervisory Board

Coleman Kenneth Greidinger, Chairman
Scott Rosenblum, Vice-Chairman
Carrie Twist
Frank Pierce
Peter Weishut
Yair Shilhav

Company secretary

Malek Ballan

Registered office

Weena 210-212
3012 NJ Rotterdam
The Netherlands

Auditors

KPMG Accountants N.V.
Laan van Langerhuize 1
1186 DS Amstelveen
The Netherlands

LETTER FROM THE CEO

Dear Shareholders,

2010 has been a transformational year for the Cinema City Group. With a combination of solid organic growth and the completion of a meaningful acquisition at the very beginning of 2011 covering three territories, we enter the New Year as the third largest cinema chain in all of Europe, operating 90 multiplexes with 863 screens in 7 countries.

In 2010, we reported another consecutive year of record growth and profitability. With all-time high sales of 30.5 million tickets in 2010, our theatre operations continued to perform impressively. We witnessed a strong year in all our countries of operations, benefiting from our ambitious theatre expansion program, from another year of well received international titles – highlighted by the unprecedented success of *Avatar* – and from strong domestic movie products in most of our countries of operation. We achieved record cinema related revenues of EUR 234.5 million and cinema related EBITDA of EUR 53.1 million. The consolidated revenue of Cinema City, which includes the sale of our Bulgarian real estate assets, soared to EUR 325.8 million, EBITDA rose to EUR 56.2 million and a record net profit of EUR 30.4 million was achieved.

During 2010, we invested approximately EUR 40 million in new theatres, in installing over 100 new digital projectors, and in renovating older theatres. We opened a total of 63 new screens and we closed 9 obsolete screens in Israel as part of our ongoing redevelopment strategy in that country. We also laid the groundwork for the construction of our third megaplex in Israel, in Rishon Letzion, which began construction at the beginning of 2011. This landmark project is scheduled to open in the first half of 2012. In 2010, we continued our aggressive expansion program in Romania. During the year, we opened our second megaplex in Bucharest, in the newly completed Sun Plaza mall, and two more multiplexes in Arad and in Baia Mare, which together brought our Romanian operations to 88 screens at the end of the year. We continue to believe that Romania will remain one of our most active territories of development, currently supported by 26 binding lease agreements signed for new locations. During 2010, we opened two cinemas in Bulgaria, in Russe and Stara Zagora, and two cinemas in Poland, in Walbrzych and Bytom.

During the year, we also continued our rapid conversion from traditional to digital projection. More than one third of our screens now employ digital technology. In 2010, approximately 33% of the tickets sold were for premium priced 3-D movies, compared to 17% in 2009. In August 2010, we amended our general agreement with the Imax Corporation. We agreed to upgrade our existing 9 IMAX® theatres to incorporate the latest digital technology. In addition, Israel was added as the sixth territory for which we have exclusive development and exhibition rights for IMAX® theatres. The Company believes that the enhanced viewer experience associated with IMAX®'s big screen and big sound format will continue to be a very popular choice as the digital and 3-D movie revolution continues.

In April 2010, in a move intended to allow us to deleverage our balance sheet and to concentrate on our movie chain expansion, we sold our real estate operations in Bulgaria to our parent company, Israel Theatres, and realised EUR 91.2 million in revenues. Prior to this transaction, Israel Theatres already had real estate interests in Bulgaria and the region. In addition, Israel Theatres has a longer and more focused history than Cinema City in real estate development in general.

In January 2011, in a bid to accelerate our expansion activities, to enhance our leading position in Hungary and the Czech Republic, and to enter into our seventh territory, Slovakia, we consummated the acquisition of the Palace Cinema chain for EUR 28 million. Under the agreement we acquired 15 multiplexes with 141 screens: 8 multiplexes with 65 screens in the Czech Republic, plus a leasing agreement for 1 multiplex with 8 screens in Ostrava, Czech Republic, planned to be opened in 2012, 4 multiplexes with 47 screens in Hungary; and 3 multiplexes with 29 screens in Slovakia. We financed the acquisition from existing cash and from available credit lines. We are now in the process of integrating these theatres into our existing operations and we believe that once this process is completed, the combined company will emerge as the most dynamic and fastest growing circuit in all of Europe.

We eagerly look ahead to 2011, which we believe will be another year of growth and success for Cinema City, supported by what appears to be an excellent slate of upcoming international movies, including a

number of potential 'blockbuster' titles in 3-D.While it will not be easy to follow a year with such huge hits like Avatar and Alice in Wonderland, we remain optimistic about our 2011 prospects, which should also be supported by a robust pipeline of promising domestic productions, especially in Poland .

While difficult real estate market conditions continue to impact the construction of a number of the malls in the region, we expect to open approximately 70 new screens during the year. The first opening is scheduled to be a Cinema City theatre in Braila, Romania. In addition to these new screens, in 2011, we also intend to work hard to integrate the 141 screens we acquired at the beginning of the year from Palace Cinemas into our theatre circuit.

As always I am particularly pleased to thank all our dedicated Cinema City employees for their day-to-day work and their commitment to inspire our customers to come to Cinema City again and again. In the fall of 2010, we celebrated our 10th anniversary in Poland. The particularly high volume of movie tickets sold that day (over a quarter of a million visitors in Poland in one day!) was a wonderful demonstration of the success of our very special relationship with our loyal Polish movie-going customers.

And last but not least, I would like to thank our millions of customers in now seven countries who continue to share in our never ending love for the movies. We are committed more than ever to deliver to each one of them every day unparalleled service and the best movie going experience, supporting our saying – Cinema City is your best way to see a movie!

Moshe Greidinger, CEO

14 March 2011

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Supervisory Board Report

We take pleasure in presenting the financial statements of Cinema City International N.V. for the financial year 2010, 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 112 to allocate the net profit for the year 2010 amounting to EUR 30,410,000 to retained earnings.

Supervision
During the year 2010, five meetings were held by the Supervisory Board and the Management Board during which the following topics, among others, were discussed:

- the Company’s business strategy;
- the corporate governance structure of the Company and the implementation of the Dutch corporate governance code;
- risk management;
- internal audit reports;
- sale of the Company’s Bulgarian real estate development activities and assets;
- the Management Board remuneration policy, including the implementation of a long-term incentive plan;
- financial results and other related issues.

All Supervisory Board meetings held in 2010 were attended by the majority of the members of the Supervisory Board. None of the members of the Supervisory Board has been absent during more than one Supervisory Board meeting in 2010, other than C.K. Greidinger who missed 4 meetings for health related issues. Mr Rosenblum has acted as chairman in absence of Mr C.K. Greidinger.

As the Bulgarian real estate previously owned by the Company was sold to the Company’s main shareholder, Israel Theatres, the sale transaction which took place in the first half of 2010, was treated as a ‘related party transaction’. For this reason, the Supervisory Board had formed a special committee of independent Supervisory Directors, which committee together with the Company’s audit committee, were closely involved with reviewing the details of the transactions and its arm’s length terms, and ultimately have approved the transaction. During the first half of 2010, this special committee met three times. For a more detailed description of the transaction, reference is made to the Directors’ Report (page 23).

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 2010, the Audit Committee met five times. The Audit Committee 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 2010, the Appointment Committee 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 2010, the Remuneration Committee met once.

Supervisory Board report

Financial statements
The Management Board has prepared the 2010 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.

Composition of the Supervisory Board
In order to secure continuity within the Board, the Supervisory Board adopted an arrangement that provides for a staggered expiration of individual terms. In order to implement this arrangement, the reappointment for a four-year term of one member of the Supervisory Board was scheduled prematurely for the Annual General Meeting of Shareholders in June 2010. During this General Meeting of Shareholders, Ms Carrie Twist was reappointed as Supervisory Director of the Company. Her new term will expire in June 2014. For the upcoming General Meeting of Shareholders, the proposal to reappoint Messrs Frank Pierce and Yair Shilhav will be scheduled.

14 March 2011
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'). For this reason the Company is subject to both Dutch and Polish rules and regulations regarding corporate governance.

Corporate Governance Code in the Netherlands

On 9 December 2003, the Dutch Corporate Governance Committee released the Dutch Corporate Governance Code. It was updated on 10 December 2008 by the Corporate Governance Code Monitoring Committee to take effect as of financial year 2009. The updated Dutch Corporate Governance Code ('the Code') contains principles and best practice provisions for management boards, supervisory boards, shareholders and general meetings of shareholders, financial reporting, auditors, disclosure, compliance and enforcement standards.

Dutch companies listed on a government-recognised stock exchange, either in the Netherlands or elsewhere, are required under Dutch law to disclose in their annual reports whether or not they apply the provisions of the Code and, if they do not apply, to explain the reasons why. The Code provides that if a company's General Meeting of Shareholders explicitly approves the corporate governance structure and policy and endorses the explanation for any deviation from the best practice provisions, such company will be deemed to have complied with the Code.

The Company acknowledges the importance of good corporate governance. The Management and Supervisory Boards have reviewed the Code, and generally agree with its purport. The Boards have taken and will take any further steps they consider required and appropriate to further implement the Code and improve the Company's corporate governance features. This is very much a living process. It is the Company's policy to discuss the topic annually with the shareholders and schedule it for this purpose for the Annual General Meeting of Shareholders each financial year. The topic has been part of the agenda for each General Meeting of Shareholders since 2008.

The corporate governance policy and the corporate governance framework of the Company were approved for the first time by the shareholders in 2006 at the occasion of the IPO of the Company. In view of the evolution of the corporate governance structure and framework since then, the topic is scheduled for further discussion and approval in the upcoming General Meeting of Shareholders to be held in June.

Exceptions to the application of the Dutch Corporate Governance Code

The Company endorses the Code and has applied the relevant best practice provisions of the Dutch Corporate Governance Code, except for the provisions set out below.

II. 2.4 *If options are granted, they shall, in any event, not be exercised in the first three years after the date of granting. The number of options to be granted shall be dependent on the achievement of challenging targets specified beforehand.*

The currently outstanding options have been granted unconditionally and independent on the achievement of targets. The Company shall not amend these existing agreements. Considering that the Company is still in a stage of development and that the setting of credible predetermined performance criteria at a term of at least three years is not practical at this stage, the Company shall not apply this provision. As of the date of this Annual Report no options have been granted to any members of the Management Board.

III. 2.1 *The supervisory board members, with the exception of not more than one person, shall be independent within the meaning of best practice provision III. 2.2.*

Our Supervisory Board currently consists of six members, of which four are independent within the meaning of the Dutch Corporate Governance Code.

The Company currently has two non-independent members of the Supervisory Board, which is a deviation from the Code. However, the current composition of the 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 met given the four independent members of the Supervisory Board.

III. 6.5 *The terms of reference of the supervisory board shall contain rules on dealing with conflicts of interest and potential conflicts of interest between management board members, supervisory board members and the external auditor on the one hand and the company on the other. The terms of reference shall also stipulate which transactions require the approval of the supervisory board. The company shall draw up regulations governing ownership of and transactions in securities by management or supervisory board members, other than securities issued by their 'own' company.*

The Company believes that the restrictions under Dutch securities law are sufficient to govern the ownership of and transactions in securities by Supervisory and Management Board members. Implementing additional restrictions would potentially harm its ability to attract and ensure the continued services of Supervisory and Management Board members and the Company therefore believes that applying this best practice provision is not in its best interest.

IV. 3.1 *Meetings with analysts, presentations to analysts, presentations to investors and institutional investors and press conferences shall be announced in advance on the company's website and by means of press releases. Provision shall be made for all shareholders to follow these meetings and presentations in real time, for example by means of web casting or telephone lines. After the meetings, the presentations shall be posted on the company's website.*

Information on the meetings and conference calls are sent to a wide group of analysts and investors who have subscribed to the Company's mailing list. Presentations are posted on its website prior to the meetings in question in order to enable the participants to acknowledge them.

Corporate Governance

Transactions with a conflict of interest

During the financial year 2010 no transactions as referred to in best-practice provisions II.3.4, III.6.3 and III.6.4 took place involving a conflict of interest relating to directors, Supervisory Board members or natural and/or legal persons holding at least 10% of the shares in the Company, with the exception of the sale of the Bulgarian real estate developments and activities to the Company's major shareholder during the year 2010. Best-practice provisions II.3.2, II.3.3, III.6.1 and III.6.2 were applied. In order to address the conflict of interest issue pursuant to this transaction, the Supervisory Board had formed a special committee of independent Supervisory Directors, which committee together with the Company's Audit Committee, were closely involved in reviewing the details of the transactions and its arm's length terms, and ultimately have approved the transaction. In addition, the real estate assets were valued by independent international valuers.

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

Based on 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, limited liability companies, whose shares – to put it briefly – are listed on a regulated stock exchange, must include a statement in their annual reports about their compliance with the principles and best practices of the Code.

In light of the foregoing, the Company confirms that in the year under review, it did not comply fully with the provisions of the Code, nor does it intend to comply with these during the current financial year or the next financial year. Its reasons for doing so are explained in the paragraphs above.

Corporate governance code of the Warsaw Stock Exchange

On 19 May 2010, the WSE Board adopted revised corporate governance rules of the WSE contained in the Code of Best Practice for WSE-Listed Companies (the 'WSE Corporate Governance Rules'). The WSE Corporate Governance Rules apply to companies listed on the WSE, irrespective of whether such companies are incorporated in Poland or outside of Poland. The WSE Corporate Governance Rules consist of 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 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. Moreover, every year each WSE-listed Company is required to publish a detailed statement on any non-compliance with the WSE Corporate Governance Rules (including the rules set forth in Part I) by way of a statement submitted with the company's annual report (the 'Yearly Compliance Statement').

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 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.

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) the adoption of the financial statements, (iii) a discussion of any substantial changes in corporate governance, (iv) a 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) a 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) the adoption of the profit appropriation, (x) a (re)appointment of members of the Management Board and (xi) a (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 issues 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.

Supervisory Board and Management Board

The Company has a two-tier corporate governance structure, consisting of a(n) (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.

As noted above, in order to secure continuity within the Board, in June 2010, the Supervisory Board adopted an arrangement that provides for a staggered expiration of individual terms. In order to implement this arrangement, the reappointment for a four-year term of one member of the Supervisory Board was scheduled prematurely for the Annual General Meeting of Shareholders in June 2010, and in each of the next several years, a proposal will be offered to reappoint at least one Supervisory Board member.

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 (male, 1 January 1924, Israeli nationality)

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 Ltd. in 1958 and has been Managing Director of Israel Theatres Ltd. 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 (male, 12 October 1958, Israeli nationality)

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 term as Supervisory Director has expired and will be scheduled at the forthcoming General Meeting of Shareholders for renewal until June 2015.

Arthur F. Pierce (male, 4 April 1930, U.S. nationality)

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 served as a director in Luna Production Ltd, a UK subsidiary of New Regency Productions, Inc. and from 1 October 2001 until 1 January 2011 served 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 (male, 4 October 1949, U.S. nationality)

Scott Rosenblum was appointed as a member of the Supervisory Board in 2004 and was elected as vice chairman of the Supervisory Board in 19 November 2009. He was appointed Chairman of the Remuneration Committee and 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 twenty years he has been 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 Ltd., the indirect shareholder of the Company. His current term as Supervisory Director expires in June 2012.

Caroline M. Twist (female, 25 January 1956, U.K. nationality)

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 1989, Ms Twist worked in the UK cinema exhibition industry in a variety of managerial roles at ABC/Thorn EMI cinemas and C.I.C. Theatres. From 1989 until now, Ms Twist has held various managerial positions within Clarity-Pacer CATS, a leading supplier of ticketing and retail systems in Europe.
Her current term as Supervisory Director expires in June 2014.

Composition of the Supervisory Board (cont'd)

Peter J. Weishut (male, 31 July 1935, Dutch nationality)

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.
He is currently advising college students to set up their own companies. His current term as Supervisory Director expires in June 2013.

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 (the 'Group') 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 (male, 12 December 1952, Israeli nationality)

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 Ltd. 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 (male, 28 February 1950, Israeli nationality)

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 Ltd. 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 Ltd. His current term as Managing Director expires in June 2012.

Israel Greidinger (male, 14 April 1961, Israeli nationality)

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 Ltd. since 1994. From 1985 to 1992, Mr Greidinger served as Managing Director of C.A.T.S. Ltd. (Computerised Automatic Ticket Sales), a London company, and from 1992 to 1994, he was President and Chief Executive Officer of Pacer Cats Inc. He is the brother of Moshe Greidinger and the son of Coleman Greidinger. His current term as Managing Director expires in June 2012.

Explanatory notes by reason of the Decree, Article 10 of the Takeover Directive

By reason of the Decree of 5 April 2006 to implement article 10 of Directive 2004/25/EC of the European Parliament and the Council of the European Union of 21 April 2004 regarding public takeover bids, Cinema City International N.V. (‘the Company’) can provide the following explanation.

a. Capital structure of the Company
The capital of the Company consists of one class of shares, being ordinary shares with a nominal value of EUR 0.01 each. Information on issued shares has been included under Note 16 to the Consolidated Financial Statements.

b. Restriction on transferring shares or issued depositary receipts with the Company’s co-operation
The Articles of Association of the Company contain no restriction with respect to the transfer of shares. The Company has no depositary receipts issued with the Company’s co-operation.

c. Duty to report interests in the Company
The Company has been notified regarding shareholders with a substantial holding in accordance with the Act on Financial Supervision (5% or more) in the Company.

Entities with an interest of at least 5% in the Company’s shares include:

- I.T. International Theatres Ltd.
- Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK
- Aviva Investors Poland S.A.
- BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.

d. Special controlling rights
The Company has issued no shares with special controlling rights.

e. Employees’ shares
The Company maintains a long-term incentive plan, under which plan option rights to acquire shares in the Company may be granted to employees of the Company or its subsidiaries, including the members of the Management Board. 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.

f. Restriction on voting rights and issue of depositary receipts
No restrictions are currently imposed on voting rights attached to issued shares. The Company has no depositary receipts issued with the Company’s co-operation.

g. Agreements with shareholders
Currently, the Company is unaware of any shareholder agreements.

h. Regulations pertaining to the appointment and dismissal of executive and supervisory directors and amendments to the Articles of Association
By virtue of articles 15 and 16 of the Articles of Association, the General Meeting is authorised to appoint, suspend or dismiss members of the Management Board. By virtue of articles 23 and 24 of the Articles of Association, the General Meeting is authorised to appoint, suspend or dismiss members of the Supervisory Board. The members of the Management Board and the Supervisory Board may be suspended or dismissed by the General Meeting at any time. The Supervisory Board may recommend persons to be appointed as member of the Supervisory Board.

Explanatory notes by reason of the Decree, Article 10 of the Takeover Directive (cont'd)

By virtue of article 43 of the Articles of Association, the Articles of Association can only be amended at the proposal of the Board of Managing Directors subject to approval from the Supervisory Board and the shareholders.

i. The powers of the board

By virtue of article 6 of the Articles of Association, the Company can only issue shares, subject to a proposal by the Management Board and approval by the Supervisory Board, pursuant to a resolution approved by the General Meeting or of any other corporate body designated to do so by a resolution of the General Meeting for a fixed period not exceeding 5 years. Such designation must be accompanied by a stipulation as to the number of shares that may be issued. As at 23 June 2009, the General Meeting authorised the Board of Managing Directors for a period not exceeding 5 years to issue new shares with the discretion to exclude or restrict the shareholders' pre-emption right, provided that all relevant resolutions of the Board of Managing Directors regarding issue of shares and exclusion or restriction of pre-emption rights will be subject to prior approval by the Board of Supervisory Directors.

