

# ANNUAL REPORT

CONCORDE SECURITIES LTD.

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COMPANY  
DESCRIPTION

Concorde Securities Ltd. is Hungary's leading independent investment banking firm, offering integrated financial services in the areas of securities trading, research and analysis, corporate finance, capital market transactions, asset management and investment advice. The firm is run on a partnership basis, with managers – either through shares or stock options – owning one-third of the Company, and with these owner-managers responsible for the day-to-day operation of the Company as well as for strategic decision-making. Concorde is a member of the Budapest Stock Exchange, Frankfurt Stock Exchange, Warsaw Stock Exchange and the Association of Securities Dealers.

Concorde's activities and strategy are based on the following business philosophy:

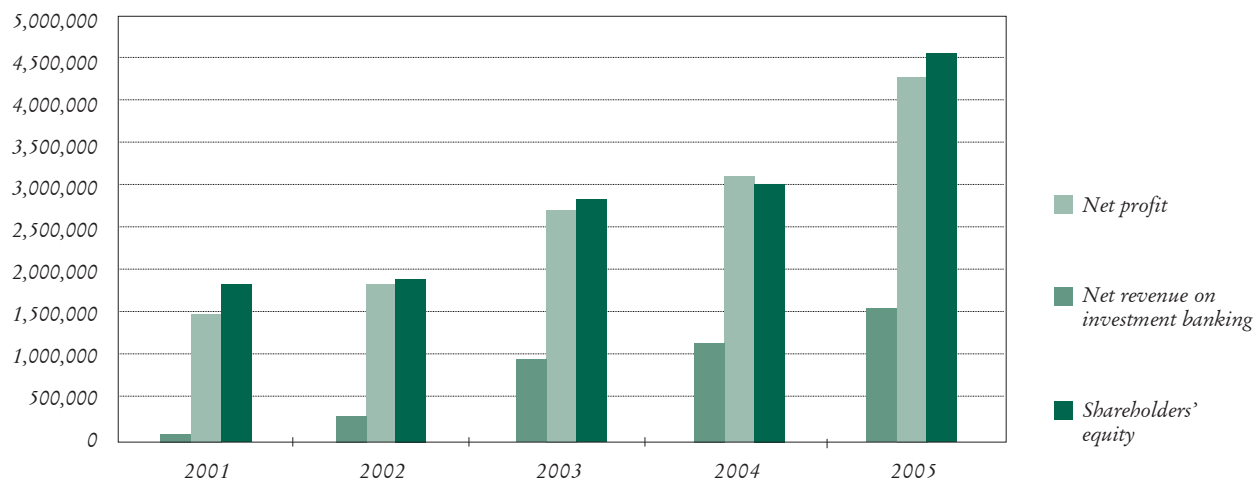
- Concorde conducts its business activity within a clearly defined set of financial services, and thus its strategy is influenced by the development and growth of these markets. In line with its profile as an integrated service provider, Concorde's goal is to develop its business as an organic whole, with its various activities complementing and reinforcing one another. By the same token, it avoids entering into areas that do not fit with its core activities, regardless of the potential returns.
- In terms of its turnover, Concorde – particularly when compared to traditional industrial, trading or service companies – is a relatively large concern. As such, it needs to have well-designed processes and mechanisms in place to ensure the security, efficiency and profitability of its operation. At the same time, we understand that our customers would prefer not to deal with impersonal corporate processes, but rather with people – and for this reason, we continue to operate as a “small shop” consisting of a modest number of highly skilled and dedicated “artisans”.
- Besides the Company's managers, Concorde's owners consist of Hungarian financial investors who do not take part in the actual running of the Company. This means that we do not enjoy the support of a multinational, or even a national, financial group. However, on the principle that a solitary sapling will, if properly nurtured, grow into a sturdy oak, we were determined from early on to turn this apparent handicap into a strength. Realising that we had nothing but ourselves to fall back on, we strove from the start to create a company that was self-reliant and strong in its own right – and one that attracts customers and does business with other market participants purely on the strength of its products and services.
- We are well aware that to function as a large company without losing touch with one's clients, as well as to succeed as an independent company, present challenges that only an exceptionally motivated and dedicated team can meet. In order to achieve this level of commitment, Concorde is, itself, completely committed to its employees, providing them with every opportunity to develop their skills and knowledge, and thereby to realise their personal ambitions. While maintaining the utmost respect for the freedom of the individual, the ultimate aim is to maximise the performance of the team, since it is not only accomplished soloists that we need, but an orchestra playing in perfect harmony – a whole that is greater than the sum of its parts.
- Since its inception, the policy of Concorde has been to assume costs only in the interest of achieving clearly defined business goals that promise to yield revenues and profits within a reasonable period of time. This does not mean that Concorde sets no store by its role as good “corporate citizen”. Nevertheless, we believe that our shareholders possess the necessary social responsibility to decide for themselves how their portion of Concorde's profits should be spent, and we do not feel we have the right to make this decision for them.

CONDENSED  
FINANCIAL  
INFORMATION

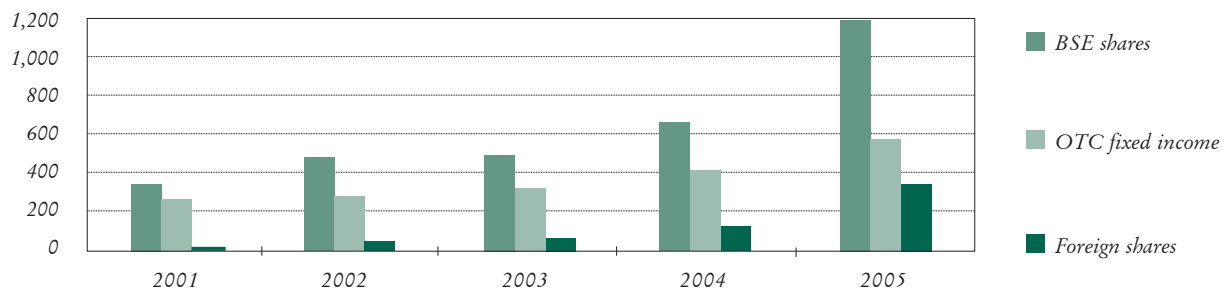
### Condensed financial information (HUF thousand)

	2001 IAS consolidated	2002 IAS consolidated	2003 IAS consolidated	2004 IAS consolidated	2005 IAS consolidated
Total assets	4,601,350	3,357,376	5,162,307	5,664,653	9,035,290
Shareholders equity	1,851,456	1,917,201	2,875,720	3,058,949	4,553,811
Share capital	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Net revenue on investment banking	1,509,764	1,843,533	2,686,561	3,133,446	4,362,938
Net profit	56,640	330,223	958,519	1,166,327	1,531,149
Turnover (HUF million)	648,628	818,062	946,134	1,213,423	2,139,214
Number of employees	77	83	87	95	109
Return on equity	3%	18%	50%	41%	50%

### Financial figures (HUF thousand)



### Turnover (HUF billion)



# MANAGEMENT REPORT



## NEW HEIGHTS

In 2005, its twelfth full year of business, Concorde Securities Ltd. and its subsidiaries achieved total investment services revenue of HUF 4,363 million (in 2004: HUF 3,133 million), with a securities trading volume of HUF 2,139 billion (in 2004: HUF 1,203 million), which, after deducting costs and expenses, resulted in a pre-tax profit of HUF 1,764 million and an after-tax profit of HUF 1,531 (in 2004: HUF 1,568 million and HUF 1,166 million respectively). As a result of retained earnings, the company's equity capital increased from HUF 3,059 million to HUF 4,554 million.

### *Bullish stock market, growing private sector and a sinking public finance ship*

In line with our long-term strategy, we continue to be engaged in a clearly defined area of investment and financial services, and to concentrate our resources and attentions there, as a result of which our position in these markets is stable and we operate at an exceptional level of profitability. At the same time, however, the parameters that we have imposed on ourselves mean strict limits in terms of the diversification of our activities and the concomitant management of economic risk, as a result of which we are very vulnerable to changes in the conditions of the global and domestic capital markets. This has worked in our favour over the past three years, as in a continuously improving world economic and global financial environment we have been able to reap the benefits of our earlier developments and efforts, and every year we have dazzled our investors with numbers that exceeded expectations.

<i>Name of the index</i>	<i>31 Dec 2004</i>	<i>31 Dec 2005</i>	<i>change</i>
Dow	10,783	10,717	-0.61%
S&P	1,212	1,248	2.97%
Nasdaq 100	1,621	1,645	1.48%
DAX	4,256	5,408	27.07%
FTSE	4,814	5,620	16.74%
CAC 40	3,821	4,715	23.40%
BUX	14,743	20,785	40.98%
PX-50	1,032	1,473	42.73%
WIG-20	1,960	2,655	35.46%
RTSI	608	1,125	85.03%
Nikkei	11,484	16,131	40.46%
Hangseng	14,230	14,878	4.55%
Bovespa	26,179	33,445	27.76%
Mexbol	12,936	17,913	38.47%

Last year bullish sentiment continued to prevail on the world's markets, and this was particularly so with regard to the benchmark emerging and other European exchanges, including the underlying commodity and energy exchanges, as well as with regard to the more established credit markets. The formula remained simple: the consumption of the developed economies, especially of the US, plus growing output in the developing regions resulted in global economic growth. The current account deficit of the former was financed by the savings of the latter, without significant inflation, accompanied by low interest rates and, as a result, considerable global liquidity.

This wave has supported the Hungarian economic boat as it charts a rather precarious course; while other countries have been severely punished with grave financial crises for their current account and public finance deficits, the Hungarian economy has met with only minor disapproval and a slight underweight representation in investor portfolios. Thus, in assessing the true situation we should not limit ourselves to an evaluation of the absolute indicators but examine Hungary's performance by comparing it with similar countries around the world. Thus, the 41% rise in forint terms in the BUX index – impressive as it may be – and the “stability” of the forint tend to lose some of their lustre when compared with the development of the growth indices of the developing countries (Latin America +38.5; Far East +40.5%), as well as the indices of some of the developed markets (Japan +40.5; DAX +27.1; CAC40 +23.4%) and the value of their respective currencies. The difference is even more striking if we perform the comparison on a dollar basis (BUX +20.1%). Our economic growth (change in real GDP: +4.1%), though certainly pleasing, also lagged behind the performance of the world's major economies, and most of the latter have not been characterised by a deficit similar to ours, with some actually boasting significant budget and current account surpluses.

But that is not the real problem! No, Hungary's biggest problem is that it is marked by a stark contradiction: sitting awkwardly side by side each other are a flowering, developing and efficient private sector on the one side, and a state and municipality sector that weighs heavily both on itself and on the private economy on the other – one that is preventing the latter from developing, is inefficient and of poor quality, and which provides services (administration, education, health, infrastructure developments) that are at once costly and of a low standard. It is in this area that the country is significantly behind, in terms of structural changes and reforms of the kind that the private sector has already undergone through a combination of privatisation, greenfield investments and, not least, the disappearance of unsuitable economic participants. The result is an increasingly worrisome public finance and current account deficit, and in turn, a level of imbalance that could undermine not just the Hungarian economy but the stability of the European monetary system as a whole. Thus in 2006 bringing public finances into line has become a priority that can no longer be postponed, although of greater significance still would be the acceptance by the government of a long-term reform package and a substantial reduction of the deficit.

## OUR WORK CONTINUES

Although our excellent results hide it, the Concorde group is also a victim of this situation – firstly, as an economic participant that contributes considerable sums – totalling billions of forints – to the state coffers, and whose work is not aided, but rather hindered, by the operations of the state and municipality sector, and sec-

ondly, the economic policies of the past years have sucked resources out of the capital market for long periods on end, which – partly due to non performance-based public sector wage hikes and indebtedness – have been channelled into consumption. In the past few years, as a consequence of global trends and good corporate results, the capitalisation of the stock market has grown, but the Hungarian capital market remains underdeveloped and rudimentary, and too much at the mercy of international capital flows, and even we are unable to protect ourselves fully from the effects of these circumstances. As early as in last year's annual report we pointed out that global liquidity of such abundance as had been witnessed over the previous years could not last long. A temporary or permanent fall in liquidity could impact our business on two fronts. Firstly, through the direct and indirect effects of a Hungarian financial crisis, and secondly, due to a fall in trading volumes occurring independently of this. These processes did not start last year. In fact, volumes grew significantly and prices rose on the stock market. But, as we have said before, just because something's late, it doesn't mean it's not coming. For this reason we are watching economic and financial trends even more intently, though the first few months of 2006 have seen yet further growth.

In this favourable climate we experienced a substantial expansion in profit in relation to our more established business divisions and services last year, while as far as our more recently launched – most notably retail – services are concerned, we continued to build and to develop. This meant increasing headcounts, further capital investments and an expansion of our product range. As a result of these measures, we are now an active participant in the equity markets of virtually every major region of the world. Besides strengthening the team overall, we intend to meet the consequent increase in the demand for information and research through a more efficient organisation of workflows and a tighter integration of the institutional and retail research teams.

Our corporate finance and capital market activities were characterised, as in previous years, by a number of successful transactions. In the framework of what was one of the biggest Hungarian privatisation transactions to date, we participated as co-advisor in the sale of Budapest Airport Rt, which will result in HUF 465.5 billion in revenue for the Republic of Hungary, as well as in up-to-date, EU-compliant regulations and a strengthened market position, and also, through the support and investments of the new owner and one of the world's biggest airport operating companies, BAA Plc, a considerably more competitive and faster-growing airport. With the stock-market listing and public distribution of the shares of Állami Nyomda NyRt. (State Printing House Plc) at the end of the year, again, a new company has been floated on the Hungarian bourse through Concorde – this time acting as exclusive advisor and sole lead manager. Besides these mandates, the execution of several smaller M&A and advisory transactions contributed to the division's success during the year.

Our asset management team also remained true to its track record, delighting our clients with excellent yields for the eleventh straight year, and, through a growth in both assets under management and revenues, also benefiting Concorde – as a 75-percent shareholder. As in the retail division, here too we have begun to place greater emphasis on an international approach, and following the Concorde VM absolute-yield fund, a number of new foreign portfolios will soon be compiled at Concorde Investment Management Ltd., not least by leveraging – as a client – the opportunities afforded by our own research activity which is currently being expanded and enhanced.

In order to ensure compliance with the provisions of the Capital Market Act, with effect from 1 October 2005 we outsourced our highly successful film-financing operations to an independent subsidiary company, Concorde Financial Consulting Ltd. Due to the way in which the supervisory authority interpreted the relevant legal statutes, in the second half of this year we plan to implement further restructuring measures in the operation of the business line, and as a part of this we may even choose to dispose of our interest in Concorde Financial Consulting Ltd.

## OTHER EVENTS

### *HUF 50 million in charitable donations*

Last year we decided that our growing company should be assessed as grown-up in terms of its corporate responsibility as well. The company will no longer conduct its non-profit activities using savings from the marketing budget and from our personal share of the profits, but using funds from an independent sponsorship budget, and, in view of the outstanding profits we have achieved, a significantly larger sum is to be devoted to these activities than at any other time in our history. In this context, we decided on a HUF 50 million sponsorship program at the end of the year, so that projects already commenced can benefit from additional funding, and in order that we can launch new initiatives.