The Company may acquire its own shares, subject to certain legal restrictions, only if the Management Board has been authorised at the General Meeting to make such acquisitions, which authorisation shall be valid for not more than 18 months and shall specify the number of shares which may be acquired. The Management Board has been authorised by the General Meeting to repurchase and/or alienate existing shares in the Company with such maximum of shares as allowed by the limitations under the Articles of Association and at a price not lower than the nominal value and not exceeding 110% of the average share price five days prior to the date of the transaction.
Both authorisations will allow the Company to execute the prevailing employee incentive plan and to issue new shares and to repurchase and alienate existing shares for general corporate purposes.

j. Important agreements when issuing a public bid

The Company is not aware of any existing agreement which is relevant in the context of the issuance of a public bid except for a limitation related to loans provided by Bank Leumi Israel. According to this limitation, all bank loans outstanding with Bank Leumi will become immediately payable, in case Israel Theaters' indirect holding in the Company will be below 51%.

k. Agreements with executive directors or employees in the event of a public bid

The employment contracts of the members of the Management Board do not contain any specific clauses which refer to a change of control in the Company.

Risk Profile and Risk Management

Risk profile

Supply and Quality of Movie Product

The Company remains dependent on the diversity of the supply and on the suppliers of movies. A lack of diverse motion picture products, failure by the industry to adequately promote their movies, or the poor quality of the motion pictures would have a negative effect on film attendance. The Company seeks to reduce this risk by, among other things, establishing longer-term relationships with the major independent movie studios, and by exhibiting a broad variety of movies in its theatres.

Competitive Environment

While the multiplex screen density in the Company's markets of operation in Central Europe in comparison to Western Europe remains relatively low and while it is precisely the Company's strategy to build modern multiplexes to service these under-screened markets, this low density could also be equally inviting to competitors who desire to compete in a market with relatively low barriers of entry. The Company's strategy has always been to gain a 'first mover advantage' in its territories by rapidly and efficiently developing state-of-the-art multi-screen complexes in strategically selected locations. As the Company recognises that consumers tend not to be brand conscious when they select their movie theatres, that puts a premium on location, the quality of the theatre and the diversity of the movie offering, all of which the Company endeavours to deliver better than its competition. Even as the movie theatre environment matures in the Company's territories of operation, the Company still believes that there are ample growth and development opportunities.

Movie Alternatives

The Company also competes with other movie and video delivery technologies, including cable television, the internet, in-home video and DVD, satellite and pay-per-view services. Traditionally, when motion picture distributors licensed their products in each local market, they refrained from or delayed licensing their motion pictures to these other delivery vehicles during the theatrical release window. We believe that a material contraction of the way people prefer to see movies, or in the current theatrical release window, could significantly dilute the consumer appeal of the in-theatre motion picture offering, which could have a material effect on our business and results of operations. The movie exhibition industry is in the process of converting into digital 3-D technology, and the Company in its markets is in the forefront of this technological revolution. We believe such revolution and the display of 3-D movies can increase the appeal of movie theatres, and give them a new edge in their competition with the alternative choices listed above, particularly since we believe a mass home 3-D market will not materialise in the near future.

Reliance on Leases

The Company does not own the theatres it currently operates; they are all subject to leases. Accordingly, the Company is subject to the risk of failing to satisfy its lease obligations or to renew its leases on commercially reasonable terms. This risk is somewhat mitigated by the multiple number of long-term leases the Company maintains, which typically contain commercially desirable renewal provisions. Moreover, the Company continues to have strong relationships with the owners of its leased properties. Assuming no material changes in the relevant legislation relating to the Company's leased properties (such as tenancy and competition laws), the Company believes that the risks associated with leasing rather than owning its multiplex properties is manageable.

Currency Risks

While the Company 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 its results overall in euros. As a result, the Company can be negatively impacted by devaluation of the local currencies against the euro and the US dollar. In order to reduce this impact, the Company may from time to time enter into currency hedge contracts to protect its currency exposure. Currently, the Company does not have currency hedge contracts in place, because the Company believes that any volatility of its local currencies in the short term should not have a material impact on the financial

results of the Company. During the course of 2011, the Company will evaluate whether it should consider acquiring new foreign currency hedge instruments for 2012 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.

The Economy

There can be no assurance that the Company will not be materially adversely impacted if the ongoing worldwide economic recovery remains weak or is not sustained. Continued softness in consumer spending, even in light of a modest economic rebound, could result in an ongoing weakness in 'mall traffic', which has historically supported theatre admissions. In addition, if consumers continue to 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 for food and drinks 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, throughout years of economic distress, 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. The Company has seen very strong admissions trends through the date of this report and continues to see no evidence of any downturn in theatre visits resulting from external economic factors.

Interest rate risk

Interest expenses and, therefore, the Company's results are affected by movements in interest rates. The Company did not enter into any interest rate swap contracts to limit the effect of interest rate movements on the result.

Risk management

As part of its risk management measures, the Company has insurance policies for the most common risks associated with its activities, such as loss of profits, fire and third-party liability. In the Company's opinion, the insurance policies offer adequate coverage for the financial consequences if such risks should manifest themselves, in order to limit their impact on the result.

A number of balance sheet items in the financial statements of the Company are based on management estimates and assumptions relating to future results. If the actual results differ from the expected results, it may have a significant influence on the valuation of items such as deferred tax assets and liabilities, investment properties and provisions for claims, if any.

Various organisational measures and procedures have been implemented in order to improve the quality of operations and incorporate the correct checks and balances into the activities including approvals, authorisations, reviewing investment decisions and so on. In implementing the best-practice provisions of the Dutch and Polish corporate governance codes, the Company introduced an internal risk management and control system tailored to the Company and, over the years, amended this from time-to-time to reflect organisational changes. This system was designed (i) to manage the operational risks identified in each area of activity, (ii) to identify financial risks promptly and (iii) to ensure the quality of financial reporting. The system was incorporated into the Company's operating processes. During 2010, the proper operation of the internal risk management and control system has been monitored. The valuation was discussed with the members of the Audit Committee and the Supervisory Board. Lastly, the Company has a whistle blowing procedure in place to allow reporting of any suspected general, operational or financial irregularities.

The Company's Management Board believes that its existing risk management measures are sufficient to provide a reasonable degree of certainty as to the absence of material inaccuracies in the financial reporting, losses and fraud.

For a description of the Company's financial risk management and the Company's policies regarding financial instruments reference is made to Note 32 of the Consolidated Financial Statements.

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 aspects 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 twelve 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 that relate to Forum Film (Israel) activities and 33% of the monthly based salaries to Messrs Moshe Greidinger and 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 the 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 their 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.

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, options, 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 12,500 and EUR 1,500 per attendance at meetings or EUR 750 if attendance is by telephone.
The chairman of the Audit Committee is entitled to an additional EUR 5,000 per year and the chairman of the other committees is entitled to an additional EUR 2,500 per year.

Directors' Report

General

Introduction

Cinema City International N.V. (the 'Company' or 'Cinema City'), 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, the Czech Republic, Slovakia, 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 11 March 2011, the market price was PLN 39.0 (EUR 9.71) per share, giving the Company a market capitalisation of EUR 497.0 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 in Israel, and as of 14 March 2011, operates 863 screens in 90 cinemas in 7 countries (Poland, Hungary, the Czech Republic, Slovakia, Bulgaria, Romania and Israel). With its January 2011 acquisition of the Palace Theatre chain, with screens in Hungary, the Czech Republic and Slovakia, the Company is now the third largest cinema exhibitor in all of Europe.

The Company continues to have significant expansion plans for Central Europe and Israel, mainly in Poland, Romania and Bulgaria. Currently there are 35 more multiplexes under development, which will offer approximately 360 new screens. In addition, 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, in Poland, Hungary, Bulgaria and Romania for the last several years, through its subsidiary, Forum Film. Since last year, Forum Film also began acting as exclusive film distributor for Paramount and Universal in Bulgaria, and for Sony and Fox in Israel via its sub-distributor relationship with A.D. Matalon. The Company also maintains an exclusive arrangement with the IMAX Corporation to develop IMAX® theatres in Poland, the Czech Republic, Hungary, Bulgaria, Romania, and since August 2010, in Israel as well, where it plans to open its first IMAX® screen in the first half of 2012.

Business strategy

The Company's strategic objectives are to enhance its position as a leading operator of multiplex cinemas in Central Europe and Israel through continued expansion in Poland, Hungary, the Czech Republic, Bulgaria, Romania and, most recently, Slovakia, 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, with cutting edge technologies, such as the installation of the latest digital and 3-D exhibition technologies and which it otherwise 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 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.

Economy and business developments during 2010

Economic environment

Central and Eastern Europe have undergone a massive economic transformation over the past 20 years which has brought about rapid modernisation, an improvement in living standards and a significant increase in disposable income per capita. This process has been accelerated for those countries that have gained full membership into the European Union.

Recently, the region appears to be emerging from a very difficult three years characterised by a steep drop in the regions' real estate markets and a significant devaluation of the regional currencies resulting from perceived over-lending by the regional banks. However, during this recessionary period, the Company did not see any negative impact on its theatre admissions as a consequence of the economic environment.

Nonetheless, the economic upheaval over the past three years has proven to be challenging in connection with managing foreign exchange risk as the past three years revealed unusual volatility in currency exchange rates. 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. However, some of the Company's long-term leases are denominated either in US dollars or in euros and the Company reports its results overall in euros. Therefore, in 2008 and 2009 the Company entered into a number of currency hedge contracts to limit its currency exposure, most of which had expired just before the end of 2010. The Company currently does not have new contracts in place for 2011 replacing the expired contacts, because management believes that any volatility of its local currencies in 2011 should not have a material impact on the financial results of the Company. During the course of 2011, the Company will evaluate whether it should consider acquiring new foreign currency hedge instruments for 2012 and beyond.

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 Western Europe.

Cinema market

The Company believes that the movie exhibition market will continue to grow in Central and Eastern Europe for a number of reasons. First, throughout these territories, there continues to be a low supply of quality cinemas – the multiplex screen density in the Company's markets of operation in Poland, Hungary, the Czech Republic and Slovakia 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 these regions over the past decade, and, their population continues to have significantly more disposable income when compared with 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 operation.

Competitive environment

Poland

Cinema City remains the clear leader in the Polish movie exhibition market. As of 31 December 2010, the Company operated 331 screens in 30 cinemas, and had an approximately 40% market share in the total number of admissions in Poland in 2010.

The Polish market went through a challenging year in 2010, with ticket sales contracting by 2.8%, impacted in part by the long national mourning period that followed the tragic death of Poland's President, many senior ministers, clergy and business leaders in a Polish air force plane that was on its way to Russia to commemorate the Katyn massacre. In addition, domestic film production, which has historically been a strong contributor to the Company's overall performance in Poland, was very modest in 2010, driven in part by a delay in certain productions to 2011 so as not to compete with *Avatar*, which dominated the market for much of 2010.

In the Polish market, the Company now has two main competitors – Multikino (188 screens in 21 theatres) and Helios (140 screens in 26 theatres).

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 one of the major film distributors 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, SPI films and several other independent producers and domestic film studios.

Hungary

At 31 December 2010, the Company is the largest exhibitor in Hungary in number of screens (115 screens). Following the opening of the Company's second major multiplex in the city of Budapest toward the end of 2009, the Company's market share in the number of tickets sold in Hungary stood at 43.5%. The acquisition of Palace Cinemas Hungary, completed in January 2011, has considerably strengthened Cinema City's position in Hungary. The Company has added four prime located multiplexes in Budapest with a total of 47 screens. Following this acquisition, Cinema City's market share went up to 66.3% and the Company currently operates 17 multiplexes with 162 screens across the country.

The main competitors in Hungary are Palace Mozi (48 screens) and Budapest Film (16 screens).

Following the above mentioned acquisition, the Company will also be rendering selected management services, during a transitional period, for the Palace Mozi operated by Palace Mozi Kft, a Hungarian subsidiary of Palace Cinemas that was not acquired by the Company.

Apart from being the market leader in the movie exhibition industry in Hungary, Cinema City owns and operates a 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, SPI films and several other independent producers.

The Czech Republic

Cinema City is one of the largest cinema operators in the Czech Republic with a relatively strong presence in Prague. As of 31 December 2010, the Company operated 46 screens (including one IMAX® theatre), and had a 14% share of the total market as measured by the number of admissions.

With the acquisition of Palace Cinema's Czech operations, Cinema City added 8 multiplexes with 65 screens and it grew its cinema chain to 13 multiplexes with 111 screens. The Company's market share measured by number of admissions went up to approximately 36%.

The Company's main competitor in the Czech market Cinestar (83 screens).

Apart from being the market leader in the movie exhibition industry in the Czech Republic, Cinema City owns and operates a leading cinema advertising sales house.

Slovakia

As at 31 December 2010, the Company did not have any operations in Slovakia. In January 2011, Cinema City acquired from Palace Cinemas 3 multiplexes with 29 screens all located in Bratislava. The Company intends to develop its activity in this new market. With this acquisition, the Company's market share measured by number of admissions is approximately 34%. The Company's main competitor in the Slovakian market is CineMax (37 screens).

Bulgaria

The cinema exhibition market in Bulgaria remains relatively underdeveloped.

Following the successful openings in the last quarter of 2010 of two new multiplexes, notably in two new shopping malls in the city of Stara Zagora and in the city of Russe, the Company currently operates 4 modern multiplexes in Bulgaria located in the Mall of Sofia, Mall of Plovdiv, Galleria Mall Stara Zagora and Mall Russe with a total of 40 screens and one IMAX® theatre.

The company's main competitor in the Bulgarian market is Arena Cinemas (70 screens).

The Company has signed contracts for a number of additional multiplexes, which it plans to open in the coming two years. In addition, the Company has film distribution and screen advertising activities in Bulgaria. Forum Film Bulgaria is the exclusive distributor of Disney and UIP (Paramount and Universal) movies in the country.

In April 2010, the Company signed and closed an agreement with Israel Theatres Real Estate Holding B.V. and Pan-Europe Finance B.V. (both subsidiaries of the parent company) to sell all of the Company's Bulgarian real estate development activities and assets. The primary reason for the transaction was to allow the Company to focus on developing its theatre exhibition and film distribution businesses in Bulgaria while reducing its outstanding debt, and allowing Israel Theatres to focus on its core competency associated with real estate development. This transaction is discussed in more detail on page 23.

Romania

Cinema City is the largest operator of multiplex theatres in Romania. The Company currently runs 9 modern multiplexes in 8 cities with a total screen count of 88. Three of these multiplexes were opened in 2009 and another three in 2010. The Company has entered into additional lease agreements, which would result in the opening of approximately an additional 250 screens in the country over the next three years.

Romania is the largest underdeveloped movie theatre market in Central Europe. With one of the lowest admissions per capita rates in all of Europe, the Company believes that Romania, with over 22 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 recently opened theatres in Romania, the country currently has very few multiplexes. A number of the multiplexes in Romania are owned by private companies. In addition, there are approximately 55 single screen cinemas in Romania, most of which have remained state-owned.

Apart from being the market leader in the movie exhibition industry in Romania, Cinema City owns and operates a cinema advertising sales house, New Age Media, and has commenced film distribution activities through its Forum Film Romania subsidiary. During the first quarter of 2010, Forum Film Romania became the exclusive distributor of Buena Vista International, distributing movies of Disney and Touchstone. In addition, Forum Film Romania distributes films from Spyglass and several other independent producers.

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 three cinema operators. As of 31 December 2010, the Company operated 101 screens in 14 cinemas, and had an approximately 37% market share in the total number of admissions in Israel 2010.

In the Israeli market, the Company now has two main competitors – Globus (92 screens in 13 theatres) and Cinema City (a brand registered in Israel by competitor with 55 screens in 4 theatres).

The Company continues 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.

The Company is also a major film distributor, through its Forum Film Israel subsidiary. Forum Film Israel is the exclusive film distributor of Disney and several other independent studios. In September 2010, Forum Film Israel closed an agreement with the Israeli film distributor, A.D. Matalon, under which Forum Film Israel will act as sub-distributor for Sony and Fox movies in Israel. 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.

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

Business highlights during 2010

During the year ended 31 December 2010, the Company reported another consecutive year of growth in revenues, EBITDA (Earnings before Interest, Taxation, Depreciation and Amortisation) and net income. Consolidated EBITDA increased from EUR 46.4 million for the year ended 31 December 2009 to EUR 56.2 million for the year ended 31 December 2010. Net income attributable to equity holders of the Company increased from EUR 24.4 million for the year ended 31 December 2009 to EUR 30.4 million for the year ended 31 December 2010.

The strong results were driven by a record year for the Company's movie theatre operations, which in itself was driven by a particularly strong first quarter, as the Company continued to ride the wave of the digital format and 3-D movie revolution. Ticket sales for the year ended 31 December 2010 grew by 11.1% compared to 2009, while 'aggregate same store' ticket sales remained at the same level as in 2009. Revenue for the year ended 31 December 2010 generated by movie theatre operations increased by 24.9% in comparison to the year ended 31 December 2009, also supported by higher average ticket prices, largely due to a higher percentage of 3-D movie tickets sold.

The results for the year ended 31 December 2010 are even more notable given the fact that the results for the year ended 31 December 2009 included a gross profit of EUR 10.6 million from the sale of the Mall of Plovdiv in Bulgaria towards the end of March 2009 compared to a gross profit of EUR 3.0 million from the sale of the Company's interests in its Bulgarian real estate development activities to Israel Theatres Ltd. during the second quarter of 2010. The results for the year ended 31 December 2010 were also positively impacted by an increase in the value of the Central and Eastern European local currencies against the euro. During the year ended 31 December 2010, these currencies regained a portion of the devaluation against the euro that was recorded during 2009.

Theatre operations

The Company's strong theatre operations during the year ended 31 December 2010 were supported by a very well received supply of international movies, particularly those movies in the very popular 3-D format that continue to command premium pricing. Ticket sales grew in most territories. The international blockbuster *Avatar*, which was released toward the end of 2009, was the predominant movie of the year (though it had its primary impact during the first quarter of 2010). The success of Avatar was quickly followed later in the first quarter by Alice *in Wonderland.* The premium priced 3-D version of these two movies and of many other movies was the most popular format and contributed significantly to our revenues in 2010.

In Poland, the Company's largest market of operations, theatre operations shrunk by 2.8% in admissions in 2010, due, in part, to a national mourning period that followed the April 2010 Polish Air Force airplane crash that killed almost 100 top government, military, clergy and business leaders. Additionally, the anticipated release of *Avatar*, which was very successful in the Polish market, caused a number of Polish film producers to delay the release of domestic content until 2011, which further impacted Polish movie attendance in 2010.

Following the success of Avatar, the remainder of 2010 continued to show strong theatre operations results, with movies such as *Prince of Persia*, *Toy Story 3, Shrek Forever After*, *Inception*, *Twilight Eclipse, Clash of the Titans, Harry Potter* and *Tangled* all delivering solid results, even if at a moderately slower pace than during the *Avatar* and *Alice in Wonderland* juggernauts at the beginning of the year.

During the year 2010, the Company's Israeli operations performed particularly well, with the two 'Planet' Megaplexes operating in Israel delivering very strong results. During the third quarter of 2010, the Company completed the acquisition of a land parcel for its third Planet Megaplex in Israel, in Rishon Letzion. Necessary zoning was obtained and construction began in February 2011, with an

expected opening in mid-2012. This third Planet project will also include the Company's first IMAX® screen to be opened in Israel.
In August 2010, the Company amended its 12-year old agreement with the Imax Corporation. The Company agreed to upgrade its existing 9 IMAX® theatres to incorporate the latest digital technology. In addition, Israel was added as the sixth territory for which the Company has exclusive development and exhibition rights for IMAX® theatres. The Company believes that the enhanced viewer experience associated with IMAX®'s big screen and big sound format will continue to be a very popular choice for the latest digital and 3-D movies.

The new screens which the Company opened during the year 2009, including three major projects in Budapest, Hungary, in Bucharest, Romania and in Krakow, Poland, all of which were opened during the fourth quarter of 2009, had their first full twelve months of operation during the year ended 31 December 2010, which contributed to the increase in the positive results of the Company's theatre operations, both in terms of number of admissions and EBITDA.