- Smile Foundation (HUF 29 million). Besides helping it meet the general objectives and individual charitable initiatives described in our previous reports, this donation will enable this foundation – of which Concorde is a joint founder and regular patron – to launch a program aimed at establishing homes, as well as health, development and care institutions, for children and young people in need (which could, with Concorde’s assistance, become the foundation’s most important project of the coming years).
- We have contributed to the costs of constructing a new centre for the Brave Camp Foundation, set up under the aegis of the Smile Foundation, through a donation of HUF 15 million which covers the price of a separate building.
- Foundations dealing with autistic children and their development: HUF 2 million
- Foundation for Child Burn Victims: HUF 3 million
- Foundation for the Curing of Tumour Patients: HUF 500,000
- Tunyogi Erzsébet Theraplay Foundation for Children with Multiple Handicaps: HUF 500,000

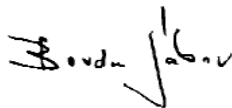
*Best Hungarian Securities Firm*

The excellence of Concorde's work is reflected not just in the company's financial results, but in the considerable acclaim and recognition it has received in the past years. Particularly worthy of note in this regard is that, based on a survey of several hundred international investment institutions, Euromoney named Concorde Best Hungarian Securities Firm in 1996, 1997, 1998 and 2000, Best Local Partner in 2005, as did the financial journal Emerging Markets Investor in 1997. Perhaps more important than international recognition, however, is the fact that the members of the Budapest Stock Exchange, its own financial community, awarded Concorde the title of Best Stock Exchange Brokerage Firm every year from 1998 through to 2002. This view was supported by the Budapest Business Journal, which, based on an annual survey conducted among its readers, awarded our company the title of Best Securities Firm in 2003 and again in 2004. After a two-year break the professional community of the Budapest Stock Exchange once again awarded us the title of Best Investment Service Provider in 2005.

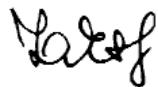
In recognition of the accuracy of his forecasts, our firm's senior economist and macroeconomic analyst, János Samu, won the title of best macroeconomic analyst in 2005 awarded by the Hungarian financial daily Napi Gazdaság, while the Budapest Stock Exchange awarded the title of Stock Market Best-of-the-Best of 2005 to our analysts Attila Vágó and Mónika Tabányi.

The fact that for years now we, the three most senior executives of Concorde, have personally undertaken an active role in the work of the stock exchange, as well as in educational, cultural and humanitarian initiatives, gives us at least as much satisfaction as receiving recognition for our management work. Furthermore, while we continue to be motivated by the conviction that our clients make the right decision in choosing the services of Concorde, we never forget that without their continued trust and confidence Concorde would not be able to achieve its own objectives. We would therefore like to take this opportunity to thank those who have contributed hard work and commitment to the fulfilment of these aims.

Budapest, 24 February 2005



*Gábor Borda*



*György Jaksity*



*Norbert Streitmann*

REPORTS  
OF THE  
DIVISIONS

## SECURITIES TRADING

### *Equities*

In terms of securities trading Concorde closed what was by far its most successful year ever in 2005. Turnover transacted on the Budapest Stock Exchange rose 77%, while volumes transacted on the foreign bourses grew by 184%. Overall turnover on the Budapest Stock Exchange was 85% higher than in the previous year. Concorde was third in terms of trading volume, behind the multinational banking heavyweights Erste and K&H.

### *Market share and ranking on the basis of exchange-traded equities*

	2000	2001	2002	2003	2004	2005
BSE trading volume (HUF billion)	6,793,544	2,771,358	3,024,629	3,698,707	5,219,773	9,661,044
Concorde market share (%)	6.59%	12.63%	15.99%	13.13%	12.56%	12.31%
Concorde rank	4	2	2	3	3	3

Due to the expansion in the Hungarian market, the contribution of equity transactions executed on the Budapest Stock Exchange to Concorde's commission revenues remained dominant. Besides the 77% increase in turnover mentioned above, in 2005 we achieved a 69% higher sales revenue from commission activity than in the previous year. The share of commission revenues within the sales revenues of the retail division grew from 40% to 46%.

### *Stock exchange trading volume of Concorde Securities Ltd. (HUF thousand)*

	2000	2001	2002	2003	2004	2005
Equities	447,514,664	350,014,569	483,713,980	490,691,320	665,593,992	1,189,111,947
Government securities*	22,912	22,946	8,065,346	12,337,317	15,347,518	14,209,125
Corporate bonds	0	155,500	1,731,744	3,178,842	8,847,466	852,641
Other securities	210,613	126,068	810,670	3,276,614	721,299	236,698
<b>Total</b>	<b>447,748,189</b>	<b>350,319,083</b>	<b>494,321,740</b>	<b>509,484,093</b>	<b>680,510,275</b>	<b>1,204,410,411</b>

\*Government securities transactions are carried out on the OTC market.

As in previous years, our foreign-securities trading operations, launched primarily for the benefit of retail customers, posted a significant growth in turnover in 2005. Already a fully fledged member of the Deutsche Börse, in 2005 Concorde became a full member of the Warsaw Stock Exchange as well.

The following table shows the composition of turnover transacted on the foreign stock exchanges:

*Foreign securities trading volume (HUF thousand)*

	2002	2003	2004	2005
Equities	30,587,948	58,063,200	115,688,638,	316,618,480
Government securities		920,438	5,134,076	24,338,039
Other securities		156,423	331,046	546,409
<b>Total</b>	<b>30,587,948</b>	<b>59,140,061</b>	<b>121,153,760</b>	<b>343,502,928</b>

Revenue from commission activity grew by 90% in the case of the retail division, and by 52% in the case of the institutional division.

*Fixed-income and treasury operations*

Owing to the characteristics of Hungary's government securities market, we continue to regard our fixed-income division as supplementary to our main business operations. Its chief task is to professionally manage the liquidity of the company and of its domestic, mainly retail, clients, to provide our customers with a high quality of service, and to manage the FX turnover related to international securities trading. Our government-securities turnover therefore varies in line with prevailing needs, and we do not seek to actively increase volumes.

*OTC trading volume (HUF thousand)*

	2000	2001	2002	2003	2004	2005
Equities	2,390,496	8,099,929	4,067,369	1,786,819	301,751	1,096,887
Government securities	207,792,792	258,011,406	261,113,097	330,180,370	344,671,832	462,004,732
Corporate bonds	580,353	223,182	2,178,643	537,094	20,782,591	420,062
Other securities	19,237,644	31,974,163	25,781,313	45,006,048	53,593,127	127,779,333
<b>Total</b>	<b>230,001,285</b>	<b>298,308,680</b>	<b>293,140,422</b>	<b>377,510,331</b>	<b>419,349,301</b>	<b>591,301,014</b>



As a consequence of the increase in foreign-securities trading and the activity of foreign clients, the value of the foreign currency transactions concluded by them grew from HUF 48 billion to HUF 91 billion.

#### *Derivative products*

As in previous years, Concorde's presence on the derivatives market continued to expand dynamically in 2004. Our volume of trading in stock-exchange derivatives more than doubled, to HUF 465 billion, while our commission revenues grew by 72%, to HUF 118 million. Our turnover on the index market, which is the most liquid of derivative markets, grew further, and this performance allowed us to maintain our second position in the derivatives brokerage-firm rankings. Also worthy of mention is the fact that we retained our leading position on the equities options market, and are also present on the low-turnover FX options market, while our FX futures turnover increased more than twofold.

Behind the expansion in the derivatives market lies the sustained growth in turnover in the spot market, and the resulting increase in prices. The strengthening of trading volumes attracted further customers: the number of our futures and options customers grew by 50%.

## RETAIL CUSTOMERS

The securities turnover of our retail division grew considerably, from HUF 197 billion to HUF 414 billion. The division's sales revenue rose 72% in 2005, and approached HUF 1.8 billion. Private customer assets entrusted to Concorde and held in shares, investment funds and government bonds amounted to HUF 75 billion at the end of 2005, 26% more than at year-end 2004.

Equity trading volumes on the Hungarian and foreign stock exchanges was also above average. Foreign-share trading volume grew by 82%, and the division's domestic share-trading volume by 118%. Commission revenue from domestic trading exceeded that of the previous year by 86%, and commission revenue from foreign-securities trading exceeded that of a year earlier by 94%.

The volume of investment loans placed by Concorde grew substantially. The average total of 'lombard' (securities-backed) loans was HUF 382 million in 2005, compared to an annual average for 2004 of HUF 234 million. The average value of securities purchased against deferred payment barely increased, amounting to HUF 100 million as compared with an average in 2004 of HUF 93 million.