In the first quarter of 2010, the Company closed a multiplex with 4 screens in Beer-Sheva, Israel. During the second quarter of 2010, the Company opened a 15 screen multiplex in Bucharest, Romania and reopened a 4 screen multiplex in Tel Aviv, Israel that was under renovation (with 6 screens before it was renovated). During the third quarter of 2010, the Company opened a 10 screen multiplex in the city of Arad, Romania. In the fourth quarter of 2010, the Company opened 5 new multiplexes: a 7 screen multiplex in Walbrzych, Poland, an 8 screen multiplex in Bytom, Poland, a 6 screen multiplex in Baia Mare, Romania, a 7 screen multiplex in Stara Zagora, Bulgaria, and a 10 screen multiplex in Russe, Bulgaria, and closed 3 screens in Bat Yam, Israel (reducing a 7-screen multiplex to a 4-screen multiplex). The Company's total screen count as at 31 December 2010, following the net additions from the above openings and closing, is 722 (including 9 IMAX® theatres).
The Company's total screen following the acquisition of Palace Cinemas during January 2011 grew to 863 (including 9 IMAX® theatres).

Digital Projection

The Company continues to install state-of-the-art digital projectors, both in its new projects and in all the Company's existing theatres. In each theatre, the Company is installing between 1 to 6 such projectors. Currently, including projectors installed in the recently acquired multiplexes of Palace Cinemas, the Company has 299 digital projectors. In 2011, the Company is scheduled to install between 150 to 200 new machines. The digital projectors which represent the most important technological advance in movie viewing since the 1950s, provide a higher quality and a sharper resolution viewing experience than traditional projectors, and the ability to display a new generation of 3-D movies.

The Company believes that in 2011 the demand for digital and digital 3-D format will continue to increase, supported by the scheduled release of approximately thirty 3-D titles during the year. Moreover, the film studios are distributing more films only on digital prints, including the traditional "2-D" versions. The growing number of digital projectors will allow the Company to meet this demand and to capture premium ticket pricing for 3-D movies. The fact that the Company continues to be ahead of its competition in many markets in installing digital projectors, continues to allow the Company to take market share away from its competitors in these regions.

The Company has also installed digital projectors in all of its IMAX® theatres. Digital technology, translating into lower print costs, should support the lineup of titles adjusted to IMAX® projection to be released by film studios during the year 2011.

While the Company has borne all the costs associated with installing digital projectors, the movie studios are clearly also beneficiaries as they are now able to save significant costs associated with producing and delivering traditional film. To compensate the Company for this mutual benefit, Cinema City has recently agreed on rules for virtual print fee agreements with the five largest US film

studios. These agreements provide for the film studios to rebate the Company in cash for each 'digital print used in the Company's multiplexes in the coming years. This rebate, in essence, allows the Company to recoup over time a portion of the cost incurred by the Company in installing digital projectors throughout its chain. The Company expects to begin to benefit from these agreements beginning in 2011.

The Company believes that in the long term, digital technology can also help to reduce cinema labor costs as digital projectors require less ongoing manpower than traditional reel-to-reel projectors.

Sale of real estate

In April 2010, the Company signed and closed an agreement with Israel Theatres Real Estate Holding B.V. and Pan-Europe Finance B.V. (both subsidiaries of the parent company) to sell all of the Company's Bulgarian real estate development activities and assets for EUR 91.2 million. The valuation of the assets was conducted by an independent international valuator and the evaluation of the details of the agreements was conducted by a special committee of independent members of the Supervisory Board of the Company, which separately voted on and approved the transaction.

An initial payment of EUR 76.2 million was made to the Company at the closing of the transaction. Under the terms of the sale, the remaining EUR 15.0 million will be paid on the earlier of 9 months following the completed opening of the Russe mall (one of the two development projects sold in the transaction) and October 2011. Although the Russe mall had a 'soft' opening at the end of 2010, this was not considered a 'completed' opening. Therefore, the final payment is now scheduled to be made in October 2011. In addition, the Company shall be entitled to receive a percentage of any gains realised by Israel Theatres from the sale of any of the Bulgarian assets purchased from the Company to a third party which entitlement expires at the end of 2014. The proceeds from the sale were used in large part to repay the Company's bank debt, thereby substantially reducing the Company's long-term indebtedness. The Company intends to use the excess cash and freed up leverage to fund further expansion of the Company's movie theatre activities, both in its current regions of operation and, potentially, into new geographies.

The Company realised a gross profit amounting to EUR 3.0 million from the Bulgarian real estate sale during the year ended 31 December 2010, compared to a gross profit of EUR 10.6 million from the sale of Mall of Plovdiv during the year ended 31 December 2009.

Film distribution activities

Revenue generated by film distribution activities increased during the year ended 31 December 2010, compared to the year ended 31 December 2009, with EBITDA moving from negative to positive. This growth was driven mainly by the successful release of Disney's *'Alice in Wonderland', 'Prince of Persia', 'Tangled'* and several other successful Disney movies, as the Company enjoys the exclusive right to distribute Disney movies in many of its territories of operation. The Company commenced movie distribution activities in Romania during the first quarter of 2010, and was granted the right to be the exclusive sub-licensee of Walt Disney Motion Pictures International Distribution for the territory. The Company is also the exclusive sub-licensee of Walt Disney in Poland, Israel, Hungary and Bulgaria. As of July 2010, the Company became the exclusive sub-licensee of UIP (Paramount and Universal) for Bulgaria in addition to being the exclusive sub-licensee for Disney and a number of other independent movie producers in that territory.

In September 2010, the Company's Israeli film distribution subsidiary, Forum Film Israel, closed an agreement with the Israeli film distributor, A.D. Matalon, under which Forum Film Israel will act as sub-distributor for Sony and Fox movies in Israel. This is in addition to Forum Film Israel's current activity, which is mainly related to exclusive distribution of Disney pictures in Israel. The first two movies distributed by Forum Film under this arrangement was the latest installment of the *'Chronicles of Narnia 3-D* and 'Gulliver's Travels' released in December 2010, which were followed by four new movies released in January 2011: 'Love & Other Drugs', 'Black Swan', 'The Green Hornet' and 'The Tourist'.

Overview of results

The Company's net income attributable to equity holders of the parent company for 2010 was EUR 30,410,000 and can be summarised as follows:

	For the year ended 31 December 2010	2009
	EUR (thousands, except per share data)	
Continuing operations [1]		
Revenues from cinema related operations	234,549	188,533
Operating costs of cinema related operations, excluding depreciation and amortisation	168,743	141,790
Gross result from cinema related operations	65,806	46,743
Revenues from the sale of real estate	91,212	23,028
Operating costs of real estate sold, excluding depreciation and amortisation	88,170	12,417
Gross result from sale of real estate	3,042	10,611
Total gross result	68,848	57,354
General and administrative expenses	12,682	10,967
EBITDA [2]	56,166	46,387
Depreciation and amortisation	19,817	16,168
Operating profit	36,349	30,219
Financial income	683	847
Financial expenses	(2,857)	(2,712)
Gain on disposals and write-off of other investments	(101)	(128)
Operating income before taxation	34,074	28,226
Income taxes	(4,038)	(2,455)
Net income from continuing operations	30,036	25,771
Gain (loss) from discontinued operations	15	(1,908)
Net income before non-controlling interests	30,051	23,863
Non-controlling interests related to continued operations	350	517
Non-controlling interests related to discontinued operations	9	46
Net income attributable to equity holders of the company	30,410	24,426
Weighted average number of equivalent shares (basic)	51,076,060	50,834,000
Weighted average number of equivalent shares (diluted)	51,118,786	50,834,000
Net earnings per ordinary share of EUR 0.01 each (basic and diluted)	0.59	0.48

[1] In order to allow the reader to compare these annual results to last year's annual results, revenues (and corresponding costs and gross results) are presented into two main categories: (a) revenues, costs and gross results from cinema related operations and (b) revenues, costs and gross results from the sale of real estate. This presentation format should allow for a better understanding of the Company's core operating results with and without the significant additional revenues that were generated from the sale of the Company's Bulgarian real estate assets during the reporting period. The revenues from the sale of real estate, the associated costs and gross results are therefore presented on separate lines, whereby for comparison purposes the amounts relating to the year ended 31 December 2009 have been presented accordingly.

[2] Earnings before Interest, Taxation, Depreciation and Amortisation. Under this definition, gains and losses on disposals and write-offs of other assets as well as currency exchange results are also not included in EBITDA.

Revenues

Total revenues from cinema related operations (which include theater operation revenues, distribution operation revenues and other operation revenues) increased by 24.4% from EUR 188.5 million during the year ended 31 December 2009 to EUR 234.5 million during the year ended 31 December 2010.

Theatre operating revenues increased by 24.9% from EUR 172.5 million during the year ended 31 December 2009 to EUR 215.5 million during the year ended 31 December 2010. The increase in theatre revenues mainly resulted from an increase in the number of admissions, driven by the contribution of new cinemas opened in 2009 and 2010, a strong supply of movies and the increase in sales of tickets for films with 3-D technology, which generates a higher price for admission.

Distribution operating revenues increased by 22.4% from EUR 13.9 million during the year ended 31 December 2009 to EUR 17.0 million during the year ended 31 December 2010. The increase resulted due to a successful year in all territories of film distribution activities, explained mainly by a good supply of movies distributed in Poland (even as ticket sales in Poland dropped slightly and domestic movie production was delayed, as described elsewhere in this report), an increase in the Company's film distribution activities in Israel and Bulgaria and the opening of a new distribution division in Romania.

Other revenues from cinema related operations remained at a similar level: EUR 2.1 million and EUR 2.2 million during the year ended 31 December 2010 and the year ended 31 December 2009, respectively.

Total revenues from the sale of real estate increased by 296.1% from EUR 23.0 million during the year ended 31 December 2009 to EUR 91.2 million during the year ended 31 December 2010. The significant increase in revenues during 2010 is primarily attributable to the sale of the Company's Bulgarian real estate to Israel Theatres, Ltd.

Operating costs

Operating costs from cinema related operations, excluding depreciation and amortisation, increased by 19.0% from EUR 141.8 million during the year ended 31 December 2009 to EUR 168.7 million during the year ended 31 December 2010. This net increase resulted primarily from the total effects of:

- an increase in theatre operating expenses, which is primarily explained by the increase in theatre revenues as described above. Theatre operating expenses, excluding depreciation and amortisation, as a percentage of total theatre revenue decreased to 70.7% for the year ended 31 December 2010, from 73.7% for the year ended 31 December 2009;
- an increase in distribution operating expenses as a result of the increase in revenues as described above. Distribution operating expenses, excluding depreciation and amortisation, as a percentage of total distribution revenue decreased to 91.8% for the year ended 31 December 2010, from 96.3% for the year ended 31 December 2009.

Costs relating to real estate sold increased from EUR 12.4 million for the year ended 31 December 2009 to EUR 88.2 million for the year ended 31 December 2010. The significant increase is primarily attributable to the cost of the Company's Bulgarian real estate assets sold to Israel Theatres, Ltd. in April 2010.

General and administrative expenses

General and administrative expenses increased by 15.6% from EUR 11.0 million for the year ended 31 December 2009 to EUR 12.7 million during the year ended 31 December 2010. The increase is mainly explained by the higher management bonus accrual due to the increase in pre-tax profits, and the increase in the Company's business activities (and thereby operating costs) in Romania, and by the strengthening of local currencies in the countries of operation compared to the euro.

EBITDA

As a result of the factors described above, the Earnings before Interest Taxation Depreciation and Amortisation (EBITDA) increased by 21.1% from EUR 46.4 million for the year ended 31 December 2009 to EUR 56.2 million for the year ended 31 December 2010.

Depreciation and amortisation

Depreciation and amortisation expenses increased by 22.6% from EUR 16.2 million for the year ended 31 December 2009 to EUR 19.8 million for the year ended 31 December 2010. This increase is explained mainly by the depreciation of newly opened theatres during 2009 and 2010, mainly in Poland and Romania, and by the strengthening of local currencies in the countries of operations compared to the euro.

Operating profit

As a result of the factors described above, the operating profit increased by 20.3% from EUR 30.2 million during the year ended 31 December 2009 to EUR 36.3 million during the year ended 31 December 2010.

Financial income/expense

The balance of financial income and expenses remained at a similar level: net expense of EUR 2.2 million and EUR 1.9 million during the year ended 31 December 2010 and the year ended 2009, respectively. An increase in financial expenses, comprising interest expenses incurred less interest cost capitalised, was offset by a decrease in currency exchange losses.

The amount of interest expense incurred has decreased significantly due to a redemption of the Company's outstanding bank debt following the sale of the Bulgarian real estate development activities in April 2010, the proceeds from which were used to a large extend to repay bank loans. However, the decrease in interest expense incurred was more than offset by a decrease of interest capitalised to development projects explained by the sale of the Bulgarian development activities.

Disposals, write-off of other investments and other costs

Loss on disposals, write-off of other investments and other costs remained at a similar level: EUR 0.1 million during the year ended 31 December 2010 and the year ended 31 December 2009.

Income tax

Income tax amounted to EUR 4.0 million during the year ended 31 December 2010 compared to EUR 2.5 million during the year ended 31 December 2009. The income tax expense as a percentage of profit before income tax was 11.9% for the year ended 31 December 2010 compared to 8.7% for the year ended 31 December 2009.

Non-controlling interests

Non-controlling interests for the year ended 31 December 2010 and 31 December 2009 comprise the share of non-controlling shareholders in losses from subsidiaries that are not 100% owned by the Company (EUR 0.4 million and EUR 0.6 million, respectively).

Net income

As a result of the factors described above, the Company realised a net income of EUR 30.4 million during the year ended 31 December 2010 compared to net income of EUR 24.4 million during the year ended 31 December 2009.

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 47.3 million and EUR 41.2 million for the years ended 31 December 2010 and 2009, 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 19.9 million and EUR 16.3 million in 2010 and 2009, 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 to net proceeds of EUR 12.2 million and a net investment of EUR 38.5 million during 2010 and 2009, respectively.

The Company's capital expenditures (excluding the effect of the cash inflow resulting from the sale of real estate in Bulgaria) aggregated to net investment of EUR 61.8 million and a net investment of EUR 50.4 million during 2010 and 2009, respectively.

Cash flows from financing activities

The Company's net cash flow used in financing activities for the year ended 31 December 2010 amounted to EUR 79.6 million which compares to a net cash inflow provided by financing activities during the year ended 31 December 2009 of EUR 5.4 million.

The cash outflow in respect of financing activities for the year ended 31 December 2010 was mostly explained by the repayment of long-term loans (EUR 97.0 million) mainly out of the proceeds from the sale of the Bulgarian real estate activities, and only partly offset by the proceeds from new long-term loans assumed (EUR 12.8 million) and the net increase in short-term bank credits (EUR 2.9 million) and the net proceeds from new shares issued (EUR 1.8 million).

The cash inflow in respect of financing activities for the year ended 31 December 2009 was mostly explained by the proceeds from new long-term loans assumed (EUR 55.7 million) partly offset by a repayment of long-term loans (EUR 29.3 million) and a repayment of short-term bank credits (EUR 20.8 million).

Asset and capital structure

The Company has historically financed the majority of its development to date through loans from Bank Leumi in Israel. These loans were mostly repaid in April 2010 following the sale of the Bulgarian real estate assets to the shareholder. 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 2010, the Company's total debt to its banks amounted to EUR 31.2 million (31 December 2009: EUR 106.2 million). Taking into account the Company's available cash position at 31 December 2010 amounting to EUR 10.5 million (31 December 2009: EUR 22.4 million), the net debt position of the Company amounted to EUR 20.7 million at the end of 2010 (end of 2009: EUR 83.8 million). Out of this net debt, EUR 3.5 million has been used to finance non-operational assets. The Company's non-operational assets consist mainly of investments in theatres under development and investments in non-operational cinema equipment.

Gearing ratio and leverage

	31 December 2010	31 December 2009
	EUR (thousands)	
Bank debt:		
Long-term borrowings, including current portion	24,485	103,135
Short-term bank credit	6,692	3,030
Total debt	31,177	106,165
Cash and cash equivalents	(10,527)	(22,417)
Net debt	**20,650**	**83,748**
Construction in progress	(3,406)	(3,060)
Cinema equipment not operated yet	(63)	(60)
Net debt financing assets in operation	17,181	80,628
Total equity attributable to equity holders of the Company	221,730	183,796
Total capital employed	**238,911**	**264,424**
Gearing ratio	9.3%	45.6%
Leverage	8.6%	31.7%

The gearing ratio is calculated as net debt divided by total equity attributable to equity holders of the Company. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash and cash equivalents. Leverage is calculated as net debt divided by total capital employed. Total capital employed is calculated as 'equity attributable to equity holders of the Company' as shown in the consolidated statement of financial position plus net debt financing assets in operation.

The Company's debt and leverage decreased significantly in 2010, primarily as a result of the sale of its Bulgarian real estate assets to Israel Theatres in April 2010, in which the Company assigned much of its existing indebtedness with Bank Leumi to Israel Theatres. In conjunction with the assignment of its Bank Leumi debt, the Company agreed not to borrow additional funds if such borrowings would result in Israel Theatres, on a fully consolidated basis (together with the Company), breaching agreed

upon EBITDA to debt ratios. This covenant has not had any impact to date on the Company's development plans and, in fact, the Company has found itself in a relatively advantageous position of having an unusually low debt ratio for a rapidly expanding theatre business.

This covenant will remain in force for as long as Israel Theatres remains the majority shareholder in the Company, or until Israel Theatres has repaid the outstanding debt related to the real estate assets in Bulgaria.

Employees

The average number of personnel employed by the Company and its subsidiaries – on a fulltime equivalent basis – increased from 2,153 in 2009 to 2,558 in 2010. 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 Romania.

Research and development

The Company and its subsidiaries are not involved in any research and development activities.

Subsequent event: acquisition of 15 multiplexes in the Czech Republic, Hungary and Slovakia

Subsequent to the end of 2010, on 19 January 2011 the Company signed a share and asset purchase agreement with Palace Cinemas (Central Europe) B.V. ('Palace Cinemas'), under which agreement the Company acquired 100% of the shares in four Central European subsidiaries of Palace Cinemas: Palace Cinemas Czech s.r.o., Palace Cinemas Hungary Kft, Palace Cinemas Slovak Republic s.r.o. and Palace Multikino s.r.o. and related assets. Under the acquisition, the Company acquired 15 multiplexes with 141 screens in the Czech Republic (8 multiplexes with 65 screens plus a leasing agreement for 1 multiplex with 8 screens in Ostrava planned to be opened in 2012), Hungary (4 multiplexes with 47 screens) and Slovakia (3 multiplexes with 29 screens). Under the share and asset purchase agreement with Palace Cinemas, the Company will also be rendering selected management services, during a transitional period, for the 8 multiplexes (with 48 screens) operated by Palace Mozi Kft, a Hungarian subsidiary of Palace Cinemas that was not acquired by the Company.

The purchase price was EUR 28 million, and represented a multiple of 6 times the 'normalised' EBITDA of the acquired companies for 2010. At the closing, the Company paid EUR 21.4 million to the seller and assumed EUR 6.6 million in existing debt of the acquired companies. The acquisition was financed from the Company's existing cash and from available credit lines.

With this acquisition, the Company is now the third largest and fastest growing cinema exhibitor in all of Europe, operating in total 90 multiplexes with 863 screens in 7 countries.

Outlook for the year 2011*

2010 was a transformational year for the Cinema City Group. With a combination of solid organic growth and the completion of a meaningful acquisition at the very beginning of 2011 covering three territories, the Company entered 2011 as the third largest cinema chain in all of Europe, operating 90 multiplexes with 863 screens in 7 countries. The Company remains optimistic about its overall prospects for 2011.

The 3-D phenomenon should continue during the year. The movie pipeline for 2011 comprises a significant number of big 3-D sequel titles including *Pirates of the Caribbean 4 3-D, Twilight 4 3-D*, *Kung Fu Panda 2 3-D*, *Cars 2 3-D* and *Transformers 3 3-D.* In Poland we expect the first Polish mega production in 3-D, *Bitwa Warszawska 1920*. While it probably will be very difficult to compare Q1 2011 to Q1 2010, which was dominated by Avatar, we believe that a consistent international movie supply that should be augmented by a strong domestic supply of movies, can make 2011 as a whole another strong year.