The growth of the retail business was attributable not just to the favourable market sentiment, but also to the introduction of the Concorde Call service (which is described in the following section on research).

We also placed considerable emphasis on increasing the satisfaction of our customers. In mid-year we increased the number of our investment advisors by 25% in the framework of a mentoring program, and were thereby able to raise the number of customers served by our advisors as well as the level of service provided to our customers.

## RESEARCH

In order to support the retail division, Concorde's research team also began to monitor certain foreign equity markets and foreign securities, at the same time creating the Concorde Call integrated news and research service. As a part of this service we provide our customers with brief daily summaries – either in text messages or an email – of the latest news related to the securities in their portfolios. These news summaries give them a more accurate picture of their liquid assets and investment funds that we are managing. Concorde Call played an important role in the fact that the Budapest Stock Exchange chose our company as Best Research House of the year in 2005.

At the same time Concorde also successfully carried out its research tasks related to Hungarian companies. The research team generally predicted companies' key performance data more precisely than did the market consensus. It has a highly accurate picture of their operations, and accordingly, foreign investors also regard our firm as their leading local partner, and come to us for information and analysis related to the Hungarian market.

Once again, we provided services and supplied forecasts to a number of international news agencies and companies engaged in the compiling and dissemination of market reports. Some of our more notable corporate partners include S&P EMD, Morgan Stanley Capital International, I/B/E/S, JCF, Multex, Bloomberg and Reuters. For the sixth year now, Concorde's reports can be downloaded from the subscriber pages of the online publisher Internet Securities.

## ASSET MANAGEMENT

Assets managed by Concorde Investment Management Ltd. rose by more than 30%, from HUF 71 billion at the start of the year to over HUF 99 billion. The increase was once again most notable in respect of the assets entrusted to us by our retail customers, with assets in this segment growing by 60% in 2005.

The Hungarian equities and bond market produced what – compared to expectations – were surprisingly good results, despite the fact that the country's public finances have been in poor shape for quite a while now. The global liquidity that remained despite the marked increase in US interest rates, coupled with the obvious enthusiasm for central-European investment instruments, easily outweighed the increase in Hungarian macroeconomic risk.

The Fund Manager, pursuing a successful ‘value investment’ policy, began an interesting experiment last year: we entered into a strategic alliance with the Vakmajom team, which is pursuing a commercial strategy based on technical analysis that is well known among the various market participants, to launch a new fund. The Concorde VM Absolute Derivative Fund set for launch in October will be the first fund in Hungary to be able to also take up short positions. We are confident that the twin strategy of strong fundamentals on the one hand and a technical approach on the other will provide significant synergies for our customers.

Last year we saw fit to make mention of the Brau story, and so we are pleased to report now that our efforts paid off, for the first time ever in the history of the Hungarian capital market: as a result of our unflagging perseverance, the Heineken Group was forced to raise its original purchase offer by 35%.

## CORPORATE CLIENTS

### *Capital market transactions*

Concorde participated as lead arranger and distributor in the public and private sale as well as the stock-market listing of the shares of State Printing House Plc. The transaction, the total value of which was some HUF 5 billion, was closed with notable success as the only stock-market listing of 2005. Although Concorde had already taken part in numerous similar transactions in the past, this was the first time it implemented a sale of this size independently, as sole arranger and distributor. As a result of the lengthy preparations, and by applying an innovative transaction structure, the shares, which were more than twice oversubscribed, were sold to domestic and foreign institutional as well as Hungarian private investors.

### *Film financing*

The Concorde Film Fund arranged financing for a total of 26 film productions in the course of 2005: we helped fourteen foreign feature and TV films to be produced, as well as fifteen local films to be made. According to statistics issued by the National Film Office, the division had a participation of some 40% in local commercially-based film financing.

In October of 2005, Concorde spun off its film financing operations under a separate, majority Concorde-owned company, Concorde Financial Consulting Ltd.

## CORPORATE FINANCE

The outstanding achievement of the year was our role, alongside Credit Suisse First Boston (Europe) Limited, as co-financial advisers to the Hungarian State Privatisation and Holding Company on the privatisation of Budapest Airport Plc., in which a 75% stake was sold – together with a 75-year asset management contract and associated moveable assets – to BAA Plc. for a total cash consideration of HUF 465.5 billion (EUR 1.84 billion). This extremely demanding and complex assignment, which began early in the year and closed on 22 December, saw a high level of competitive interest from multinational investors and culminated in the realisation of a sale price which made it not only the largest single privatisation transaction ever in Hungary but also the world's most highly valued airport takeover in terms of financial multiples.

Other notable advisory assignments in 2005 included:

- planning and preparation for the stock market debut of State Printing House Plc., which is described in more detail in the previous section.
- our support to Concorde Investment Management Ltd. in its challenge to the Brau story detailed in the section 'Asset Management'.
- the sale on behalf of private equity fund manager MAVVA of its portfolio company Dispomedicor Plc. to Nagév Kötyszer Ltd., a leading local distributor of medical supplies;
- our ongoing role as financial adviser to Magyar Telekom Plc. (previously Matáv Rt.) on business planning, valuation and regulatory issues; and
- our role as co-financial advisers, together with ABN AMRO Corporate Finance, to TDF S.A., the leading broadcasting services group in Europe, on its bid for Antenna Hungária Plc.

FINANCIAL  
STATEMENTS



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## INDEPENDENT AUDITORS' OPINION

To the Shareholders of Concorde Securities Ltd.

We have audited the accompanying consolidated balance sheet of Concorde Securities Ltd. and its subsidiaries (the "Group") as of December 31, 2005, and the related consolidated statements of operations, changes in shareholder's equity and cash flow for the year then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Concorde Securities Ltd. as of December 31, 2005, and the consolidated results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Budapest, February 24, 2006

Deloitte

**Audit. Tax. Consulting. Financial Advisory.**

Registered by the Budapest Court of Registration  
Company Reg. No.: 01-09-071057

A member of  
**Deloitte Touche Tohmatsu**

# CONSOLIDATED BALANCE SHEET

AS OF DECEMBER 31, 2005 AND 2004

*in HUF thousand*

	<i>Notes</i>	<i>2005</i>	<i>2004</i>
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	3	4,054,993	1,666,470
Settlement with brokers, dealers and customers	4	1,539,854	1,285,242
Securities held for trading	5	2,051,451	1,570,476
Other receivable and accruals	6	634,955	383,714
<b>Total current assets</b>		<b>8,281,253</b>	<b>4,905,902</b>
Non-current Assets:			
Goodwill on acquisition		70,400	70,400
Long-term investments	7	61,337	61,337
Loans to employees		23,075	22,113
Tangible and intangible fixed assets	8	599,225	604,901
<b>Total non-current assets</b>		<b>754,037</b>	<b>758,751</b>
<b>Total assets</b>		<b>9,035,290</b>	<b>5,664,653</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current Liabilities:			
Settlement with brokers, dealers and customers	9	3,609,903	1,529,743
Short term borrowings		24,089	358,767
Current portion of finance lease obligations	11	–	582
Other liabilities	10	633,996	513,866
Deferred tax liability	17	7,613	7,613
<b>Total current liabilities</b>		<b>4,275,601</b>	<b>2,410,571</b>
Long-term Liabilities:			
Long-term portion of finance lease obligations	11	–	–
<b>Total long term liabilities</b>		<b>–</b>	<b>–</b>
Minority interest	18	205,878	195,133
Shareholders' Equity:			
Share capital	12	1,000,000	1,000,000
Statutory reserves		464,263	303,326
Retained earnings		3,089,548	1,755,623
<b>Total shareholders' equity</b>		<b>4,553,811</b>	<b>3,058,949</b>
<b>Total liabilities and shareholders' equity</b>		<b>9,035,290</b>	<b>5,664,653</b>

*The accompanying notes to consolidated financial statements form an integral part of these consolidated financial statements.*