On the cinema expansion front, the Company has two openings scheduled for the first 6 months of 2011. Both openings will be in Romania, and will include a 10 screen multiplex in Turgo Mures, and a 12 screen multiplex in Braila. Overall the Company expects to open 6 to 7 new multiplexes comprising approximately 70 new screens during 2011, mainly in Romania.

In connection with the recently closed Palace Cinemas acquisition, the Company has already begun to implement its plan to identify and utilise synergies between the two organisations in the Czech Republic and in Hungary. The goal will be to realise both cost and revenue synergies emerging from the ability to reduce overhead costs and to deploy the Company's tried and tested management and sales tools over its larger platform. The Company also believes that the larger size of its operations and its increased leadership position in the market will augment its overall cinema advertising business.

The Company currently has binding commitments for an additional 35 sites (representing approximately 360 screens) including 26 sites with approximately 250 screens in Romania, and has entered into negotiations in respect of a further number of sites. However, 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. However, the Company has noted that over the past several months the mall development market in Romania appears to have begun to improve, which has been reflected in the commencement in construction of a number of the shopping centres where the Company has binding lease agreements for new cinemas. Therefore, the Company currently anticipates a higher number of cinema openings in the year 2012, compared to the last two years. Nonetheless, as the Company, in most cases, does not begin to expend capital for theatre constructions in its new theatres until very close to the scheduled opening date, the failure to complete any particular mall project or even a number of projects, should not have a material negative impact on the Company's ongoing operations and results, since such failure would not pose a significant financial risk to the Company. If the completion of mall projects is either delayed or cancelled, this would only impact the rate of the Company's future growth and not its ongoing operations.

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.

During January 2011 the Company invested an amount of EUR 28 million for the purchase of the Palace Cinemas in Hungary, the Czech Republic and Slovakia. As the further growth of the Company and thereby the expected capital expenditures by the Company in the near future depend among others on the timing of completing the construction of new cinema theatres, currently planned for mainly in Romania, it is difficult to estimate the amount of capital expenditures by the Company in 2011 when filling out the theatres. As the Company anticipates that investments in theatres will be mainly

financed by new bank loans, movements in the level of bank financing in 2011 will also depend on the extent to which the construction of new theatres will be completed in the forthcoming year. Also, a growth in personnel in terms of full time equivalents is expected to occur in line with the pace of opening new theatres in 2011.

While the Company's management currently believes that the existing trend of strong admissions will continue for the foreseeable future, supported in part by the higher ticket prices generated from 3-D movies, there can be no assurance that the Company will not be materially adversely impacted if, among other potential negative trends, the current worldwide economic recovery remains weak or is not sustained. Continued softness in consumer spending, even in light of a modest economic rebound, could result in an ongoing weakness in 'mall traffic', which has historically supported theatre admissions. In addition, if consumers continue to 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 for food and drinks 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, throughout years of economic distress, 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. The Company has seen very strong admissions trends through the date of this report and continues to see no evidence of any downturn in theatre visits resulting from external economic factors.

* Certain statements contained in this annual report are not historical facts but rather statements of future. These forward-looking statements are based on our current plans, expectations and projections about future events. Any forward-looking statements speak only as of the date they are made and are subject to uncertainties, assumptions and risks that may cause the events to differ materially from those anticipated in any forward-looking statement. Such forward-looking statements include, without limitation, improvements in process and operations, new business opportunities, performance against Company's targets, new projects, future markets for the Company's products and other trend projections. For the avoidance of any doubts, this annual report does not contain any forecast about the Company's and its capital group's financial results.

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 2010 (14 March 2011), the following shareholders are entitled to exercise over 5% of voting rights at the General Meeting of Shareholders in the Company:

	As of 14 March 2011 Number of shares/ % of shares (1)	Increase/ (decrease) Number of shares	As of 31 December 2010 Number of shares/ % of shares(1)	Increase/ (decrease) Number of shares	As of 31 December 2009 Number of shares/ % of shares
I.T. International Theatres Ltd.(2)	27,589,996 / 53.89%	-	27,589,996 / 53.89%	(5,120,000)	32,709,996 / 64.35%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK(3)	5,004,326 / 9.77%	-	5,004,326 / 9.77%	(1,494,131)	6,498,457 / 12.78%
Aviva Investors Poland S.A.(4)	2,998,479 / 5.86%	-	2,998,479 / 5.86%	n.a.	n.a.
BZ WBK AIB TFI S.A.(5)	2,661,049 / 5.20%	-	2,661,049 / 5.20%	-	2,661,049 / 5.23%
BZ WBK AIB Asset Management S.A.(5)	n.a.	-	n.a.	-	2,542,345 / 5.00%
ING Nationale-Nederlanden Polska Otwarty Fundusz Emerytalny(6)	n.a.	-	n.a.	n.a.	2,700,000 / 5.31%

(1) On 15 February 2010 and on 11 May 2010, the Company issued 25,000 and 341,000 new ordinary shares, respectively to facilitate the exercise of share options as part of the Company's long-term incentive plan. The number of shares issued and outstanding therefore increased to 50,859,000 as of 15 February 2010 and to 51,200,000 as of 11 May 2010.

(2) In addition, Israel Theatres Ltd., the shareholder who holds 100% of I.T. International Theatres Ltd., holds additional 104,988 shares in Cinema City International N.V. (representing 0.2% of the shares). On 22 September 2010, I.T. International Theatres Ltd. sold 5,120,000 shares of the Company in negotiated order deals during the trading session on the Warsaw Stock Exchange to a number of institutional investors. The transaction is described in the current report no 25/2010.

(3) On 11 August 2010, the Company was notified by the shareholder that the number of shares held in the Company had decreased by more than 2%. In addition, on 25 October 2010, the Company was notified by the shareholder that the number of shares held in the Company had decreased to 5,004,326 shares. The Company has no information on the exact dates when the particular transactions were made on the Warsaw Stock Exchange. However, the table above presents the ultimate holding of the shareholder as at 31 December 2010 and as at 14 March 2011, to the extent known to the Company.

(4) On 29 September 2010, the Company was notified by Aviva Investors Poland S.A. that the number of shares held in the Company by the jointly managed shareholders had increased to over 5%. The position presented in the table above presents the ultimate holding of the shareholders as at 31 December 2010 and as at 14 March 2011, to the extent known to the Company.

(5) According to notifications received by the Company from BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. (dated 22 May 2008) and from BZ WBK Asset Management S.A. (dated 28 February 2008) the funds exceeded 5% of shares in the Company (BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. ,with its registered office in Poznan has engaged BZ WBK Asset Management S.A. to manage the investment funds until now managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.). However as the Company made subsequent share issues since that time the holding of BZ WBK Asset Management S.A. in fact went down below 5%.

(6) On 26 March 2010, the Company was notified by the shareholder that the number of shares held in the Company went down to below 5%.

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

- DKG Investment Ltd.: 33.95% (share in capital) and 34.29% (voting rights).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
- ING Open Pension Fund: 4.73%.

Additional information to the report (cont'd)

Changes in ownership of shares and rights to shares by Supervisory Board members during 2010 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 2009 until 14 March 2011.

Changes in ownership of shares and rights to shares by Management Board members during 2010 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 14 March 2011 Number of shares/ % of shares	Increase/ (decrease) Number of shares	As of 31 December 2010 Number of shares/ % of shares	Increase/ (decrease) Number of shares	As of 31 December 2009 Number of shares/ % of shares
Moshe Greidinger*	10,408,539/ 20.33%	822,409	9,586,130 / 18.72%	(2,017,249)	11,603,379 / 22.83%
Amos Weltsch	None	-	None	-	None
Israel Greidinger*	10,408,539/ 20.33%	822,409	9, 586,130 / 18.72%	(2,017,249)	11,603,379 / 22.83%

* The shares held by Messrs Moshe and Israel Greidinger are held indirectly through I.T. International Theatres Ltd. On 26 April 2010, I.T. International Theatres Ltd temporarily reduced 341,000 shares to facilitate the realisation of the Company's long-term incentive plan. The legal title to the same number of shares (i.e. 341,000 newly issued shares) has been transferred by the optionees to I.T International Theatres Ltd. upon share issuance by the Company under the long-term incentive plan. As a result, the number of shares held by I.T. International Theatres Ltd has effectively remained the same as before this transaction. On 11 May 2010, the Company issued 341,000 new ordinary shares to facilitate the exercise of share options as part of the Company's long-term incentive plan. On 22 September 2010, I.T. International Theatres Ltd. sold 5,120, 000 shares of the Company in negotiated order deals during the trading session on the Warsaw Stock Exchange to a number of institutional investors. The transaction is described in the current report no 25/2010. The decrease in the number of shares during 2010 shown above reflects the indirect interest held by Messrs Moshe and Israel Greidinger in the sale of shares by I.T. International Theatres Ltd.
On 4 January 2011, Israel Theatres Ltd. purchased part of its own shares from one of the shareholders. As a result the number of shares indirectly held increased by 822,409 for each.

Right 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 2009 until 14 March 2011.

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.

Additional information to the report (cont'd)

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 2010, 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 2011.

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 the 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 2010 and of the net result for the year then ended.

The Management Board report in this annual report gives a true and fair view of the situation on the reporting 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. The audit firm and its chartered accountants engaged in the audit of the financial statements of Cinema City International N.V. meet the objectives to present an objective and independent report.

Additional information to the report (cont'd)

Other

As of 31 December 2010, the Group has issued guarantees for loans that in total amount to EUR 12 million and PLN 188 (EUR 47.3) million in connection with loans provided to subsidiaries.

As of 31 December 2010, 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 2010:

- an increase in the provision for deferred tax liabilities of EUR 342,000;
- an increase in the provision for accrued employee retirement rights of EUR 147,000;
- a decrease in the provision related to onerous lease contracts of EUR 349,000.

The Management Board

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

Rotterdam, 14 March 2011

Consolidated Statement of Financial Position

	Note	31 December 2010	31 December 2009
		EUR (thousands)	
ASSETS			
NON-CURRENT ASSETS			
Intangible fixed assets	*7*	**801**	689
Property and equipment	*8*	**231,761**	202,112
Deferred tax asset	*30*	**2,030**	2,493
Investment properties	*9*	**-**	42,281
Foreign currency exchange contracts	*32*	**-**	78
Total non-current assets		**234,592**	247,653
CURRENT ASSETS			
Inventories	*10*	**4,660**	5,082
Receivables			
Trade accounts receivable	*11*	**13,387**	15,553
Receivable from related parties	*13,31*	**15,622**	427
Income taxes receivable		**1,061**	258
Other accounts receivable and prepaid expenses	*12*	**11,546**	18,497
Total receivables		**41,616**	34,735
Financial assets			
Foreign currency exchange contracts	*32*	**90**	1,496
Marketable securities		**190**	169
Assets classified as held for sale	*13*	**-**	37,924
Total financial assets		**280**	39,589
Cash and short-term deposits			
Cash and cash equivalents	*14*	**10,527**	22,417
Short-term bank deposits - collateralised	*15*	**329**	210
Short-term bank deposits		**-**	-
Total cash and short-term deposits		**10,856**	22,627
Total current assets		**57,412**	102,033
TOTAL ASSETS		**292,004**	349,686

The notes on pages 44 to 102 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

	Note	31 December 2010	31 December 2009
		EUR (thousands)	
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY	*16*		
Share capital		**512**	508
Share premium reserve		**92,144**	90,377
Accumulated currency translation adjustments		**2,474**	(4,417)
Hedge reserve		**73**	1,274
Retained earnings		**126,527**	96,054
Total equity attributable to equity holders of the Company		**221,730**	183,796
Non-controlling interests	*18*	**(4,957)**	(3,987)
Total equity		**216,773**	179,809
LONG-TERM LIABILITIES			
Long-term loans, net of current portion	*21*	**19,066**	93,620
Accrued employee retirement rights, net	*19*	**734**	587
Deferred tax liabilities	*30*	**6,405**	6,063
Provision related to onerous lease contracts	*20*	**-**	349
Financial lease	*24(1)f*	**1,215**	1,228
Other long-term liabilities		**3,302**	3,794
Total long-term liabilities		**30,722**	105,641
CURRENT LIABILITIES			
Short-term borrowings	*22*	**12,111**	12,545
Trade accounts payable		**9,702**	12,655
Payable to related parties	*31*	**524**	137
Employee and payroll accruals		**2,036**	1,879
Other accounts payable	*23*	**20,136**	37,020
Total current liabilities		**44,509**	64,236
Total liabilities		**75,231**	169,877
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**292,004**	349,686

The notes on pages 44 to 102 are an integral part of these consolidated financial statements.

Consolidated Income Statement

	Note	For the year ended 31 December 2010	2009
		EUR	
		(thousands, except per share data)	
Continuing operations			
Revenues from cinema related operations*		**234,549**	188,533
Operating costs of cinema related operations*		**188,560**	157,958
Gross margin from cinema related operations*		**45,989**	30,575
Revenues from the sale of real estate*		**91,212**	23,028
Operating costs of real estate sold*		**88,170**	12,417
Gross margin from sale of real estate*		**3,042**	10,611
Total revenues continuing operations	*26*	**325,761**	211,561
Total operating costs continuing operations	*27*	**(276,730)**	(170,375)
Gross margin continuing operations		**49,031**	41,186
General and administrative expenses		**(12,682)**	(10,967)
Operating profit		**36,349**	30,219
Financial income	*28*	**683**	847
Financial expenses	*28*	**(2,857)**	(2,712)
Net finance expenses		**(2,174)**	(1,865)
Loss on disposals, and write-off of other investments	*29*	**(101)**	(128)
Operating income before taxation		**34,074**	28,226
Income tax expense	*30*	**(4,038)**	(2,455)
Net income from continuing operations		**30,036**	25,771
Discontinued operations			
Gain/(loss) from discontinued operations	*25*	**15**	(1,908)
Net income before non-controlling interests		**30,051**	23,863
Attributable to:			
Equity holders of the Company		**30,410**	24,426
Non-controlling interests related to continuing operations	*18*	**(350)**	(517)
Non-controlling interests related to discontinued operations	*18*	**(9)**	(46)
Net income before non-controling interests		**30,051**	23,863

* In order to allow the reader to compare these annual results to last year's annual results, revenues (and corresponding costs and gross results) are presented in two main categories: (a) revenues, costs and gross results from cinema related operations and (b) revenues, costs and gross results from the sale of real estate. This presentation format should allow for a better understanding of the Company's core operating results with and without the significant additional revenues that were generated from the sale of the Company's Bulgarian real estate assets during the reporting period. The revenues from the sale of real estate, the associated costs and gross results are therefore presented on separate lines, whereby for comparison purposes the amounts relating to the year ended 31 December 2009 have been presented accordingly.

The notes on pages 44 to 102 are an integral part of these consolidated financial statements.

Consolidated Income Statement

	Note	For the year ended 31 December 2010	2009
		EUR (thousands, except per share data)	
Net income attributable to equity holders of the Company		**30,410**	24,426
Earnings per share			
Weighted average number of equivalent shares		**51,076,060**	50,834,000
Weighted average number of equivalent shares (diluted)		**51,118,786**	50,834,000
Net earnings per share for profit attributable to the owners of the Company (basic and diluted)	*17*	**0.59**	0.48
Net earnings per share for profit from continuing operations attributable to the owners of the Company (basic and diluted)	*17*	**0.59**	0.48

The notes on pages 44 to 102 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	For the year ended 31 December	
	2010	2009
	EUR (thousands)	
Net income for the year	**30,051**	23,863
Other comprehensive income		
Foreign exchange translation differences	**6,280**	494
Effective portion in fair value of cash flow hedges, net of tax*	**(1,201)**	(1,209)
Other comprehensive income, net of tax	**5,079**	(715)
Total comprehensive income for the year	**35,130**	23,148
Attributable to:		
Equity holders of the Company	**36,100**	23,652
Non-controlling interest	**(970)**	(504)
Total comprehensive income for the year	**35,130**	23,148

* 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.

The notes on pages 44 to 102 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

	Share capital	Share premium	Trans-lation reserve	Hedge reserve	Retained earnings	Total	Non-controlling interests	Total equity
	EUR (thousands)							
Balance as of 1 January 2009	508	90,377	(4,852)	2,483	71,510	160,026	(3,483)	156,543
Share-based payments under the stock option plan	-	-	-	-	118	118	-	118
Net income for the year 2009	-	-	-	-	24,426	24,426	(563)	23,863
Foreign currency translation adjustment	-	-	435	-	-	435	59	494
Effective portion of changes in fair value of cash flow hedges, net of tax*	-	-	-	(1,209)	-	(1,209)	-	(1,209)
Balance as of 31 December 2009	508	90,377	(4,417)	1,274	96,054	183,796	(3,987)	179,809
Issue of new shares (see Note 16 (a))	**4**	**1,767**	**-**	**-**	**-**	**1,771**	**-**	**1,771**
Share-based payments under the stock option plan (see Note 16 (d))	**-**	**-**	**-**	**-**	**63**	**63**	**-**	**63**
Net income for the year 2010	**-**	**-**	**-**	**-**	**30,410**	**30,410**	**(359)**	**30,051**
Foreign currency translation adjustment	**-**	**-**	**6,891**	**-**	**-**	**6,891**	**(611)**	**6,280**
Effective portion of changes in fair value of cash flow hedges, net of tax*	**-**	**-**	**-**	**(1,201)**	**-**	**(1,201)**	**-**	**(1,201)**
Balance as of 31 December 2010	**512**	**92,144**	**2,474**	**73**	**126,527**	**221,730**	**(4,957)**	**216,773**

* 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 32).

The notes on pages 44 to 102 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	For the year ended 31 December 2010	2009
		EUR (thousands)	
Cash flows from operating activities			
Operating profit		**36,349**	30,219
Discontinued operation adjustment to operating profit		**225**	(1,503)
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortisation	*27*	**19,872**	16,323
Decrease in provision related to onerous lease contracts	*20*	**(349)**	(1,608)
Increase in accrued employee rights upon retirement, net	*19*	**57**	249
Fair value adjustment to investment property	*9*	**-**	224
Gain on sale of subsidiaries		**(3,042)**	-
Interest received		**798**	2,617
Interest paid		**(3,109)**	(4,595)
Income taxes paid		**(3,464)**	(708)
Operating income before working capital		**47,337**	41,218
Decrease/(increase) in inventories		**645**	(255)
Decrease in accounts receivable		**3,105**	703
Decrease/(increase) in prepaid expenses		**3,312**	(6)
Decrease/(increase) in receivable from tax authorities and others		**1,606**	(3,669)
Decrease in long-term film distribution costs and deferred expenses		**452**	711
(Decrease)/increase in accounts payable****		**(1,618)**	2,987
Increase in employee and payroll accruals		**38**	214
Increase in payable to related parties		**366**	782
(Increase)/decrease in receivables from related parties		**(542)**	308
Share-based payments	*16 (d)*	**63**	118
Net cash from operating activities		**54,764**	43,111
Cash flows from investing activities			
Purchase of property and equipment and other assets*		**(44,022)**	(29,803)
Investment in intangible fixed assets**	*7*	**(364)**	(170)
Investments in investment properties**	*9*	**(4,507)**	(14,373)
Acquisition of held for sale financial assets		**(4,507)**	(17,557)
Sale of subsidiaries, net of cash disposed of	*13*	**74,036**	-
Proceeds from disposition of property and equipment and intangible assets		**224**	1,308
Short-term bank deposits – (collateralised)/released		**(119)**	730
Proceeds from the sale of assets held for sale***		**-**	11,950
Changes in payables to tax authorities related to investment activity****		**(8,493)**	8,228
Changes in marketable securities		**(12)**	1,188
Net cash provided by/(used in) investing activities		**12,236**	(38,499)

* Taking into account movements in Investment creditors.
** Taking into account movements in other non-cash activities.
*** Remaining proceeds amounting to approximately EUR 10 million as a result of the sale are classified in operating activities.
**** Reclassified for comparison purposes.