# CONSOLIDATED INCOME STATEMENT

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

*in HUF thousand*

	<i>Notes</i>	<i>2005</i>	<i>2004</i>
Net revenue on stock-broking		2,917,011	1,746,693
Net revenue on securities traded on proprietary account	13	196,621	286,369
Net revenue on issuance activities		174,341	109,392
Net revenue on corporate finance activities		479,882	482,548
Net revenue on asset management		595,083	508,444
<b>Net revenue on investment banking activities</b>		<b>4,362,938</b>	<b>3,133,446</b>
Net interest income	14	229,297	226,084
Other expenses, net		(138,632)	(104,610)
<b>Net revenue</b>		<b>4,453,603</b>	<b>3,254,920</b>
Wages and salaries	15	(1,358,425)	(733,545)
Brokerage, clearing and exchange fees		(267,661)	(201,100)
Communication		(204,124)	(102,867)
Amortisation of goodwill		-	(24,774)
General and administration expenses	16	(859,766)	(624,882)
<b>Profit before tax</b>		<b>1,763,627</b>	<b>1,567,752</b>
Income tax expense	17	(104,483)	(215,067)
Minority interest, net	18	(127,995)	(186,358)
<b>Net profit</b>		<b>1,531,149</b>	<b>1,166,327</b>

*The accompanying notes to consolidated financial statements form an integral part of these consolidated financial statements.*



# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

*in HUF thousand*

	<i>Share Capital</i>	<i>Treasury shares</i>	<i>Statutory reserve</i>	<i>Declared dividend</i>	<i>Retained earnings</i>	<i>Total</i>
January 1, 2004	1,000,000	(1,000)	193,688	384,138	1,298,894	2,875,720
Net profit	–	–	–	–	1,166,327	1,166,327
Paid dividends	–	–	–	(384,138)	–	(384,138)
Dividends paid in advance of General Meeting	–	–	–	–	(599,960)	(599,960)
Statutory reserve	–	–	109,638	–	(109,638)	–
Treasury shares disposed	–	1,000	–	–	–	1,000
<b>December 31, 2004</b>	<b>1,000,000</b>	<b>–</b>	<b>303,326</b>	<b>–</b>	<b>1,755,623</b>	<b>3,058,949</b>
Net profit	–	–	–	–	1,531,149	1,531,149
Statutory reserve	–	–	160,937	–	(160,937)	–
Other capital movements	–	–	–	–	(36,287)	(36,287)
<b>December 31, 2005</b>	<b>1,000,000</b>	<b>–</b>	<b>464,263</b>	<b>–</b>	<b>3,089,548</b>	<b>4,553,811</b>

*The accompanying notes to consolidated financial statements form an integral part of these consolidated financial statements.*

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

*in HUF thousand*

	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Profit before tax	1,874,211	1,567,752
Adjustments for:		
Depreciation and amortisation	173,569	136,062
Loss/(gain) on sale of investment	–	751
Interest expense	24,825	20,949
Interest income	(254,122)	(247,033)
Operating profit before working capital changes	1,818,483	1,478,481
(Increase)/decrease in securities held for trade	(480,975)	9,109
Increase in accounts receivable from settlement	(254,612)	(495,059)
Increase in accounts receivable and other current assets	(113,672)	(80,624)
Increase in accounts payable from settlement	2,080,160	480,177
(Increase)/decrease in accounts payable and accruals	121,258	(555,500)
Cash generated from operations	3,170,642	836,584
Interest paid	(25,953)	(22,077)
Interest received	239,440	241,201
Income taxes paid	(337,954)	(215,067)
Net cash flow provided by operating activities	3,046,175	840,641
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment	(183,361)	(232,143)
Purchase of subsidiary undertakings	–	(53,180)
(Increase)/decrease in long term investment, net	–	11,072
Loans granted to employees	(962)	(11,328)
Proceeds on sale of property, plant and equipment	(20,819)	5,900
Dividends paid to minority interest	(117,250)	(133,179)
Net cash flow used in investing activities	(322,392)	(412,858)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net (decrease)/increase of short term loans	(334,678)	343,767
Dividends paid on preferred shares and common shares	–	(984,098)
Payments of capital lease obligations	(582)	(2,129)
Treasury shares transaction	–	1,000
Net cash flow used in financing activities	(335,260)	(641,460)
Increase/(decrease) in cash and cash equivalents	2,388,523	(213,677)
Cash and cash equivalents at beginning of year	1,666,470	1,880,147
<b>Cash and cash equivalents at end of year</b>	<b>4,054,993</b>	<b>1,666,470</b>

*The accompanying notes to consolidated financial statements form an integral part of these consolidated financial statements.*

# NOTES

## 1. INTRODUCTION

Concorde Securities Ltd. (“the Company”) is a company limited by shares incorporated under the laws of the Republic of Hungary. The Company is primarily engaged in stock-broking, fixed income and derivatives trading, corporate finance, investment and financial advisory services, asset management and private equity business. The registered office of the Company is located in Hungary (H-1123), at Alkotás utca 50, Budapest.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Basis of presentation*

The accounting policies followed by the Company in these financial statements conform with International Financial Reporting Standards (IFRS). Some of the accounting principles prescribed for statutory purposes is different from those generally recognized in international financial markets. Certain adjustments have been made to the Company’s Hungarian statutory accounts (see Note 23), in order to present the financial position and results of operations of the Company in accordance with all standards and interpretations approved by the International Accounting Standards Board (IASB), which are referred to as International Financial Reporting Standards. These standards and interpretations were previously called International Accounting Standards (IAS).

The reporting currency of the Company is the Hungarian Forint (“HUF”).

The presentation of financial statements in conformity with IFRS requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Future changes in economic conditions, business strategies, regulatory requirements, accounting rules and other factors could result in a change in estimates that could have a material impact on future financial statements.

### *The effect of adopting revised International Financial Reporting Standards effective from January 1, 2005 on the 2004 financial statements*

Effective from January 1, 2005 the Company adopted revised IFRS 3 (“Business combinations”). Revisions to a number of other IFRS also took effect in the financial statements of the Bank, but those revisions concerned matters of detailed application which have no significant effect on amounts reported.

### *IFRS 3 Business Combinations*

The Group applied IFRS 3 Business Combinations from March 31, 2004 for new acquisitions. Effective from January 1, 2005 the Group for all subsidiaries:

- discontinued amortising goodwill and the amount of goodwill net of accumulated amortization became the carrying amount;
- tests the goodwill for impairment in accordance with IAS 36 Impairment of Assets;

The only item is the goodwill acquired through the acquisition of Concorde Vállalati Pénzügyek Kft., the related balances as at December 31, 2004 are the following:

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Cost	122,820
Accumulated amortization	(52,420)
Net book value	70,400
Amortization for the year 2004	24,564

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### *Changes in Accounting Policies arising from the Adoption of New IFRSs and Amendments to IASs effective 1 January 2006*

At the date of authorisation of these financial statements, the following standards were in issue but not yet effective:

- IFRS 7 'Financial Instruments: Disclosures' (effective 1 January 2007);
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' in respect of cash flow hedge accounting (effective 1 January 2006);
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 4 'Insurance Contracts' for financial guarantee contracts (effective 1 January 2006);
- Amendments to IAS 1 'Presentation of Financial Statements' on capital disclosures (effective 1 January 2007).

The adoption of these standards in the future periods is not expected to have a material impact on the profit or equity.

### *Revenue recognition*

Revenue and expense of securities trading are recognised when transactions are completed or services performed. Interest income and expense are recognised on the accrual basis.

### *Foreign currency*

Transactions arising in foreign currencies are translated into HUF at the rate of exchange prevailing at the date of the transaction. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into HUF at the year-end rates of exchange. The resulting foreign currency exchange gains and losses are recognised in the statement of income.

### *Consolidation*

The consolidated financial statements comprise the financial statements of Concorde Securities Ltd. (the “Company”) and two of its controlled subsidiaries as of December 31, 2005. The Parent Company and its controlled subsidiaries are referred to collectively as the “Group”. Control is presumed to exist where the Company holds, directly or indirectly, more than 50% of the registered capital. The effects of all material intercompany balances and transactions are eliminated.

Details of consolidated subsidiary undertakings are provided below. All consolidated companies are incorporated in Hungary.

<i>Company</i>	<i>Group's Ownership</i>	<i>Brief description of activities</i>
Concorde Corporate Finance Ltd.	75.00%	Corporate finance
Concorde Investment Management Ltd.	75.00%	Fund management

As of 31 December 2005 and 2004, respectively, two subsidiaries and associated companies in which the Company holds, directly or indirectly, more than 25% of the registered capital have not been consolidated as the impact on the consolidated financial statements would not be material as the companies had no significant activity during 2005 and 2004.

The Company sold its business shares in two subsidiaries: Tózsdecápa Ltd. was sold on November 15, 2005, Inगतlanhitel Plusz Ltd. on February 24, 2006.

<i>Company</i>	<i>Group's Ownership</i>	<i>Brief description of activities</i>
Concorde Financial Advisory Ltd.	99.67%	facility management company
Inगतlanhitel Plusz Ltd.	25.45%	mortgage loan agency

### *Goodwill*

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary or associate at the date of acquisition.

Goodwill, which represents the residual cost of the acquisition after recognizing the acquirer's interest in the fair value of the identifiable assets and liabilities acquired, is held as an intangible asset. The value of any goodwill held in the Consolidated Balance Sheet is reassessed on an annual basis, determined on the basis of specific identification of the investment. If it is no longer probable that the goodwill will be recovered from future economic benefits, it is recognized immediately as an expense.

### *Related parties*

Related parties include shareholders and management employees of the Group.

### *Tangible and intangible fixed assets*

Fixed assets are stated at cost, less accumulated depreciation and amortisation. Depreciation and amortisation is provided using the straight-line method in order to write off the cost of the asset over its expected economic useful life, as follows:

Property rights	6 years
Acquired clients	15 years
Leasehold improvements	33 years
Software	3 years
Machinery and equipment	3-7 years
Vehicles	5 years

### *Impairment*

The carrying amounts of assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated as the higher of net selling price and value in use. For intangible assets that are not yet available for use the recoverable amount is estimated at least at each balance sheet date.

In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount exceeds the recoverable amount.

For an asset that does not generate cash inflows largely independent of those from other assets the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised whenever the carrying amount of the cash-generating unit exceeds its recoverable amount.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years. For goodwill a recognised impairment loss is not reversed, unless the impairment loss was caused by a specific external event of an exceptional nature that is not expected to recur and the increase relates clearly to the reversal of the effect of that specific event.

#### *Cash and cash equivalents*

Cash and cash equivalents consist of cash on hand, current accounts with original maturities of 90 days or less and cash in transit. Customer fund is segregated.

#### *Long-term investments*

Investments include nonmaterial unconsolidated subsidiaries and associated company and other investments. Investments are recorded at the original cost of acquisition less any provision for impairment.

#### *Leased Assets*

Assets held under leasing arrangements that transfer substantially all the risks and rewards of ownership to the company are capitalised. The present value of the related lease obligations is included in long and short-term liabilities as appropriate. The interest element of the lease obligations is charged to the income statement so as to produce a constant periodic rate of charge.

Assets held under capital leases are carried at the lower of the present value of the lease obligation and a fair value of the leased property and are depreciated over their expected useful lives on the same basis as owned assets, or over the periods of the leases where these are shorter.

#### *Treasury shares*

Shares repurchased are included in shareholders' equity and are classified as treasury shares. Differences on repurchase, are credited or debited to retained earnings.

### *Trading securities*

The Company classifies its securities into the following categories: held for trading, held-to-maturity and available-for-sale. Securities that are acquired principally for the purpose of generating profit from short-term fluctuations in price are classified as held for trading investments and included in current assets. Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale.

The Company had no securities classified as held to maturity or available for sale as at December 31, 2005 and 2004.

Trading securities consist of debt securities and other securities. Debt securities include Hungarian Government Bonds, Treasury Bills and Corporate Bonds. Other securities include shares of companies traded on the Budapest Stock Exchange or on the Hungarian OTC market.

The securities traded on the Budapest Stock Exchange (shares, government bonds, treasury bills and corporate bonds) are stated at fair value at the balance sheet date. Government securities are stated at their estimated fair value, which include the accumulated interest at year-end. Any gain or loss resulting from revaluation is recognised in the income statement. The fair value at the balance sheet date is determined on the basis of the average price on the last trading day of the year.

OTC shares are measured at fair values. If the OTC shares do not have a quoted market price in an active market and the fair value cannot be reliably measured, those assets should be measured at purchase cost, less an allowance for impairment, if appropriate.

Gains and losses on the sale of trading securities are calculated on a FIFO basis.

Interest income from interest bearing securities and dividends from shares are shown in net revenue on securities traded on proprietary account.

### *Receivables from settlement with brokers, dealers and customers*

Receivables from services provided represents fees charged for investment services and other customer related activities performed on commission.

The amount of receivables arising from own-account (non-commission) spot or closed futures transactions carried out on the exchange and existing at balance sheet date are recorded as receivables from the settlement of Budapest Stock Exchange transactions.



The amount of receivables arising from own-account (non-commission) over-the-counter spot or futures transactions existing at the balance sheet date is recorded as receivables from the settlement of over-the-counter transactions.

Receivables from clearing-house represent cash amounts transferred to clearing-houses and are recorded as receivables from clearing-houses within exchange cash account receivables.

*Payables from settlement with brokers, dealers and customers*

Payables to customers include funds due to customers on the basis of investment service activities performed on commission and liabilities arising from other business activities, including amounts due to the funds arising from asset management conducted for pension funds.

The amount of liabilities arising from own-account (non-commission) transactions carried out on the exchange and existing at the balance sheet accounting date are recorded as liabilities arising from the settlement of Budapest Stock Exchange transactions.

Payables to clearing house include the amount of funds transferred to the exchange cash account of the investment enterprise by clearing houses under the title of price differences related to futures transactions carried out on the exchange.

*Securities sold but not yet purchased*

The Company sells securities that it does not currently own and therefore is obligated to purchase such securities at a future date. These purchase obligations are recorded in the financial statements at the fair value of the related securities at year-end.

*Futures contracts*

The Company trades futures contracts on Budapest Stock Exchange. These futures contracts are executed on the Budapest Stock Exchange and cash settlement is made on a daily basis for market value movements. At year-end open futures are recorded at their fair value based on the year-end market rates.

#### *Statutory Reserve*

Under the Hungarian Capital Market Act the Company, being an investment company, is required to transfer 10% of its after tax profit each year to a restricted reserve before being permitted to propose or pay a dividend. This reserve has been established and is separately disclosed within the statement of changes in shareholders' equity.

#### *Trade and settlement date accounting*

Own securities transactions are recognised on the trade date. Gains and losses arising from own securities transactions are recorded on a trade date basis. Customers' securities transactions are reported on a settlement date basis with related commission income reported on a trade date basis.

#### *Income taxes*

Taxation is provided in accordance with Hungarian fiscal regulations. Deferred income taxes are accounted for under the liability method and reflect the tax effect of all significant temporary differences between the tax basis of assets and liabilities and their reported amounts in the accompanying consolidated financial statements.

#### *Comparative figures*

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### **3. CASH AND CASH EQUIVALENTS**

	<i>in HUF thousand</i>	
	<i>December 31, 2005</i>	<i>December 31, 2004</i>
Cash	53,052	36,317
Current account	4,001,941	1,408,715
Cash in transit	-	221,438
	<b>4,054,993</b>	<b>1,666,470</b>

Included within cash and current accounts is HUF 2,885,664 thousand (2004: HUF 1,293,181 thousand) of client funds for which a corresponding liability is shown in “Settlement with brokers, dealers and customers”.