The notes on pages 44 to 102 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	For the year ended 31 December 2010	2009
		EUR (thousands)	
Cash flows from financing activities			
Proceeds from long-term loans		**12,782**	55,682
Repayment of long-term loans		**(96,961)**	(29,293)
Decrease in long-term payables		**(63)**	(168)
Proceeds net, from new shares issued		**1,771**	-
Short-term bank credit, net increase/(decrease)		**2,877**	(20,781)
Net cash (used in)/provided by financing activities		**(79,594)**	5,440
Foreign currency exchange differences on cash and cash equivalents		**704**	585
(Decrease)/increase in cash and cash equivalents		**(11,890)**	10,637
Cash and cash equivalents at beginning of year		**22,417**	11,780
Cash and cash equivalents at end of year	*14*	**10,527**	22,417

The notes on pages 44 to 102 are an integral part of these consolidated financial statements.

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 2010, 53.89% of the outstanding shares are held by I.T. International Theatres Ltd. (‘ITIT’), incorporated in Israel (31 December 2009: 64.35%).

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

The Annual Report 2010 including the Consolidated Financial Statements of the Group for the year ended 31 December 2010 are available upon request at the Company’s registered office, Weena 210-212, 3012 NJ Rotterdam, the Netherlands, or at the Company’s website: www.cinemacity.nl.

Note 2 - Basis of preparation

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 2010.

The financial statements were authorised for issue by the directors on 14 March 2011.

The accounting policies set out below have been applied consistently for all periods presented in these Consolidated Financial Statements and by all Group entities.

Certain comparative amounts have been reclassified to conform to the current year's presentation.

B. Basis of measurement

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, investment property and share-based payments that are measured at fair value.

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
- Assets classified as held for sale.
- Accounting for real estate transactions.
- Related parties transactions and disclosures.

Note 2 - Basis of preparation (cont'd)

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.

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 37 to these financial statements.

E. Foreign currency translation

(a) 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 operations is the euro.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Income Statement within 'finance income or expense', except when deferred in other comprehensive income as qualifying cash flow hedges.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into euros (presentation currency) as follows:

- assets and liabilities, both monetary and non-monetary, are translated at the closing exchange rate at the date of that balance sheet;
- income statement items were translated at the prevailing transaction rates; and
- all resulting exchange differences are recognised in other comprehensive income.

Note 2 - Basis of preparation (cont'd)

F. 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 2010	**25.29**	**280.03**	**3.97**	**1.33**	**4.74**	**4.30**
31 December 2009	26.42	272.65	4.14	1.43	5.44	4.25
Change during the period	**%**	**%**	**%**	**%**	**%**	**%**
2010 (12 months)	**(4.28)**	**2.71**	**(4.11)**	**(6.99)**	**(12.87)**	**1.18**
2009 (12 months)	(0.83)	1.89	(0.24)	1.42	2.64	5.20

	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)**
2010 (12 months)	**25.32**	**275.94**	**4.00**	**1.33**	**4.95**	**4.22**
2009 (12 months)	26.48	281.15	4.34	1.39	5.47	4.25
Change year over year	**%**	**%**	**%**	**%**	**%**	%
2010 (12 months)	**(4.38)**	**(1.85)**	**(7.83)**	**(4.32)**	**(9.51)**	**(0.71)**
2009 (12 months)	5.96	11.38	23.3	(5.44)	3.99	14.86

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 3 - Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows. The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2010 insofar as endorsed by the EU as of the date of approval of these financial statements:

- IFRS 2 *Share-based payment: Group Cash-settled Share-based Payment Transactions* – applicable to annual reporting periods beginning on or after 1 January 2010. The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment supersedes IFRIC 8 and IFRIC 11. The adoption of this amendment did not have any impact on the financial position or performance of the Group.
- IFRS 3 Business Combinations (revised) and IAS 27 Consolidated and Separate Financial Statements (amended) – applicable to annual reporting periods beginning on or after 1 July 2009. IFRS 3 (revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration, and business combinations achieved in stages. The adoption of this amendment did not have any impact on the financial position or performance of the Group.
- IAS 7 Statement of Cash Flows: explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow investing activities (effective date 1 January 2010).

Note 3 - Changes in accounting policies (cont'd)

- IAS 27 *Consolidated and Separate Financial Statements (amended)* requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The adoption of this amendment did not have any impact on the financial position or performance of the Group.
- IAS 39 *Financial Instruments: Recognition and Measurement: Eligible Hedged Items* – applicable to annual reporting periods beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The adoption of this amendment did not have an impact on the financial position or performance of the Group.
- IFRIC 17 *Distribution of Non-cash Assets to Owners* – applicable to annual reporting periods beginning on or after 1 July 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation did not have any effect on the financial position or performance of the Group.
- Improvements to IFRSs (issued May 2008) – in May 2008 the IFRS Board issued its first omnibus of amendments to its standards. The Company has implemented the following amendments from 1 January 2010:
  - IFRS 5 Non-*current Assets Held for Sale and Discontinued Operations*: clarifies when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and did not have any impact on the financial position or performance of the Group (applicable to annual reporting periods beginning on or after 1 July 2009)
- Improvements to IFRSs (issued April 2009) – in April 2009 the IFRS Board issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.
  - IFRS 8 *Operating Segments*: Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Company's chief operating decision maker does review segment assets and liabilities, the Company has continued to disclose this information in Note 35(applicable to annual reporting periods beginning on or after 1 January 2010).
  - IAS 17 *Leases:* The amendment clarifies that the classification of land and buildings as being held under finance or operating lease should be separately assessed with a reminder that when land is land leased, land had an indefinite economic life. Until 31 December 2009, a long-term lease of a land parcel in Israel was recorded under the caption 'Intangible assets'. This change in accounting policy is applied on a retrospective basis and had no material impact on net profit and earnings per share. In the Consolidated Statement of Financial Position the comparative amounts for the long-term land lease have been classified under 'Property and equipment' (applicable to annual reporting periods beginning on or after 1 January 2010).
  - IAS 36 Impairment of Assets: The amendment clarified that the largest unit permitted for allocation of goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment did not have any effect on the financial position or performance of the Group (applicable to annual reporting periods beginning on or after 1 January 2010).

Note 3 - Changes in accounting policies (cont'd)

- IAS 39 Financial Instruments: Recognition and Measurement: The amendment clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. The amendment clarifies that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at future date, applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken. The amendment did not have any effect on the financial position or performance of the Group (applicable to annual reporting periods beginning on or after 1 January 2010).

Note 4 - Summary of significant accounting policies

A. 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 non-controlling interests held by the Group and is accounted for using the equity method.

B. 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.

C. Intangible fixed assets – excluding goodwill

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 reporting 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 three to five years.

D. 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.

Note 4 - Summary of significant accounting policies (cont’d)

D. Property and equipment (cont’d)

(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 reporting 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.

E. 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. Investment properties also include – at fair value – property that is being constructed or developed for future use as investment property.

F. 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.

G. 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.

Note 4 - Summary of significant accounting policies (cont'd)

H. 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 reporting date. Unrealised gains and losses on these securities are included in the income statement. Dividend income is recognised when distribution of dividend is announced. interest income is recognised 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 reporting date. These are classified as non-current assets. The Group's loans and receivables in these consolidated financial statements comprise current receivables.

(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 reporting 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 J.

I. 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.

Note 4 - Summary of significant accounting policies (cont'd)

J. 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 the reporting date. The change in the fair value of contracts 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 euro and the US dollar 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.

K. 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.

L. Employee benefits – defined contribution plans

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

M. 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 reporting 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 statement of financial position 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 4 - Summary of significant accounting policies (cont'd)

N. 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.

O. 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 20).

P. Long-term loans and accruals and short-term liabilities

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 32.

Accruals and short-term liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Derecognition takes place when its contractual obligations are discharged or cancelled or expire.

Q. 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.

R. 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. 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 4 - Summary of significant accounting policies (cont'd)

S. 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 '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.

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

(7) Revenues from the sale of real estate are included in revenue from the sale of real estate 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.

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

T. 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, comprising mainly cost of land acquisition, capital expenditures and capitalised interest.

U. 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 4 - Summary of significant accounting policies (cont'd)

V. Income taxes

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

Current tax is the expected tax payable on the taxable income for the year calculated at the applicable local tax rates.

Deferred income tax is provided using the liability method on all temporary differences at the reporting 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 reporting 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.

W. 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 are 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.

X. Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. The Group determines and presents operating segments based on the information provided to the members of the Management Board who are the Group's chief operating decision makers.

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. Inter-segment pricing is determined on an arm's length basis.

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

Note 4 - Summary of significant accounting policies (cont'd)

Y. Jointly controlled entities

The Group has an interest in a joint venture which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group recognises its interest in the joint venture using the proportionate consolidation method. The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting period as the parent company. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intragroup balances, income and expenses and unrealised gains and losses on transactions between the Group and its jointly controlled entity. Losses on transactions are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

Upon loss of joint control and provided the former joint control entity does not become a subsidiary or associate, the Group measures and recognises its remaining investment at its fair value. Any difference between the carrying amount of the former joint controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognised in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

Z. Cash flow statement

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

AA. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations, insofar endorsed by the European Union, are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these consolidated financial statements:

- Amendments to IAS 32 Financial Instruments: presentation: Classification of Rights Issues – effective for financial years beginning on or after 1 February 2010.
- IAS 24 Related Party Disclosures (revised in November 2009) – effective for financial years beginning on or after 1 January 2011.
- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: Prepayments of a Minimum Funding Requirements – effective for financial years beginning on or after 1 January 2011.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments – effective for financial years beginning on or after 1 July 2010.

Management is considering the impact which the introduction of the abovementioned new standards, amendments to existing standards and interpretations will have on the accounting policies applied by the Group.

Note 5 - 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 reporting 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 less impairment losses.

(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 reporting 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 6 - Changes in consolidated entities

A. Changes in consolidated and associated entities during 2010

Entity newly in consolidation:

Forum Film Romania s.r.l., 100% owned by the Company, was incorporated in Romania. This entity commenced operations in January 2010 and specializes in the distribution of movies in Romania.

Entities excluded from consolidation:

- IT Sofia B.V., the Netherlands, previously 100% owned by the Company
- IT Sofia 2007 B.V., the Netherlands, previously 100% owned by the Company
- Cinema City Malls B.V., the Netherlands, previously 100% owned by the Company
- Cinema City Stara Zagora B.V., the Netherlands, previously 100% owned by the Company
- Mall of Russe AD, Bulgaria, previously 100% owned by the Company
- Mall of Stara Zagora AD, Bulgaria, previously 55% owned by the Company
- RESB EOOD, Bulgaria, previously 100% owned by the Company

The interests in these entities have been sold in April 2010 as part of the transaction described in Note 9.

Other changes:

New Age Cinema Czech S.R.O., 100% owned by the Company, transferred its advertising activities in the Czech Republic in the first quarter of 2010 to Cinema City Czech S.R.O. after which New Age Cinema Czech S.R.O. became dormant. In December 2010, New Age Cinema Czech S.R.O. changed its name to Forum Film Czech S.R.O. It is anticipated that Forum Film Czech S.R.O. will be used for distribution activities in the Czech Republic towards the end of 2011 or at the beginning of 2012.

B. Changes in consolidated entities during 2009

Entity newly in consolidation:

Forum Film Bulgaria EOOD, 100% owned by the Company, was incorporated in Bulgaria. This entity commenced its operations in January 2009 and specializes in the distribution of movies in Bulgaria.

Note 7 - 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 2010				
	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	**1,799**	**364**	**97**	**(41)**	**2,219**
Accumulated amortisation	**(1,110)**	**(277)**	**(71)**	**40**	**(1,418)**
Carrying value	**689**	**87**	**26**	**(1)**	**801**

Composition:

	Financial year 2009				
	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	1,723	170	(35)	(59)	1,799
Accumulated amortisation	(769)	(386)	9	36	(1,110)
Carrying value	954	(216)	(26)	(23)	689

Note 8 - Property and equipment

	Financial year 2010				
	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]	**63,040**	**9,431**	**2,874**	**(11)**	**75,334**
Cinema equipment [3]	**128,915**	**20,424**	**5,787**	**(907)**	**154,219**
Leasehold improvements	**108,675**	**9,333**	**7,092**	**(786)**	**124,314**
Computers, furniture and office equipment	**7,409**	**368**	**644**	**(471)**	**7,950**
Vehicles	**1,660**	**398**	**144**	**(678)**	**1,524**
	309,699	**39,954**	**16,541**	**(2,853)**	**363,341**
Accumulated depreciation					
Land and buildings	**17,860**	**2,432**	**745**	**(3)**	**21,034**
Cinema equipment	**52,409**	**10,025**	**2,985**	**(904)**	**64,515**
Leasehold improvements	**31,273**	**6,118**	**2,505**	**(784)**	**39,112**
Computers, furniture and office equipment	**5,236**	**787**	**537**	**(406)**	**6,154**
Vehicles	**809**	**233**	**66**	**(343)**	**765**
	107,587	**19,595**	**6,838**	**(2,440)**	**131,580**
Carrying value	**202,112**	**20,359**	**9,703**	**(413)**	**231,761**

(1) Included under 'Additions during the year – at cost' are borrowing costs amounting to EUR 353,000 capitalised using an average rate of 4.5%.

(2) The balance as of 31 December 2010 includes EUR 3,406,000 construction in progress.

(3) The balance as of 31 December 2010 includes EUR 63,000 in respect of cinema equipment not yet operational.

Note 8 - Property and equipment (cont'd)

	Financial year 2009					
	Balance at beginning of year	**Additions during the year (1)**	**Foreign currency translation adjustments**	**Sales and disposals**	**Reclassi-fications (4)**	**Balance at end of year**
	EUR (thousands)					
Cost						
Land and buildings(2)	63,045	-	265	-	(270)	63,040
Cinema equipment(3)	98,903	28,326	278	(1,448)	2,856	128,915
Leasehold improvements	101,801	7,545	(661)	(10)	-	108,675
Computers, furniture and office equipment	7,181	786	(146)	(31)	(381)	7,409
Vehicles	1,645	206	(31)	(160)	-	1,660
Video movies	2,203	-	2	-	(2,205)	-
	274,778	36,863	(293)	(1,649)	-	309,699
Accumulated depreciation						
Land and buildings	15,687	2,018	155	-	-	17,860
Cinema equipment	44,006	7,773	(106)	(39)	775	52,409
Leasehold improvements	26,177	5,192	(94)	(2)	-	31,273
Computers, furniture and office equipment	5,034	672	(95)	(21)	(354)	5,236
Vehicles	618	282	(8)	(83)	-	809
Video movies	426	-	(5)	-	(421)	-
	91,948	15,937	(153)	(145)	-	107,587
Carrying value	182,830	20,926	(140)	(1,504)	-	202,112

(1) Included under 'Additions during the year – at cost' are borrowing costs amounting to EUR 826,000 capitalised using an average rate of 6.5%.

(2) The balance as of 31 December 2009 includes EUR 3,060,000 construction in progress.

(3) The balance as of 31 December 2009 includes EUR 60,000 in respect of cinema equipment not yet operational.

(4) A cost amount of EUR 270,000 under 'Land and buildings', a cost amount of EUR 2,205,000 under 'Video movies' and a cost amount of EUR 381,000 under 'Computers, furniture and office equipment', included in the opening balance of the financial year 2009, have been reclassified to 'Cinema equipment' (in total EUR 2,856,000) for comparison purposes. The corresponding accumulated depreciation of EUR 354,000 has been transferred from 'Computers, furniture and office equipment' and a corresponding accumulated depreciation of EUR 421,000 been transferred from 'Video movies' to 'Cinema equipment' (in total EUR 775,000).

Note 9 - Investment properties

As at 31 December 2009, the investment properties comprised the Company's 50% interest in Mall Russe, Bulgaria and 27.5% interest in Mall of Stara Zagora, Bulgaria. The other 50% interest in Mall Russe and the other 27.5% interest in Mall of Stara Zagora also owned by the Company were accounted for as assets classified as held for sale (see Note 13).
These investment properties consisted of shopping mall development projects including land, notably in Russe, Bulgaria and in Stara Zagora, Bulgaria, of which the carrying amount was the fair value of the properties as determined by independent external appraisers.

At 21 April 2010, the Company sold all of its interests in these real estate development projects as well as the local management company responsible for building and leasing these assets, RESB EOOD, to its controlling shareholder, Israel Theatres Ltd. The sale of the Bulgarian real estate development projects was effectuated by a sale of the subsidiaries of the Company that are holding the interests in both projects, including other assets and liabilities of the subsidiaries transferred to the buyer.
The buyer, Israel Theatres Ltd., assumed all of the Company's outstanding real estate development related obligations in Bulgaria, including the completion of the Company's post-sale commitments relating to the Mall of Plovdiv. The purchase price for both properties was based on the value as determined as at 31 December 2009 by the independent external appraiser, an internationally recognised third party valuator in Russe and Stara Zagora, which was already separately obtained by the Company in conjunction with the preparation of its 2009 audited consolidated financial statements. For further details on the sale of the investment properties during the year ended 31 December 2010, see Note 13.

Any difference between (1) net sales proceeds or fair value and (2) previous carrying value is recognised in the income statement.

Movements:	**31 December**	
	2010	**2009**
	EUR (thousands)	
Balance at beginning of the year	**42,281**	29,382
Investments	**4,507**	13,123
Realised book gain / Fair value adjustment	**-**	(224)
Sale of investment properties	**(46,788)**	-
Balance at end of the year	**-**	42,281

Note 10 - Inventories

Composition:

	31 December	
	2010	**2009**
	EUR (thousands)	
Concession products	**1,431**	1,198
Video cassettes and DVDs	**354**	1,277
IMAX® films inventories	**1,671**	2,093
Spare parts	**1,204**	514
	4,660	5,082

Valuation:

	31 December	
	2010	**2009**
	EUR (thousands)	
At cost	**4,660**	5,082
Provision for net realisable value	**-**	-
	4,660	5,082

All inventories included above are valued at cost.

Note 11 - Trade accounts receivable

Composition:

	31 December	
	2010	**2009**
	EUR (thousands)	
Trade accounts receivable	**13,518**	15,769
Allowance for doubtful accounts	**(131)**	(216)
	13,387	15,553

Note 12 - Other accounts receivable and prepaid expenses

Composition:

	31 December	
	2010	**2009**
	EUR (thousands)	
Government institutions	**1,321**	5,968
Advances to suppliers	**742**	1,987
Prepaid expenses	**5,594**	5,689
Prepaid cinema film and video film distribution costs(1)	**2,948**	2,978
Other	**941**	1,875
	11,546	18,497

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

Note 13 - Assets classified as held for sale

As at 31 December 2009, the assets classified as held for sale comprised the Company's 50% interest in Mall of Russe, Bulgaria and 27.5% interest in Mall of Stara Zagora, Bulgaria. The other 50% interest in Mall of Russe and the other 27.5% interest in Mall of Stara Zagora were accounted for as investment property (see Note 9).

At 21 April 2010, the Company sold all of its interests in these real estate development projects as well as the local management company, RESB EOOD, which is responsible for building and leasing these assets to its controlling shareholder, Israel Theatres Ltd. The sale of the Bulgarian real estate development projects was effectuated by a sale of the subsidiaries of the Company that are holding the interests in both projects, including other assets and liabilities of these subsidiaries transferred to the buyer.

The buyer, Israel Theatres Ltd., assumed all of the Company's outstanding real estate development related obligations in Bulgaria, including the completion of the Company's post-sale commitments relating to the Mall of Plovdiv. The purchase price was based on valuations performed by an internationally recognised third party valuator for both the properties in Russe and Stara Zagora, which were separately obtained by the Company in conjunction with the preparation of its 2009 audited consolidated financial statements. The valuation has been adjusted to reflect the closing balance sheets of the relevant companies. As a result of the transaction, the Company realised an additional gain of approximately EUR 3.0 million, which has been recognised in the year ended 31 December 2010.