#### 4. SETTLEMENT WITH BROKERS, DEALERS AND CUSTOMERS

	<i>in HUF thousand</i>	
	<i>December 31, 2005</i>	<i>December 31, 2004</i>
Receivables from services provided	526,338	465,995
Receivables from clearing house	346,936	158,101
Receivables from trading on the Budapest Stock Exchange	132,220	231,909
Receivables from loans to customers	571,390	441,662
	1,576,884	1,297,667
Allowance for doubtful receivables	(37,030)	(12,425)
	<b>1,539,854</b>	<b>1,285,242</b>

#### 5. TRADING SECURITIES

	<i>in HUF thousand</i>	
	<i>December 31, 2005</i>	<i>December 31, 2004</i>
Government bonds	892,761	761,877
Treasury Bills	710,253	428,126
Mortgage bonds	161,451	225,716
Listed shares	139,888	114,849
Investment funds	-	33,620
OTC shares	147,098	4,689
Corporate bonds (unlisted)	-	1,599
	<b>2,051,451</b>	<b>1,570,476</b>

Interest rates and maturity date on government securities as of December 31, 2005 are as follows:

		<i>in HUF thousand</i>		
	<i>2005</i>	<i>Maturity</i>	<i>Coupon rate</i>	
Discounted Treasury Bills	629,065	to July, 2006	-	
Discounted Treasury Bills	81,188	to December, 2006	-	
Treasury bonds	632,645	2006	fixed,variable	4.59-10.07%
Treasury bonds	241,650	2007-2009	fixed,variable	6.50-11.27%
Treasury bonds	18,466	2010-	fixed,variable	5.50-11.27%
	<b>1,603,014</b>			

## 6. OTHER RECEIVABLES AND ACCRUALS

		<i>in HUF thousand</i>	
	<i>December 31, 2005</i>	<i>December 31, 2004</i>	
Loan advanced to unconsolidated subsidiary			
Concorde Financial Advisory Ltd.	2,822	11,707	
Loan advanced to unconsolidated subsidiary Tőzsdecápa Ltd.	-	25,172	
Loans to employees	75,285	81,187	
Corporate tax receivable	139,112	16,225	
Accrued interest on bank deposit	9,584	14	
Other accrued interest	27,074	21,954	
Debtors	162,963	187,904	
Receivables from banks	83,291	-	
Other	134,824	68,430	
	<b>634,955</b>	<b>412,593</b>	
Allowance for doubtful intercompany loans	-	(28,879)	
	<b>634,955</b>	<b>383,714</b>	

Loan advanced to Concorde Financial Advisory Ltd. represents a non-interest bearing, short-term loan provided to the subsidiary of Concorde Securities Ltd.

The Company has an obligation to provide additional loans to Concorde Financial Advisory Ltd. if necessary.

## 7. LONG TERM INVESTMENTS

*in HUF thousand*

	<i>December 31, 2005</i>		<i>December 31, 2004</i>	
	<i>book value</i>	<i>ownership %</i>	<i>book value</i>	<i>ownership %</i>
Membership in Budapest Stock Exchange	43,234	5.08%	49,234	5.08%
Concorde Financial Advisory Ltd.	-	99.67%	-	99.67%
Ingatlanhitel Plusz Ltd.	5,500	25.45%	5,500	25.45%
Tőzsdecápa Ltd.	-	-	-	99.50%
Other long term investments	6,603	-	6,603	-
	<b>61,337</b>		<b>61,337</b>	

Other long term investments include investments in Hungarian Government Bonds and domestic and foreign equities, which were bought for investment purposes.

The Company's unconsolidated subsidiaries at December 31, 2005 are Concorde Financial Advisory Ltd., the unconsolidated related party is Ingatlanhitel Plusz Ltd. , which was sold on February 24, 2006. (See Note 2 Accounting policy on consolidation). The financial statements of Concorde Financial Advisory Ltd. as of and for the year ended December 31, 2005 is set out below. The following condensed financial statements are based on statutory financial statements and do not include adjustments to present them in accordance with IFRS.

*in HUF thousand*

<i>Concorde Financial Advisory Ltd.</i>	<i>2005 (unaudited)</i>	<i>2004 (unaudited)</i>
Total assets	11,207	6,826
Owners' equity	4,050	(8,883)
Net income	1,050	1,182

## 8. TANGIBLE AND INTANGIBLE FIXED ASSETS

*in HUF thousand*

	<i>Intangible assets</i>	<i>Furniture, fixtures and equipment</i>	<i>Leasehold improvements</i>	<i>Total</i>
<b>Cost:</b>				
January 1, 2005	574,060	664,629	48,248	1,286,937
Additions	48,843	130,503	4,365	183,711
Disposals	-	(47,619)	-	(47,619)
December 31, 2005	622,903	747,513	52,613	1,423,029
<b>Depreciation:</b>				
January 1, 2005	332,687	347,459	1,890	682,036
Acquisition	-	350	-	350
Charge for the year	56,489	115,629	1,451	173,569
Disposals	-	(32,151)	-	(32,151)
December 31, 2005	389,176	431,287	3,341	823,804
<b>Net book value:</b>				
December 31, 2004	241,373	317,170	46,358	604,901
December 31, 2005	233,727	316,226	49,272	599,225

Furniture, fixtures and plant and equipment includes the following amounts for leases which have been capitalised:

*in HUF thousand*

	<i>December 31, 2005</i>	<i>December 31, 2004</i>
Cost of machinery and equipment	5,980	5,980
Accumulated depreciation	(5,980)	(5,398)
<b>Net book value</b>	<b>-</b>	<b>582</b>

## 9. SETTLEMENT WITH BROKERS, DEALERS AND CUSTOMERS

		<i>in HUF thousand</i>	
		<i>December 31, 2005</i>	<i>December 31, 2004</i>
Payables to clients	2,885,664		1,293,181
Payables from trading on the Budapest Stock Exchange	137,355		236,562
Payables from the settlement of OTC transactions	586,884		-
	<b>3,609,903</b>		<b>1,529,743</b>

## 10. OTHER CURRENT LIABILITIES AND ACCRUALS

		<i>in HUF thousand</i>	
		<i>December 31, 2005</i>	<i>December 31, 2004</i>
Payables	106,019		174,107
PIT and social contribution	208,203		216,393
Accrued interest of overdraft	396		22
Taxes payable	71,096		31,186
Other	248,282		92,158
	<b>633,996</b>		<b>513,866</b>

## 11. OBLIGATIONS UNDER FINANCE LEASES

The present value of finance lease liabilities may be analysed as follows:

		<i>in HUF thousand</i>	
		<i>December 31, 2005</i>	<i>December 31, 2004</i>
Finance lease liabilities-minimum lease payments	-		596
Future interest charges included in lease payments	-		(14)
Present value of finance lease liabilities	-		582
Within one year	-		582
Within two to five years	-		-
	-		<b>582</b>

## 12. SHARE CAPITAL AND RESERVES

*in HUF thousand*

	<i>December 31, 2005</i>		<i>December 31, 2004</i>	
	<i>Issued capital</i>	<i>Ownership rate</i>	<i>Issued capital</i>	<i>Ownership rate</i>
Blackburn International Ltd.	396,000	39.60 %	396,000	39.60 %
Eurotipp Ltd.	105,600	10.56 %	105,600	10.56 %
Móricz Gábor	149,600	14.96 %	149,600	14.96 %
Management	300,000	30.00 %	299,250	29.925%
Other	48,800	4.88 %	49,550	4.955%
Treasury shares	-	-	-	-
<b>Total shareholders' equity</b>	<b>1,000,000</b>	<b>100.00 %</b>	<b>1,000,000</b>	<b>100.00 %</b>

The number of shares issued is 1,000,000 each with a face value of HUF 1 thousand per share.

Reconciliation of the number of shares outstanding at the beginning and end of the year:

*in HUF thousand*

	<i>Common shares</i>		<i>Dividend preferred shares</i>	
	<i>Outstanding</i>	<i>Treasury</i>	<i>Outstanding</i>	<i>Treasury</i>
January 1, 2005	670,000	-	330,000	-
December 31, 2005	670,000	-	330,000	-

Concorde Securities Ltd's distributable reserves under Hungarian regulations were HUF 2,572,291 thousand and HUF 1,752,841 thousand as of December 31, 2005 and 2004, respectively. Dividends for the year ended December 31, 2005 were declared at the Company's Annual General Meeting on March 21, 2006.