Per the sale and purchase agreement, Israel Theatres Ltd. paid EUR 76.2 million of the purchase price at the closing of the transaction. The remainder, an amount of EUR 15.0 million, will be paid 9 months after the opening of the Mall of Russe. In no event, however, will payment of the remainder take place not later than 18 months following the closing of the transaction (21 April 2010). In connection with Israel Theatres Ltd. securing financing for the transaction, the Company has agreed to refrain from borrowing additional funds if such borrowings would result in Israel Theatres Ltd., on a fully consolidated basis (together with the Company), breaching agreed-upon EBITDA to debt ratios. This covenant is not expected to impact upon the Company's current cinema development plans. This covenant will remain in force as long as Israel Theatres Ltd. remains the majority shareholder of the Company or until Israel Theatres Ltd. has repaid the debt which it has assumed for financing the transaction.

In addition, the sale and purchase agreement provides that Israel Theatres Ltd. will pay to the Company a percentage of any gains it realises from selling the two Bulgarian real estate assets at any time until the end of 2014.

Note 13 - Assets classified as held for sale (cont'd)

The assets and liabilities transferred and received as part of the sale transaction are as follows:

	EUR (thousands) – (Unaudited)
Development properties	92,262
Property and equipment (other)	190
Deferred tax assets	34
Trade accounts receivable	4
Other accounts receivable and prepaid expenses	5,393
Receivables from related parties	18
Cash and cash equivalents in subsidiaries sold	2,176
Deferred tax liabilities	(672)
Trade accounts payable	(19)
Payable to related parties	(532)
Employee and payroll accruals	(44)
Other accounts payable	(7,995)
Seller financing*	(14,603)
Total net identifiable assets	**76,212**
Cash and cash equivalents in subsidiaries sold	(2,176)
Total net cash inflow	**74,036**

* Reflected in present value amount.

The balance of the receivable from related parties as at 31 December 2010, amounting to EUR 15,622 thousand, includes the deferred payment due by the buyer of the development properties.

During the year ended 31 December 2009, the Company sold its remaining interest in the Mall of Plovdiv to GE Real Estate and Quinlan Private (Ireland), the same parties that purchased the first 50% of the project about two years earlier. The sale transaction, for which the Company recorded a revenue of EUR 23,028 thousand, was completed at the time of the Mall's opening in March 2009, resulting in a net transaction gain of EUR 10,611 thousand. Under the terms of the sale, the Company continued to hold a long-term lease for the 11 screen multiplex located in the Mall of Plovdiv, which also opened in March 2009.

Note 14 - 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	
	2010	**2009**
	EUR (thousands)	
Cash at bank and in hand	**9,259**	15,371
Short-term deposits	**1,268**	7,046
	10,527	22,417

Cash at bank 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 a short-term deposit rate of 2.5% (2009: at rates varying between 0.1% and 4.1%).

Note 15 - Short-term bank deposits - collateralised

In 2010, deposits with banks in Central Europe denominated in euros for a total amount of EUR 329,000 (2009: EUR 210,000) were made to serve as collateral for credit facilities provided to a subsidiary. The interest rates earned on these deposits vary from 0.75% to 1.5% on an annual basis.

Note 16 - 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 2009 was 50,834,000, and has remained unchanged during the financial year ended 31 December 2009.

At 15 February 2010, in connection with the exercise of share options granted in prior years to employees, the Company issued 25,000 ordinary shares (see Note 16 d).

In April 2010, a further 341,000 share options granted in prior years to employees, were exercised (see also Note 16 d). Initially, these shares were made available to the option holders by the Company's largest shareholder, I.T. International Theatres Ltd. Following the exercise of the options, on 11 May 2010, the Company issued 341,000 new ordinary shares to I.T. International Theatres Ltd. to facilitate the exercise of the share options.

As a result of the issue of new shares in February and May 2010, the total number of issued and outstanding ordinary shares increased to 51,200,000. The total proceeds of the 366,000 new ordinary shares issued during the year ended 31 December 2010 amounted to EUR 1,771,000.

All shares issued and outstanding at 31 December 2010 have been fully paid. Ordinary shares carry the right of one vote per share and participation in payments of dividends.

b. 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.

Note 16 - Shareholders' equity (cont'd)

c. Hedge reserve
The hedge 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.

d. Share options
The Company has implemented a long-term incentive plan (the 'Plan'). Under the Plan, share options can be granted to members of the Management Board and selected employees. The number of options granted to certain employees of the Group have been as follows:

- on 6 December 2006: 477,000 options with an exercise price of EUR 5.05 each;
- on 17 September 2008: 105,000 options with an exercise price of PLN 25 each;
- on 18 November 2009: 62,000 options with an exercise price of PLN 25 each.

All options vest in one to three years and have an option term of four years. Members of the Management Board did not receive any options under the Plan.
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. In February 2010, a total number of 25,000 options that were granted in 2006, were exercised (see Note 16 a). The average share price at the time of exercise of these options was PLN 36.05. In April 2010, a further 341,000 options were exercised (see Note 16 a). The average share price at the time of exercise of these options was PLN 34.00.
The weighted average exercise price of options outstanding (vested but not yet exercised and not expired) amounts to EUR 6.29. The number of exercisable options at 31 December 2010 is 104,333.

The details of the number of options outstanding as at 31 December 2010 are as follows:

	Exercise price	**Number of options**			
Vesting date		**Granted**	**Exercised**	**Expired**	**Outstanding**
6 December 2007	EUR 5.05	159,000	152,000	7,000	-
6 December 2008	EUR 5.05	159,000	141,000	18,000	-
6 December 2008	PLN 25	27,000	16,000	-	11,000
6 December 2009	EUR 5.05	159,000	141,000	18,000	-
6 December 2009	PLN 25	47,666	26,000	-	21,666
6 December 2010	PLN 25	71,667	-	-	71,667
6 December 2011	PLN 25	20,667	-	-	20,667
		644,000	476,000	43,000	125,000

The weighted average fair values at grant date of options using the Black-Scholes valuation model have been calculated using the following significant assumptions as input into the model:

	Input of assumptions						**Fair value per option**
Grant date	**Exercise price**	**Weighted average share price**	**Volatility***	**Dividend yield**	**Option life (years)**	**Annual risk free rate**	
6 December 2006	EUR 5.05	EUR 1.10	20%	0%	4	4%	**EUR 1.00**
17 September 2008	PLN 25.00	PLN 20.00	43%	0%	4	4%	**EUR 1.10**
18 November 2009	PLN 25.00	PLN 22.50	41.2%	0%	4	4%	**EUR 1.39**

* The expected volatility is estimated by considering historic average share price volatility.

Note 16 - Shareholders' equity (cont'd)

d. Share options (cont'd)
During the financial year ended 31 December 2010, the term of 43,000 options has been lapsed (during the financial year ended 31 December 2009, no options were forfeited nor lapsed). The impact of the share-based payment on the financial statements of the Company for the financial year 2010 was an expense of EUR 63,000 (2009: EUR 118,000) recognised in the income statement with a corresponding increase in equity.

Note 17 - Net earnings per share

The calculation of basic and diluted net earnings per share at 31 December 2010 was based on the profit attributable to ordinary shareholders of EUR 30,410,000 (2009: EUR 24,426,000), and a weighted average number of ordinary shares outstanding as presented below:

Weighted average number of ordinary shares (basic and diluted):

	Financial year	
	2010	**2009**
	number of shares	
Number of ordinary shares at beginning of the year	**50,834,000**	50,834,000
Effect of shares issued during the year	**242,060**	-
Weighted average number of ordinary shares (basic)	**51,076,060**	50,834,000
Effect of share options issued and outstanding	**42,726**	-
Weighted average number of ordinary shares (diluted)	**51,118,786**	50,834,000

Note 18 - Non-controlling interests

	Financial year	
	2010	**2009**
	EUR (thousands)	
Balance at beginning of the year	**(3,987)**	(3,483)
Non-controlling interests in (losses) related to continuing operations	**(350)**	(517)
Non-controlling interests in (losses) related to discontinued operations	**(9)**	(46)
Translation adjustments	**(611)**	59
Balance at end of the year	**(4,957)**	(3,987)

The (non-controlling) shareholders are committed to cover any deficits and losses realised by the relevant subsidiaries to the extent of their interest in these subsidiaries.

Note 19 - 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 statement of financial position since they are not under the control and management of the companies.

c. The amounts of the liability for severance pay presented in the statement of financial position (see (e) 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 2010: 0.82% (1.17% at 31 December 2009)
- Expected return on plan assets at 1 January 2011: 2.50% (3.00% at 1 January 2010)

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

	31 December	
	2010	**2009**
	EUR (thousands)	
Present value of unfunded obligation	**2,530**	2,026
Less: Fair value of plan assets	**(1,796)**	(1,439)
	734	587

Note 19 - Accrued employee retirement rights (cont'd)

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

	Financial year 2010		
	Gross amount	Amount deposited	Net amount
	EUR (thousands)		
Balance at beginning of the year	**2,026**	**(1,439)**	**587**
Translation difference	**309**	**(219)**	**90**
Payments made upon retirement	**-**	**(74)**	**(74)**
Net movement in provision - charged to net profit	**195**	**(64)**	**131**
Balance at end of the year	**2,530**	**(1,796)**	**734**

	Financial year 2009		
	Gross amount	Amount deposited	Net amount
	EUR (thousands)		
Balance at beginning of the year	1,625	(1,279)	346
Translation difference	(45)	37	(8)
Payments made upon retirement	(76)	(68)	(144)
Net movement in provision - charged to net profit	522	(129)	393
Balance at end of the year	2,026	(1,439)	587

Note 20 - 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, all of which expired in 2009 and 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 2010 amounted to EUR 349,000 (2009: EUR 1,608,000) and was credited to the lease expenses under operating expenses.

Movements:	**Financial year**	
	2010	**2009**
	EUR (thousands)	
Balance at beginning of the year	**349**	1,957
Amortisation during the year	**(349)**	(1,608)
Balance at end of the year	**-**	349

Note 21 - Long-term loans

A. ***Composition:***

	Interest rates [1]	31 December 2010	31 December 2009
	%	EUR (thousands)	EUR (thousands)
In CZK	3.79%	3,487	3,881
In EUR	EURIBOR + 1.5% - 2.2 %	9,022	51,425
In HUF	6.88%	1,380	1,825
In NIS		-	21,668
In PLN	WIBOR + 2%-2.75%	10,596	24,336
		24,485	103,135
Less:			
Current portion		(5,419)	(9,515)
		19,066	93,620

[1] The interest rates shown concern the rates per 31 December 2010.

B. ***The loans mature as follows:***

	31 December 2010	31 December 2009
	EUR (thousands)	EUR (thousands)
First year - current maturities	5,419	9,515
Second year	6,517	15,636
Third year	4,641	16,760
Fourth year	4,415	14,864
Fifth year	1,259	34,702
Sixth year and thereafter	2,234	11,658
	24,485	103,135

C. Liens - see Note 24 (2).

Note 22 - Short-term borrowings

Composition:

	Interest rates [1]	31 December 2010	31 December 2009
	%	EUR (thousands)	
Current maturities of long-term loans	See Note 21	5,419	9,515
Short-term bank credit:			
Unlinked (NIS)	3.9%	6,675	3,030
In euros	2.9%	17	-
		12,111	12,545

[1] The interest rates shown concern the rates per 31 December 2010.

Note 23 - Other accounts payable

Composition:

	31 December 2010	31 December 2009
	EUR (thousands)	
Investment creditors	**654**	9,649
Accrued expenses	**13,340**	12,043
Deferred income	**2,642**	1,303
Government institutions	**1,760**	9,650
Advances and income received in advance	**114**	139
Other	**1,626**	4,236
	20,136	37,020

Note 24 - Commitments, liens and contingent liabilities

(1) **Commitments**

a. The Company and its subsidiaries conduct most of their cinemas and corporate operations in leased premises. These leases, which have non-cancellable clauses, expire at various dates after 31 December 2010. Many leases have renewal options. Most of the leases provide for contingent rentals based on the revenues of the underlying cinema, 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 2010 are as follows:

	EUR (thousands)*
2011	25,372
2012	26,014
2013	26,005
2014	26,522
2015	26,882
After 2015	103,636
	234,431

* 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 2009 were as follows:

	EUR (thousands)*
2010	21,860
2011	23,330
2012	25,040
2013	25,464
2014	25,068
After 2014	92,707
	213,469

* 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 2010 amounted to EUR 23,506,000 (2009: EUR 20,837,000).

Note 24 - Commitments, liens and contingent liabilities (cont’d)

b. As at 31 December 2010, the Group has unpaid commitments to invest in the development of properties of approximately EUR 2.6 million (31 December 2009: nil) and has further commitments to acquire cinema equipment of approximately EUR 8.6 million (31 December 2009: EUR 12.1 million).

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

d. 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 between three to five years for each film sold.

e. 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.

f. 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 2010 amounted to EUR 1,215,000 (31 December 2009: EUR 1,228,000), and is classified as ‘Other long-term payables’. The capital lease is bearing 8% annual interest. The lease term expires on 31 December 2021, after which the ownership will be transferred to the Company. For a specification of the contractual maturity of ‘Other long-term payables’ reference is made to Note 32.

(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 2010 and as at 31 December 2010.

Note 24 - Commitments, liens and contingent liabilities (cont'd)

(2) **Liens (cont'd)**

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. During the financial year 2009, the Company provided a guarantee for new loan to a Polish bank totaling PLN 60 million (EUR 15.1 million). The Company's Polish subsidiary provided the bank with several securities consisting mainly of an ordinary joint mortgage on its interest in several real estate investments in Poland. The Polish subsidiary undertook to meet several financial covenants. As at 31 December 2010, 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 188 (EUR 47.3) 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 2.8 million (2009: EUR 3.7 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 2.4 million (2009: EUR 2.8 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.

e. In connection with the sale of the real estate in Bulgaria to Israel Theatres Ltd. as described in Notes 9 and 13, the Company has agreed to refrain from borrowing additional funds if such borrowings would result in Israel Theatres Ltd, on a fully consolidated basis (together with the Company), breaching agreed-upon EBITDA to debt ratios.

(3) **Contingent liabilities**

From time to time, the Group is involved in routine litigation and proceedings during the normal course of business. As at 31 December 2010, the Group is not involved in any litigations or proceedings except for the following:
Cinema City Poland Sp.z o.o. (CCP), 100% owned by the Company, is the defendant in a claim brought by Związek Autorow 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 many other major cinema exhibitors and cable TV operators in Poland, some of which, the Company believes, may have settled with Zaiks. The claimant seeks royalties in the amount of approximately EUR 2.0 million plus interest for the period through June 2007 for the use of works by certain of its members in movies exhibited in Poland. Recently, Zaiks filed a motion with the court to settle with CCP for the period through 2009. Although no claims have been raised by Zaiks for the period after June 2007, Zaiks motion to the court for settlement for the period through 2009 makes it more likely that Zaiks will make a claim for additional amounts for the period after 2007. Based on legal advice, the Management Board does not expect the outcome of the claim to have a material effect on the Group's financial position. The Company continues to accrue amounts in connection with this matter.

Note 25 - Discontinued operations

Towards the end of 2009, the Company decided to terminate its DVD distribution activities in Hungary as well as in the Czech Republic. The film distribution activities in these two countries have been taken place in an unpredictable market environment making it difficult for management to derive real growth and profitability from this segment.

The consolidated income statements for the year ended 31 December 2010 and 2009, respectively, comprise the results from film distribution activities in Hungary and the Czech Republic and the results from the DVD rental activities in Israel that was disposed of during 2008.

Results from discontinued operations

	Financial year	
	2010	**2009**
	EUR (thousands, except per share data)	
Revenues	**2,904**	4,811
Operating costs, excluding depreciation and amortisation	**(2,358)**	(5,557)
Depreciation and amortisation	**(55)**	(155)
General and administrative expenses	**(266)**	(602)
Financial expenses, net	**(65)**	(113)
Income tax	**(175)**	(199)
Gain/(loss) on disposal and write-off other investments	**30**	(93)
Gain/(loss) before non-controlling interests	**15**	(1,908)
Loss attributable to non-controlling interests	**9**	46
Gain/(loss) attributable to equity holders	**24**	(1,862)
Basic and diluted gain/(loss) per share (in euros)	**-**	(0.04)
Cash flows from discontinued operations		
Net cash from operating activities	**609**	350
Net cash from/(used in) investing activities	**66**	(4)
Net cash (used in)/from financing activities	**(1,033)**	46
Net cash (used in)/from discontinued operations	**(358)**	392

Note 26 - Revenues

	Continuing operations		Discontinued operations (see Note 25)		Total	
	Financial year					
	2010	2009	2010	2009	2010	2009
	EUR (thousands)					
Theatre sales	**215,452**	172,469	**-**	-	**215,452**	172,469
Distribution	**16,991**	13,876	**2,904**	4,811	**19,895**	18,687
Other cinema related revenues	**2,106**	2,188	**-**	-	**2,106**	2,188
Total cinema related revenues*	**234,549**	188,533	**2,904**	4,811	**237,453**	193,344
Sale of real estate*	**91,212**	23,028	**-**	-	**91,212**	23,028
Total revenues	**325,761**	211,561	**2,904**	4,811	**328,665**	216,372

Note 27 - Operating costs

	Continuing operations		Discontinued operations (see Note 25)		Total	
	Financial year					
	2010	2009	2010	2009	2010	2009
	EUR (thousands)					
Costs of theatre sales	**152,399**	127,107	**-**	-	**152,399**	127,107
Distribution costs	**15,598**	13,356	**2,358**	5,557	**17,956**	18,913
Depreciation and amortisation	**19,817**	16,168	**55**	155	**19,872**	16,323
Other cinema related costs	**746**	1,327	**-**	-	**746**	1,327
Total cinema related operating costs*	**188,560**	157,958	**2,413**	5,712	**190,973**	163,670
Sale of real estate*	**88,170**	12,417	**-**	-	**88,170**	12,417
Total operating costs	**276,730**	170,375	**2,413**	5,712	**279,143**	176,087

* In order to allow the reader to more easily compare these annual results to last year's annual results, revenues (and corresponding costs and gross results) are presented into two main categories: (a) revenues, costs and gross results from cinema related operations and (b) revenues, costs and gross results from the sale of real estate. This presentation format should allow for a better understanding of the Company's core operating results with and without the significant additional revenues that were generated from the sale of the Company's Bulgarian real estate assets during the reporting period. The revenues from the sale of real estate, the associated costs and gross results are therefore presented on separate lines, whereby for comparison purposes the amounts relating to the year ended 31 December 2009 have been presented accordingly.

Note 28 - Financial income/expenses

A. Financial income

	Financial year	
	2010	2009
	EUR (thousands)	
Interest income	**369**	368
Currency exchange gains	**427**	600
Total financial income consolidated	**796**	968
Less: Financial income of discontinued operations (see Note 25)	**(113)**	(121)
Total financial income of continuing operations	**683**	847

B. Financial expenses

	Financial year	
	2010	2009
	EUR (thousands)	
Interest expenses incurred	**(2,816)**	(4,221)
Interest cost capitalised [(1)]	**353**	2,402
Currency exchange losses	**(572)**	(1,127)
Total financial expenses consolidated	**(3,035)**	(2,946)
Less: Financial expenses of discontinued operations (see Note 25)	**178**	234
Total financial expenses of continuing operations	**(2,857)**	(2,712)

(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 29 - 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 30 – Taxation: deferred tax assets, deferred tax liabilities and income tax expense

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% - (2009 - 25.5%)
Hungary*	10% - (2009 - 19%)
Czech Republic	19% - (2009 - 20%)
Poland	19% - (2009 -19%)
Israel	25% - (2009 - 26%)
Bulgaria	10 % - (2009 - 10%)
Romania	16 % - (2009 - 16%)

* From 1 July 2010.

In only one of the countries in which the Group is operating, tax rates will change as of 1 January 2011 as follows:

- in Israel to 24%.

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.

   The ultimate realisation of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences can be offset or become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. 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 30 - Taxation: deferred tax assets, deferred tax liabilities and income tax expense (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	
	2010	**2009**
	EUR (thousands)	
Accrued employee rights	**168**	123
Fixed assets	**1**	1
Operating tax loss carry-forwards	**1,835**	1,821
Other	**26**	548
	2,030	2,493

Deferred income tax included in liabilities:	31 December	
	2010	**2009**
	EUR (thousands)	
Accrued employee rights	**(121)**	(106)
Fixed assets	**7,126**	6,702
Operating tax loss carry-forwards	**(242)**	(308)
Long-term liabilities	**(586)**	(561)
Other	**228**	336
	6,405	6,063

The unused tax losses carried forward for which no deferred tax asset is recognised in the Consolidated Statement of Financial Position as at 31 December 2010 amount to EUR 10,169 thousands (as at 31 December 2009 EUR 16,053 thousands).
Temporary differences related to fixed assets for which no deferred tax liability is recognised in the Consolidated Statement of the Financial Position as at 31 December 2010 amount to nil (as at 31 December 2009 EUR 2,221 thousands).

III. Income tax expense in the income statement

Composition:	Financial year	
	2010	**2009**
	EUR (thousands)	
Current taxes	**2,748**	1,080
Deferred income taxes	**1,319**	1,375
In respect of previous years	**(29)**	-
Income tax expense from continuing operations	**4,038**	2,455
Income tax expense from discontinued operations (see Note 25)	**175**	199
Total income tax expense	**4,213**	2,654

Note 30 - Taxation: deferred tax assets, deferred tax liabilities and income tax expense (cont'd)

IV. Income tax recognised in other comprehensive income

	Financial year 2010		
	Before tax	Tax (expense)/ benefit	Net of tax
	EUR (thousands)		
Foreign exchange translation differences	**6,280**	**-**	**6,280**
Effective portion in fair value of cash flow hedges	**(1,484)**	**283**	**(1,201)**
Total other comprehensive income	**4,796**	**283**	**5,079**

	Financial year 2009		
	Before tax	Tax (expense)/ benefit	Net of tax
	EUR (thousands)		
Foreign exchange translation differences	494	-	494
Effective portion in fair value of cash flow hedges	(1,499)	290	(1,209)
Total other comprehensive income	(1,005)	290	(715)

V. 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	
	2010	2009
	EUR (thousands)	
Tax calculated at the regular rate (2010: 25.5%; 2009: 25.5%)	**8,737**	6,762
Adjustment for reduced tax rate in foreign subsidiaries	**(1,376)**	(883)
Effect of reduction in tax rates on deferred income taxes	**(21)**	(203)
Non-deductible expenses	**211**	303
Effect of tax losses utilised	**(1,461)**	(1,275)
Income exempt from taxes	**(1,539)**	(3,078)
Taxes in respect of previous years	**188**	-
Other differences	**(526)**	1,028
Total recognised income tax expense	**4,213**	2,654
Tax recognised in income from continuing operations	**4,038**	2,455
Tax recognised in income from discontinued operations	**175**	199
	4,213	2,654

Note 31 - 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:

Parent-subsidiary relationships;

- entities under common control;.
- individuals who, through ownership, have significant influence over the enterprise and close members of their families;
- key management personnel, comprising the members of the Management Board and members of the Supervisory Board.

The Group is controlled by I.T. International Theatres Ltd., incorporated in Israel, which owns 53.89% of the outstanding shares (2009: 64.35%). The remaining 46.11% are held by the public and traded at the 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.

Transactions with related parties

a. Income/(expenses):

	Financial year	
	2010	**2009**
	EUR (thousands)	
Rental fees	(716)	(559)
Management services	386	747

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 three of the Company's theatres are located to the Company. The annual lease payments for the above properties aggregated to EUR 299,559 (denominated in NIS and linked to the Israeli CPI Index).

c. Pursuant to the management services agreement between the Company and Israel Theatres Ltd., the Company will provide Israel Theatres Ltd. for an indefinite period with certain management services. Management services include office and accounting services through providing Israel Theatres Ltd. with senior personnel and administration of Israel Theatres Ltd.'s business. The management services agreement is for a fixed annual sum of EUR 386,000 (denominated in NIS and linked to the Israeli CPI Index).

Note 31 - Related party transactions (cont'd)

Transactions with related parties (cont'd)

d. Following discussions between Israel Theatres Ltd. and the Company's Israeli subsidiaries IT 2004 and Forum Film Ltd. regarding office and the storage space leased from Israel Theatres Ltd., the following new lease agreements were signed:

- a lease agreement with IT – 2004 regarding the lease of office space in Haifa effective as of 1 January 2010. Under the new lease agreement, the leased space increased to 700 square meters (previously 325 square meters), as a result of which the rental fee increased to EUR 8,500 (NIS 42,000) per month (previously EUR 4,400 (NIS 22,000)). The rental fee is at market rates and upon market terms and is linked to the Israeli CPI Index.
- a lease agreement with IT – 2004 regarding the lease of office space in Herzelia effective as of 1 October 2010. Under this agreement the leased space increased to 766 square meters (previously 364 square meters), as a result of which the rental fee increased to EUR 10,063 (NIS 49,816) per month (previously EUR 6,132 (NIS 30,355)). The rental fee is at market rates and upon market terms and is linked to the Israeli CPI Index.
- a lease agreement with Forum Film Ltd. regarding the lease of office and storage space in Herzelia effective as of 1 October 2010. Under this agreement the leased space increased to 835 square meters (previously 770 square meters), whereby the total rental fee decreased to EUR 8,500 (NIS 41,900) per month (previously EUR 10,000 (NIS 50,896)). The rental fee is at market rates and upon market terms and is linked to the Israeli CPI Index.

In all cases, the newly agreed rental fees are at lower prices per square meter than under the previous lease agreement.

Note 31 - Related party transactions (cont'd)

e. 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 41,000 per month (denominated in NIS and linked to the Israeli Consumer Price Index), which, together with related employee benefits, will amount to EUR 67,000 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 a six 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 2010 and 2009, no share options have been granted to members of the Management Board.

The Managing Directors of the Company received remuneration totalling EUR 3,338,000 (2009: EUR 2,507,000). The members of the Supervisory Board received fees totalling EUR 131,000 (2009: EUR 122,000). 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 2010 and 2009.

Note 31 - Related party transactions (cont'd)

The remuneration for the Managing Directors is divided between the Managing Directors as follows:

	Financial year	
	2010	2009
	EUR (thousands)	
General director:		
Salary and other short-term benefits	261	233
Post-employment benefits	15	13
Management bonus	1,269	921
	1,545	1,167
Operational director:		
Salary and other related costs	263	197
Post-employment benefits	13	11
Management bonus	635	461
	911	669
Financial director:		
Salary and other related costs	234	199
Post-employment benefits	13	11
Management bonus	635	461
	882	671
Total	3,338	2,507

The remuneration for the Supervisory Board members is principally divided equally.
Total compensation to key management personnel amounts to EUR 3,469,000 (2009: EUR 2,629,000), EUR 3,428,000 relates to short-term employee benefits (2009: EUR 2,594,000), EUR 41,000 to post-employments benefits (2009: EUR 35,000).

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

f. The Greidinger family has indirect control of the Company's majority shareholder, ITIT, through its majority shareholding in Israel Theatres Ltd. More than 75% of the shares in Israel Theatres Ltd. are held indirectly by Mr Israel Greidinger, Mr Moshe Greidinger and their relatives. On 4 January 2011, Israel Theatres Ltd. purchased part of its own shares from one of the shareholder, as a result of which the number of shares held indirectly by the Greidinger family in Israel Theatres Ltd. increased to just over 81%.
The 50% of Norma Film not owned by the Company is held by I.M. Greidinger Investment Ltd., in which both Mr Moshe Greidinger and Mr Israel Greidinger each hold a 50% interest.

g. The non-controlling interests mainly represent a 50% indirect share in the equity of Forum Film Ltd. by I.M. Greidinger Investment Ltd. (see Note 31 (f)). 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 31 - Related party transactions (cont'd)

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

i. The Company is a subsidiary of ITIT, 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 Ltd. 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 Ltd. 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.
   In 2010, Israel theatres through subsidiaries purchased the company's Bulgarian real estate development activities and assets as described in notes 9 and 13.

j. Israel Theatres Ltd., 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 Ltd. 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.

k. On 11 May 2010, the Company issued 341,000 new ordinary shares to I.T. International Theatres Ltd. to facilitate the exercise of share options granted in prior years to employees, as described on page 32 (footnote to 'Changes in ownership of shares and rights to shares by Management Board members').

l. RESB EOOD, a 100% owned subsidiary by the Company provided real estate management and consulting services during 2009 in the amount of EUR 295,000 to MO Plovdiv EOOD (not consolidated sold during 2009) and to Park Tower EOOD (a 100% owned subsidiary of Israel theatres Ltd.). During 2010 no services were provided by RESB EOOD to other group companies. On 21 April 2010 the Company sold RESB EOOD to its shareholders as part of the sale of real estate activities in Bulgaria.

Note 32 - Financial instruments and financial risk management

The Group's principal financial instruments, other than derivatives and cash and cash equivalents, comprise bank loans 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 2010 and 2009, 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 Management Board reviews and agrees policies for managing each of these risks and they are summarised below. The Management Board 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 4 (J).

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.

(ii) 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 21 and 22). At 31 December 2010 and 2009, 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 interest cost of a 1% shift in interest rate would be a maximum decrease of EUR 456,000 (2009: EUR 780,000).

Note 32 - 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 US dollar and euro expenses (see below).

If the following rate movements 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 +/- 8.7%;
(b) the euro versus the US dollar by +/- 11.8%;
(c) the euro versus the New Israeli shekel by +/- 10.5%;
(d) the US dollar versus the Czech crown, the Hungarian forint, the Romanian new lei or the Polish zloty by +/- 16.0%;
(e) the US dollar versus the New Israeli shekel by +/- 9.1%.

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 2010**				
	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)	**(580)**	**353**	**147**	**127**	**(543)**
Reasonable shift	**8.7%**	**11.8%**	**10.5%**	**16.0%**	**9.1%**
Total effect on profit of positive movements	**214.3**	**21.6**	**10.3**	**1,238.6**	**6.8**
Total effect on profit of negative movements	**(214.3)**	**(21.6)**	**(10.3)**	**(1,238.6)**	**(6.8)**

Total effect on profit/(loss)	**Financial year 2009**				
	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)	(1,553)	14	49	595	693
Reasonable shift	15.3%	12.4%	9.4%	25.9%	13.6
Total effect on profit of positive movement	(220.2)	(0.5)	3.2	1,917.9	96.6
Total effect on profit of negative movement	220.2	0.5	(3.2)	(1,917.9)	(96.6)

Note 32 - Financial instruments and financial risk management (cont'd)

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 reporting date was:

	31 December	
	2010	**2009**
	EUR (thousands)	
Trade receivables	**13,387**	15,553
Receivables from related parties	**15,622**	427
Other receivables	**11,546**	18,497
Non-marketable securities held for sale	**190**	169
Cash and cash equivalents*	**9,261**	20,741
Short-term bank deposits	**329**	210
Foreign currency exchange contracts	**90**	1,574
	50,425	57,171

* The rest of 'Cash and cash equivalents' is cash in hand.

Note 32 - 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	
	2010	**2009**
	EUR (thousands)	
Trade receivables:		
Counterparty without / with unknown external credit rating		
Group 1*	**11,472**	11,942
Group 2**	**1,810**	1,736
Group 3***	**105**	1,875
Total Trade receivables	**13,387**	15,553
Cash at banks and short-term bank deposits		
AAA	**8,334**	18,881
AA	**409**	184
A	**518**	1,676
Total Cash at bank**	**9,261**	20,741

* Group 1 – new receivables (less then 6 months).

** Group 2 – existing receivables (more than 6 months) with no defaults in the past.

*** Group 3 – existing receivables (more than 6 months) with some defaults in the past. All defaults were fully recovered.

**** The rest of 'Cash and cash equivalents' is cash in hand

Allowances for doubtful accounts remained on a similar level (EUR 131,000 and EUR 216,000 for 31 December 2010 and 2009, respectively).

Note 32 - 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 reporting to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	As at 31 December 2010			
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	EUR (thousands)			
Borrowings	**5,419**	**6,517**	**10,315**	**2,234**
Other long-term payables	**120**	**120**	**1,335**	**2,942**
Current liabilities*	**29,330**	**312**	**-**	**-**

	As at 31 December 2009			
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	EUR (thousands)			
Borrowings	9,515	15,636	65,421	12,563
Other long-term payables	273	109	1,264	3,376
Current liabilities*	49,585	566	30	68

* Excluding short-term borrowing, deferred income and income received in advance.

Derivative financial instruments

As at 31 December 2010 and 31 December 2009, the Company has hedged some of its US dollar and euro expenses through 2010 and 2009 in respect of its Polish, Hungarian and 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 the following forward foreign exchange contracts:

- Contracts comprising a commitment to buy EUR 300,000 and USD 500,000 at the beginning of each month until December 2010 at fixed prices denominated in Polish zloty.
- Contracts comprising a commitment to buy USD 255,000 at the beginning of each month until December 2010 at fixed prices denominated in Hungarian forint.
- Contracts comprising a commitment to buy USD 90,000 at the beginning of each month until August 2011 at fixed prices denominated in Czech crown.

These forward foreign exchange contracts have been valued in the Consolidated Statement of Financial Position as at 31 December 2010 at their fair value.

Note 32 - Financial instruments and financial risk management (cont'd)

Derivative financial instruments (cont'd)
The change in fair value of contracts 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 euro and the US dollar 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 statement of financial position, are as follows:

	As at 31 December 2010		As at 31 December 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
	EUR (thousands)			
Financial assets				
Trade accounts receivable	**13,387**	**13,387**	15,553	15,553
Receivables from related parties	**15,622**	**15,622**	427	427
Income taxes receivable	**1,061**	**1,061**	258	258
Receivable from government institutions	**1,321**	**1,321**	5,968	5,968
Other receivables	**10,225**	**10,225**	12,529	12,529
Marketable securities	**190**	**190**	169	169
Assets classified as held for sale*	**-**	**-**	37,924	37,924
Cash and cash equivalents	**10,527**	**10,527**	22,417	22,417
Short-term bank deposits	**329**	**329**	210	210
Foreign currency exchange contracts**	**90**	**90**	1,574	1,574
Total financial assets	**52,752**	**52,752**	97,029	97,029
Financial liabilities				
Bank loans	**(24,485)**	**(24,485)**	(103,135)	(103,135)
Short-term bank credits	**(6,692)**	**(6,692)**	(3,030)	(3,030)
Financial leases	**(1,215)**	**(1,215)**	(1,228)	(1,228)
Other long-term liabilities	**(3,302)**	**(3,302)**	(3,794)	(3,794)
Trade payables	**(9,702)**	**(9,702)**	(12,655)	(12,655)
Payables to related parties	**(524)**	**(524)**	(137)	(137)
Investment creditors	**(654)**	**(654)**	(9,649)	(9,649)
Accrued expenses	**(13,340)**	**(13,340)**	(12,043)	(12,043)
Payable to government institutions	**(1,760)**	**(1,760)**	(9,650)	(9,650)
Other payables	**(4,382)**	**(4,382)**	(5,678)	(5,678)
Total financial liabilities	**(66,056)**	**(66,056)**	(160,999)	(160,999)

* As of 31 December 2009, the approximate fair value of the 'Assets classified as held for sale' was not less than their carrying value (EUR 37,924 thousand).

** Both non-current and current.

Note 32 - Financial instruments and financial risk management (cont'd)

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	As at 31 December 2010		
	Level 1	**Level 2**	**Total**
	EUR (thousands)		
Marketable securities	**190**	**-**	**190**
Derivative financial assets (Foreign currency exchange contracts)	**-**	**90**	**90**
	190	**90**	**280**

	As at 31 December 2009		
	Level 1	**Level 2**	**Total**
	EUR (thousands)		
Marketable securities	169	-	169
Derivative financial assets (Foreign currency exchange contracts)	-	1,574	1,574
	169	1,574	1,743

There have been no transfers between Level 1 to Level 2 in 2010 (2009: no transfers in either direction).

Note 33 - 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 existed as per 31 December 2010 and 31 December 2009.

The gearing ratio is calculated as net debt divided by total equity attributable to equity holders. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the Consolidated Statement of Financial Position) less cash and cash equivalents. Leverage is calculated as net debt divided by total capital employed. Total capital employed is calculated as 'equity attributable to equity holders' as shown in the Consolidated Statement of Financial Position plus net debt financing assets in operation.

The gearing ratios and leverage at 31 December 2010 and 2009 were as follows:

	31 December	
	2010	**2009**
	EUR (thousands)	
Bank debt:		
Long-term borrowings, including current portion	**24,485**	103,135
Short-term bank credit	**6,692**	3,030
Total debt	**31,177**	106,165
Cash and cash equivalents	**(10,527)**	(22,417)
Net debt	**20,650**	83,748
Construction in progress (see Note 8)	**(3,406)**	(3,060)
Cinema equipment not operated yet (see Note 8)	**(63)**	(60)
Net debt financing assets in operation	**17,181**	80,628
Total equity	**221,730**	183,796
Total capital employed	**238,911**	264,424
Gearing ratio	**9.3%**	45.6%
Leverage	**8.6%**	31.7%

Note 34 - Linkage terms of monetary items

	31 December 2010			
	In or linked to EUR	**In or linked to USD**	**In or linked to foreign currencies**	**Total**
	EUR (thousands)			
Assets				
Cash and cash equivalents	**1,782**	**508**	**8,237**	**10,527**
Short-term bank deposits - collateralised	**329**	**-**	**-**	**329**
Trade accounts receivable	**54**	**-**	**13,333**	**13,387**
Income tax receivable	**-**	**-**	**1,061**	**1,061**
Other accounts receivable and prepaid expenses	**537**	**94**	**10,915**	**11,546**
Receivable from related parties	**14,836**	**-**	**786**	**15,622**
Marketable securities	**109**	**-**	**81**	**190**
Foreign currency exchange contracts	**-**	**90**	**-**	**90**
	17,647	**692**	**34,413**	**52,752**
Liabilities				
Short-term bank credit	**17**	**-**	**6,675**	**6,692**
Trade accounts payable	**304**	**755**	**8,643**	**9,702**
Employee and payroll accruals	**-**	**-**	**2,036**	**2,036**
Other accounts payable	**1,662**	**-**	**18,474**	**20,136**
Payable to related parties	**-**	**-**	**524**	**524**
Long-term loans (including current portion)	**9,022**	**-**	**15,463**	**24,485**
Accrued employee rights upon retirement	**-**	**-**	**734**	**734**
	11,005	**755**	**52,549**	**64,309**

	31 December 2009			
	In or linked to EUR	**In or linked to USD**	**In or linked to foreign currencies**	**Total**
	EUR (thousands)			
Assets				
Cash and cash equivalents	1,075	1,388	19,954	22,417
Short-term bank deposits - collateralised	210	-	-	210
Trade accounts receivable	360	25	15,168	15,553
Other accounts receivable and prepaid expenses	1,387	12	17,098	18,497
Receivable from related parties	82	-	345	427
Marketable securities	109	-	60	169
Foreign currency exchange contracts	470	1,104	-	1,574
	3,693	2,529	52,625	58,847
Liabilities				
Short-term bank credit*	-	-	3,030	3,030
Trade accounts payable	153	171	12,331	12,655
Employee and payroll accruals	-	-	1,879	1,879
Other accounts payable	4,381	168	32,471	37,020
Payable to related parties	-	-	137	137
Long-term loans (including current portion)*	51,425	-	51,710	103,135
Accrued employee rights upon retirement	-	-	587	587
	55,959	339	102,145	158,443

* Reclassified for comparison purposes

Note 35 - Segment reporting

The Group's operations in Israel and Central Europe are organised under the reportable segments, as shown below, which are the Group's major business segments. The strategic business units offer different products and services because they require different processes and marketing strategies. For each of the strategic business units, management reviews internal management reports on at least a quarterly basis. The following summarizes the operations in each of the Group's reportable segments:

- Theatre operations.
- Distribution – Distribution of movies.
- DVD distribution (discontinued – see Note 25)
- Real estate sold.
- Other – this includes the Company's cinema related real estate activities.

Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, finance costs, finance income and income taxes are managed on a group basis and are not allocated to operating segments. Inter-segment pricing is determined on an arm's length basis.