## 13. NET REVENUE ON SECURITIES TRADED ON PROPRIETARY ACCOUNT

*in HUF thousand*

	<i>December 31, 2005</i>	<i>December 31, 2004</i>
Government and corporate bonds	129,302	149,218
Treasury Bills	131,321	138,195
Shares	25,102	127,031
Futures	(24,768)	(39,778)
Other	(64,336)	(88,297)
	<b>196,621</b>	<b>286,369</b>



#### 14. INTEREST INCOME AND EXPENSE

*in HUF thousand*

	<i>December 31, 2005</i>	<i>December 31, 2004</i>
Interest income	254,122	247,033
Interest expense	(24,825)	(20,949)
<b>Net interest income</b>	<b>229,297</b>	<b>226,084</b>

#### 15. WAGES AND SALARIES

*in HUF thousand*

	<i>December 31, 2005</i>	<i>December 31, 2004</i>
Salaries	828,444	460,810
Social insurance contribution	221,230	116,885
Other employee related contribution	111,475	72,303
Other employee related expenses	197,276	83,547
	<b>1,358,425</b>	<b>733,545</b>

The number of a full time equivalent staff employed at year-end was 102 (2004: 91 full time equivalent staff were employed).

#### 16. GENERAL AND ADMINISTRATION EXPENSES

*in HUF thousand*

	<i>December 31, 2005</i>	<i>December 31, 2004</i>
Bank charges	43,658	29,273
Local tax	117,638	75,569
Travel	78,404	35,155
Insurance fees	10,697	11,771
Rental	110,170	68,492
Professional fees	69,404	75,862
Office supplies	67,657	57,025
Depreciation	177,931	129,884
Marketing	15,670	12,817
Membership fees	7,004	5,683
Training	8,455	4,261
Other	153,078	119,090
	<b>859,766</b>	<b>624,882</b>

## 17. INCOME TAXES

Hungarian company taxation is calculated at 16% of net profit, adjusted for taxation purposes.

The effective income tax rate varied from the statutory income tax rate due to the following items:

	<i>in HUF thousand</i>	
	<i>December 31, 2005</i>	<i>December 31, 2004</i>
Income before tax and minority interest	1,763,627	1,567,752
Tax at statutory rate of 16%	282,180	250,840
Permanent differences, net	(177,697)	(35,773)
<b>Taxation charge in IFRS financial statements</b>	<b>104,483</b>	<b>215,067</b>

Reconciliation of the deferred tax assets and liabilities at the beginning and end of the year:

	<i>in HUF thousand</i>	
	<i>December 31, 2005</i>	<i>December 31, 2004</i>
Deferred tax assets at the beginning of the year	(7,613)	(11,493)
Current year charges, net	-	3,880
<b>Deferred tax assets (liabilities)</b>	<b>(7,613)</b>	<b>(7,613)</b>

	<i>in HUF thousand</i>	
	<i>December 31, 2005</i>	<i>December 31, 2004</i>
Deferred tax liability		
Investment reserve	(16,000)	(16,000)
Deferred tax asset		
Goodwill amortization	8,387	8,387
<b>Net deferred asset/ (liability)</b>	<b>7,613</b>	<b>7,613</b>

There is no procedure for final agreement of tax assessments in Hungary. The tax authorities may examine the accounting records and revise assessments for up to five years after the period to which they relate until examinations are finalised. Consequently, the Company and its subsidiaries may be subject to further assessments in the event of an audit by the tax authorities. Management anticipates that no significant tax reassessments will arise from these reviews.

## 18. MINORITY INTEREST

Reconciliation of the minority interest at the beginning and end of the year:

	<i>in HUF thousand</i>	
	<i>December 31, 2005</i>	<i>December 31, 2004</i>
Opening minority interest	195,133	141,203
Minority share from profit after tax	127,995	186,358
Dividends paid to minority interest	(117,250)	(133,179)
Sale / (purchase) of minority interest in subsidiaries	-	751
<b>Closing minority interest</b>	<b>205,878</b>	<b>195,133</b>

## 19. OFF BALANCE SHEET ITEMS, COMMITMENTS AND CONTINGENCIES

The balance of client's securities is HUF 57,715 million at face value as of December 31, 2005 (2004: HUF 53,175 million).

At face value HUF 53,818 million from these securities are deposited in custody at the Central Clearing House and Depository Ltd. (KELER Ltd.) (2004: HUF 49,064 million).

## 20. SIGNIFICANT RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions during the year 2005:

The Company provided a HUF 62,000 thousand loan facility to Concorde Financial Advisory Ltd. in 2001, an unconsolidated subsidiary of the Company. In 2005 Concorde Financial Advisory Ltd. repaid HUF 8,885 thousand loan facility to the Company. The year-end balance was HUF 2,822 thousand. The interest was cancelled.

## 21. MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK

As of December 31, 2005, all monetary assets and liabilities mature within one month of the balance sheet date, with the exception of HUF 2,885,664 thousand client funds included in current accounts for which the corresponding liability is stated as part of Settlement with brokers, dealers and customers.

As of December 31, 2005 the net monetary assets maturing within one month of the balance sheet date were HUF 5,395,589 thousand.

Trading account assets and securities held for trading, which are shown as demand irrespective of their terms of issuance. The realisation of trading securities held for trading is dependent upon financial market conditions. It is possible that significant positions in financial instruments may not be liquidated in a short period of time without adverse price effects.

## 22. RISK MANAGEMENT

### *Credit risk*

Financial assets, which potentially subject the Company to concentrations of credit risk consist principally of cash, short-term investments and accounts receivable. The Company's cash is primarily held with major international banks. Short-term investments are carried at market value and accounts receivable are presented net of an allowance for doubtful receivables. Credit risk with respect to trade receivables is limited due to dispersion across customers. Accordingly, the company has no significant concentrations of credit risk.

### *Risk Management*

The company laid down its risk management policy, in which counterparty limits, the own portfolio ratio and loss limits have been set. Management continuously monitors the limits. The Company introduced a daily VAR based risk monitoring system in 2001.

### *Interest risk*

In order to minimise interest risks, a limit has been set to the proportion of long term government securities in the company's own portfolio. In order to reduce interest rate losses, factors affecting security interest rates (liquidity, volatility, duration) were also considered when the limits were set up, and the Company's portfolio diversification and loss limits per security were set accordingly. Due to this policy the Company's interest risk is considered low.

### *Counterparty risk*

Counterparty limits are determined by the management and are continuously monitored. Private individual customers can initiate securities transactions only when collateral is presented. Limits of institutional investors are determined based on the risk bearing capacity and the reputation of the customer. As a result, counterparty risk is considered low.

## 23. FAIR VALUES

At December 31, 2005, the carrying amounts of cash, short-term loans and accounts receivable and accounts payable approximated their fair values due to the short-term maturities of these assets and liabilities. Trading securities has been determined based on the market rates for quoted securities.

MANAGEMENT  
AND  
OFFICERS

## CONCORDE SECURITIES LTD.

### *Board of Directors*

György Jaksity, chairman  
Gábor Borda, director  
Norbert Streitmann, director

### *Supervisory Board*

Gábor Móricz, chairman  
Dávid Várszegi  
Krisztián Feyér

## CONCORDE INVESTMENT MANAGEMENT LTD.

### *Management*

László Szabó, managing director

### *Supervisory Board*

György Jaksity, chairman  
Kálmán Nagy  
Norbert Streitmann

## CONCORDE CORPORATE FINANCE LTD.

### *Management*

Tobias Edmund Mansel-Pleydell, managing director

## CONCORDE FINANCIAL CONSULTING LTD.

### *Management*

Mihály Boris  
András Szombati

## AUDITORS

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C O N C O R D E S E C U R I T I E S L T D .

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