Business segments

	Financial year 2010 EUR (thousands)								
	Theatre operations	**Distribution**	**DVD (discontinued)**	**Other cinema related**	**Real estate**	**Eliminations**	**Consolidated**	**Less: discontinued operations**	**Continuing operations**
Revenues									
External sales	215,452	16,991	2,904	2,106	91,212	-	328,665	2,904	325,761
Inter-segment sales	52	12,247	14	-	-	(12,313)	-	-	-
Total revenues	215,504	29,238	2,918	2,106	91,212	(12,313)	328,665	2,904	325,761
Results									
Segment result before depreciation, amortisation & impairment write-downs	53,222	83	280	(181)	3,042	-	56,446	280	56,166
Depreciation, amortisation & impairment write-downs	19,551	178	55	88	-	-	19,872	55	19,817
Segment result	33,671	(95)	225	(269)	3,042		36,574	225	36,349
Financial income							796	113	683
Financial expenses							(3,035)	(178)	(2,857)
Loss on disposals							(71)	30	(101)
Income tax expense							(4,213)	(175)	(4,038)
Non-controlling interests							359	9	350
Net income							30,410	24	30,386

	31 December 2010 EUR (thousands)						
	Theatre operations	**Distribution**	**DVD (discontinued Operations)**	**Other**	**Real estate**	**Unallocated**	**Consolidated**
Segment assets	**267,361**	**6,097**	**372**	**16,144**	**-**	**2,030**	**292,004**
Segment liabilities	**27,306**	**7,076**	**2,661**	**606**	**-**	**37,582**	**75,231**
Capital expenditure	**39,947**	**361**	**-**	**4**	**4,507**	**-**	**44,819**

Note 35 - Segment reporting (cont'd)

	Financial year 2009* EUR (thousands)								
	Theatre opera-tions	**Distri-bution**	**Other cinema related**	**Discon -tinued opera-tions**	**Real estate**	**Elimi-nations**	**Conso-lidated**	**Less: Discon-tinued opera-tions**	**Conti-nuing opera-tions**
Revenues									
External sales	172,469	13,876	2,188	4,811	23,028	-	216,372	4,811	211,561
Inter-segment sales	310	8,400	-	-		(8,710)	-	-	-
Total revenues	172,779	22,276	2,188	4,811	23,028	(8,710)	216,372	4,811	211,561
Results									
Segment result before depreciation, amortisation & impairment write-downs	37,729	(405)	(1,548)	(1,348)	10,611	-	45,039	(1,348)	46,387
Depreciation, amortisation & impairment write-downs	15,802	240	126	155	-	-	16,323	155	16,168
Segment result	21,927	(645)	(1,674)	(1,503)	10,611	-	28,716	(1,503)	30,219
Financial income							847	-	847
Financial expenses							(2,825)	(113)	(2,712)
Loss on disposals							(221)	(93)	(128)
Income tax expense							(2,654)	(199)	(2,455)
Non-controlling interests							563	46	517
Net income							24,426	(1,862)	26,288

	31 December 2009 EUR (thousands)						
	Theatre operations	**Distri-bution**	**Other**	**Discontinued operations**	**Real estate**	**Unallocated**	**Consolidated**
Segment assets	245,708	10,002	4,919	2,267	84,297	2,493	349,686
Segment liabilities	38,917	4,859	703	3,989	9,181	112,228	169,877
Capital expenditure	36,755	174	100	4	13,123	-	50,156

* Reclassified for comparison purposes

Note 35- 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 2010
EUR (thousands)

	Poland	Israel	Hungary	Other	Un-allocated	Conso-lidated
Revenues						
External sales	**119,139**	**48,497**	**27,091**	***131,034**	**-**	**325,761**
Non-current assets						
Segment assets	**130,040**	**41,839**	**13,197**	**47,486**	**2,030**	**234,592**
Capital expenditure	**11,362**	**13,988**	**2,111**	**17,358**	**-**	**44,819**

* Include revenue in amount of EUR 91,212 thousands from the sale of real estate.

31 December 2009
EUR (thousands)

	Poland	Israel	Hungary	Other	Un-allocated	Conso-lidated
Revenues						
External sales	105,671	36,393	22,974	46,523	-	211,561
Non-current assets						
Segment assets	126,087	26,825	13,390	78,858	2,493	247,653
Capital expenditure	18,564	2,133	4,975	24,484	-	50,156

Note 36 - Personnel

Personnel costs are specified as follows:

	31 December	
	2010	**2009**
	EUR (thousands)	
Salaries and wages	**19,614**	17,584
Pension costs	**1,215**	1,300
Other social charges	**2,914**	2,203
Share-based payments under the share option plan (see Note 16(d))	**63**	118
Total personnel costs	**23,806**	21,205

For 2010 and 2009, 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 joint ventures during the year 2010 was 2,558 (financial year 2009: 2,153). A geographical allocation of the average number of personnel is as follows:

	31 December	
	2010	**2009**
Israel	**325**	329
Poland	**1,300**	1,080
Hungary	**319**	328
Other Central Europe*	**614**	416
Total average number of personnel	**2,558**	2,153

* Including the Czech Republic, Bulgaria and Romania.

Note 37 - Details of corporations in the Group

	31 December 2010*			
	Company's (in)direct voting rights	**Company's equity share**	**Consolidation**	**Country of incorporation**
	%	%	%	
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)
Cinema City Czech S.R.O	100%	100%	Full	(3)
Forum Home Entertainment Czech S.R.O.**	100%	100%	Full	(3)
Forum Film Czech S.R.O***	100%	100%	Full	(3)
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)
Cinema City Poland spolka komandytowa 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 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)
Forum Film Romania SRL	100%	100%	Full	(7)
New Age Media Romania SRL	100%	100%	Full	(7)

(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 2009 were similar to the details of corporations as at 31 December 2010 as shown above, except for changes during the financial year 2010 disclosed in Note 6.*

** *Include the discontinued operations- see note 25.*

*** *Previously named as New Age Cinema Czech S.R.O. (see Note 6)*

Note 38 - Interest in joint ventures

As at December 2010, the interest in joint ventures includes a 50% interest (indirectly held) in an Israeli joint venture, Kafan et Anak limited partnership, which was operating a video chain in Israel under the brand name Blockbuster. The results from the Israeli joint venture is included under 'discontinued operations'
As at 31 December 2009, the Group had 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. During the year ended 31 December 2010, the joint venture interest was sold (see also Note 9)

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 statement of financial position and consolidated income statement:

	31 December 2010	31 December 2009
	EUR (thousands)	
Assets:		
- Non-current assets	**-**	1,791
- Current assets	**-**	1,843
	-	3,634
Liabilities:		
- Non-current liabilities	**1,649**	2,581
- Current liabilities	**1**	37
	1,650	2,618
Net assets/(liabilities)	**(1,650)**	1,016

	Financial year 2010	Financial year 2009
	EUR (thousands)	
Income	**-**	-
Expenses	**(12)**	(291)
Profit after income tax	**(12)**	(291)

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

Note 39 - Subsequent events

Acquisition

Subsequent to the end of 2010, on 19 January 2011 the Company signed a share and asset purchase agreement with Palace Cinemas (Central Europe) B.V. ('Palace Cinemas'), under which agreement the Company acquired 100% of the shares in four Central European subsidiaries of Palace Cinemas, notably: Palace Cinemas Czech s.r.o., Palace Cinemas Hungary Kft, Palace Cinemas Slovak Republic s.r.o. and Palace Multikino s.r.o. and related assets. The acquisition with a total purchase price of EUR 28 million, comprised in total 15 multiplexes with 141 screens in the Czech Republic, Hungary and Slovakia plus a leasing agreement for 1 multiplex with 8 screens in Ostrava, the Czech Republic planned to be opened in 2012.

Under the share and asset purchase agreement with Palace Cinemas, the Company will be also rendering selected management services, during a transitional period, for the 8 multiplexes (with 48 screens) operated by Palace Mozi Kft, a Hungarian subsidiary of Palace Cinemas that was not acquired by the Company.

At the closing, the Company paid EUR 21.4 million to the seller and assumed EUR 6.6 million in existing debt of the acquired companies. The acquisition was financed from the Company's existing cash and from available credit lines.

Due to the fact the Company was not able to complete the purchase price allocation to the acquired individual identifiable assets and liabilities, the following information has not been disclosed in this note:

- goodwill recognised and a qualitative description of the factors making up any goodwill;
- the fair value of the total consideration transferred as at acquisition date and the fair value of each major class of consideration; and
- the fair value of receivables and gross contractual amounts receivable, insofar applicable.

Reversal of offset of short-term deposit against short-term borrowings

In the Consolidated Statement of Financial Position as at 31 December 2010, a bank deposit of PLN 50 million (EUR 12.6 million) has been offset against long-term borrowing based on the then existing arrangement with a Polish bank under which the Group had an unconditional right to offset the deposit against amounts payable under the loan agreement with the same bank. Subsequent to the end of 2010, in connection with the acquisition described above, the deposit was released and made available to finance the acquisition.

Company Statement of Financial Position
(before appropriation of the result)

	Note	31 December 2010	31 December 2009
		EUR (thousands)	
ASSETS			
NON-CURRENT ASSETS			
Intangible fixed assets	3	**125**	170
Property and equipment	4	**9**	31
Financial fixed assets			
Deferred tax asset		**1,001**	1,275
Investment in subsidiaries	5	**166,066**	171,575
Total non-current assets		**167,201**	173,051
CURRENT ASSETS			
Receivables			
Receivable from subsidiaries		**47,814**	30,514
Receivable from related parties		**13,072**	64
Income taxes receivable		**44**	44
Other accounts receivable and prepaid items		**4,152**	2,128
Marketable securities		**109**	109
Liquid funds			
Cash and cash equivalents		**353**	62
Total current assets		**65,544**	32,921
TOTAL ASSETS		**232,745**	205,972
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY	6		
Share capital		**512**	508
Share premium reserve		**92,144**	90,377
Accumulated currency translation adjustments		**2,474**	(4,417)
Hedge reserve		**73**	1,274
Retained earnings		**96,117**	71,628
Net profit for the year		**30,410**	24,426
Total shareholders' equity		**221,730**	183,796
CURRENT LIABILITIES			
Trade accounts payable		**7**	136
Payable to subsidiaries		**10,458**	21,604
Other accounts payable		**550**	436
Total current liabilities		**11,015**	22,176
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**232,745**	205,972

The notes on pages 107 to 111 are an integral part of the Company Financial Statements.

Company Income Statement

	Note	31 December 2010	31 December 2009
		EUR (thousands)	
Revenues		**6,952**	1,959
General and administrative expenses		**(1,428)**	(1,871)
Net operating result		**5,524**	88
Financial income	7	**189**	269
Financial expenses	8	**(261)**	(311)
Operating result before taxation		**5,452**	46
Income taxes (expenses)/benefit	9	**(270)**	1,270
Net result after taxation		**5,182**	1,316
Result from subsidiaries after taxation	5	**25,228**	23,110
Net income		**30,410**	24,426

The notes on pages 107 to 111 are an integral part of the Company Financial Statements.

Company Statement of Changes in Shareholders' Equity

	Share capital	Share premium reserve	Accumulated currency translation adjustments	Hedge reserve	Retained earnings	Net profit for the year	Total
	EUR (thousands)						
Balance as of 1 January 2009	508	90,377	(4,852)	2,483	53,854	17,656	160,026
Profit appropriation prior year	-	-	-	-	17,656	(17,656)	-
Share-based payments	-	-	-	-	118	-	118
Net profit for the year 2009	-	-	-	-	-	24,426	24,426
Foreign currency translation adjustment	-	-	435	-	-	-	435
Effective portion in fair value of cash flow hedges*	-	-	-	(1,209)	-	-	(1,209)
Balance as of 31 December 2009	508	90,377	(4,417)	1,274	71,628	24,426	183,796
Profit appropriation prior year	**-**	**-**	**-**	**-**	**24,426**	**(24,426)**	**-**
Issue of new share (see Note 6)	**4**	**1,767**	**-**	**-**	**-**	**-**	**1,771**
Share-based payments	**-**	**-**	**-**	**-**	**63**	**-**	**63**
Net profit for the year 2010	**-**	**-**	**-**	**-**	**-**	**30,410**	**30,410**
Foreign currency translation adjustment	**-**	**-**	**6,891**	**-**	**-**	**-**	**6,891**
Effective portion in fair value of cash flow hedges*	**-**	**-**	**-**	**(1,201)**	**-**	**-**	**(1,201)**
Balance as of 31 December 2010	**512**	**92,144**	**2,474**	**73**	**96,117**	**30,410**	**221,730**

* 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 32 to the Consolidated Financial Statements).

The notes on pages 107 to 111 are an integral part of the Company Financial Statements.

Company Statement of Cash Flows

	For the year ended 31 December 2010	For the year ended 31 December 2009
	EUR (thousands)	
Cash flows from operating activities		
Net operating result	**5,524**	88
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortisation	**67**	46
Gain on sale of subsidiaries	**(3,089)**	-
Interest received	**189**	269
Interest paid	**(261)**	(311)
Income taxes received/(paid)	**4**	(6)
Net cash provided by operating activities before working capital	**2,434**	86
Movement in receivables and payables form subsidiaries*	**(3,882)**	(3,819)
increase in other receivable and related parties	**(1,827)**	(870)
Decrease in other accounts payable	**(15)**	(38)
Equity share-based payments	**63**	118
Net cash used in operating activities	**(3,227)**	(4,523)
Cash flows from investing activities		
Investment in subsidiaries*	**(487)**	(146)
Net changes in marketable securities	**-**	1,215
Proceeds from sale of subsidiaries	**2,234**	-
Net cash provided by investing activities	**1,747**	1,069
Cash flows from financing activities		
Proceeds net, from new shares issued	**1,771**	-
Net cash provided by financing activities	**1,771**	-
Increase/(decrease) in cash and cash equivalents	**291**	(3,454)
Cash and cash equivalents at beginning of year	**62**	3,516
Cash and cash equivalents at end of year	**353**	62

* Reclassified for comparison purposes.

The notes on pages 107 to 111 are an integral part of the Company Financial Statements.

Note 1 - General

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

The shares in the Company are traded on the Warsaw Stock Exchange. As at 31 December 2010, 53.89% 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, Slovakia 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 Notes 2 and 4 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 4 to the Consolidated Financial Statements.

Note 3 - Intangible fixed assets

The intangible fixed assets comprise software and are stated at cost less accumulated amortisation and impairment losses, if any.

Composition:	**For the year ended 31 December 2010**			
	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	**(57)**	**(45)**	**-**	**(102)**
Carrying value	**170**	**(45)**	**-**	**125**

Note 3 - Intangible fixed assets (cont'd)

The intangible fixed assets comprise software and are stated at cost less accumulated amortisation and impairment losses, if any.

Composition:

	For the year ended 31 December 2009			
	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)	(46)	-	(57)
Carrying value	216	(46)	-	170

Note 4 - Property and equipment

Composition:

	For the year ended 31 December 2010			
	Balance at beginning of the year	**Additions during the year**	**Accumulated depreciation**	**Balance at year-end**
	EUR (thousands)			
Cost				
Cinema equipment	**13**	**-**	**(13)**	**-**
Computers, furniture and office equipment	**18**	**-**	**(9)**	**9**
Carrying value	**31**	**-**	**(22)**	**9**

	For the year ended 31 December 2009			
	Balance at beginning of the year	**Additions during the year**	**Accumulated depreciation**	**Balance at year-end**
	EUR (thousands)			
Cost				
Cinema equipment[1]	13	-	-	13
Computers, furniture and office equipment	18	-	-	18
Carrying value	31	-	-	31

[1] Consisted of prepayments on account of IMAX ® systems not yet in operation. Therefore, no depreciation was 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	
	2010	**2009**
	EUR (thousands)	
Balance at beginning of the year	**171,575**	149,220
Currency translation adjustment	**6,625**	(901)
Investments in subsidiaries	**487**	146
Sales of subsidiaries	**(5,951)**	-
Dividend distribution by subsidiary	**(31,898)**	-
Net result subsidiaries during the year	**25,228**	23,110
Balance at the end of the year	**166,066**	171,575

Note 6 - Shareholders' equity

As of 31 December 2010 and as of 31 December 2009, 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 2010 and 2009, reference is made to Note 16 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 interest payable to Group companies amounting to EUR 238,000 (2009: EUR 234,000) and to foreign currency exchange losses of EUR 23,000 (2009: EUR 77,000).

Note 9 - Income taxes

The income tax expenses have been recorded primarily from the utilisation of available tax losses carried forward from prior years.
Realisation of the 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 probable that the deferred income tax asset is realisable and therefore the deferred tax asset is valued at EUR 1,001,000 (31 December 2009: EUR 1,275,000).
The accumulated tax losses carried forward as per 31 December 2010 are estimated to be EUR 4,760,000 (31 December 2009: EUR 6,466,000).

Note 10 - Personnel

The Company employed no employees during the years 2010 and 2009.

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 3,338,000 during the year 2010 (2009: EUR 2,507,000). 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 6 members; the supervisory directors are entitled to an annual fee of EUR 12,500 plus an amount of EUR 1,500 per board meeting (EUR 750 if attendance is by telephone). The chairman of the Audit Committee is entitled to an additional EUR 5,000 per year and the chairman of the other committees is entitled to an additional EUR 2,500 per year. The total amount due in respect of Supervisory Board fees during 2010 is EUR 131,000 (2009: EUR 122,000).
For the remuneration elements received by the individual Board members, reference is made to Note 31 of the Consolidated Financial Statements.

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	
	2010	**2009**
	EUR (thousands)	
Remuneration for audit KPMG Accountants N.V.	**190**	175
Remuneration for audit (other)[(1)]	**268**	304
Remuneration for other services[(2)]	**330**	292
	788	771

(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 2010 and 2009.

Note 13 - Subsequent events

Subsequent to the end of 2010, on 19 January 2011 the Company signed a share and asset purchase agreement with Palace Cinemas (Central Europe) B.V. ('Palace Cinemas'), under which agreement the Company acquired 100% of the shares in four Central European subsidiaries of Palace Cinemas, notably: Palace Cinemas Czech s.r.o., Palace Cinemas Hungary Kft, Palace Cinemas Slovak Republic s.r.o. and Palace Multikino s.r.o. and related assets. The acquisition with a total purchase price of EUR 28 million, comprised in total 15 multiplexes with 141 screens in the Czech Republic, Hungary and Slovakia plus a leasing agreement for 1 multiplex with 8 screens in Ostrava, the Czech Republic planned to be opened in 2012.
Under the share and asset purchase agreement with Palace Cinemas, the Company will be also rendering selected management services, during a transitional period, for the 8 multiplexes (with 48 screens) operated by Palace Mozi Kft, a Hungarian subsidiary of Palace Cinemas that was not acquired by the Company.
At the closing, the Company paid EUR 21.4 million to the seller and assumed EUR 6.6 million in existing debt of the acquired companies. The acquisition was financed from the Company's existing cash and from available credit lines.

Rotterdam, 14 March 2011

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.

Subsequent event

Reference is made to Note 39 (page 102).

Proposed profit appropriation

For the year ended 31 December 2010, management proposes to allocate the net profit for the year 2010 amounting to EUR 30,410,000 to retained earnings. This proposal has not been reflected in the Company Statement of Financial Position per 31 December 2010.

Auditor’s report

The auditor’s report is set out on pages 113 to 114.

Independent auditor's report

To: the Supervisory Board and the Annual General Meeting of shareholders of Cinema City International N.V.

Report on the financial statements

We have audited the accompanying 2010 financial statements of Cinema City International N.V., Rotterdam, as set out on pages 36 to 111 The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2010, the consolidated income statement and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company statement of financial position as at 31 December 2010, the company income statement and the company statements of changes in shareholders' equity and cash flows for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

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. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 2010 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 2010 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 requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the directors' report, to the extent we can assess, has been prepared in accordance with part 9 of Book 2 of this Code, and if the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the directors' report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 14 March 2011

KPMG ACCOUNTANTS N.V.

Signed by

P. Mizrachy RA