



CONCORDE  
Annual Report 2006



ANNUAL REPORT  
2006



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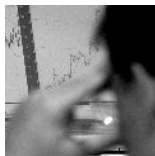


## COMPANY DESCRIPTION

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.

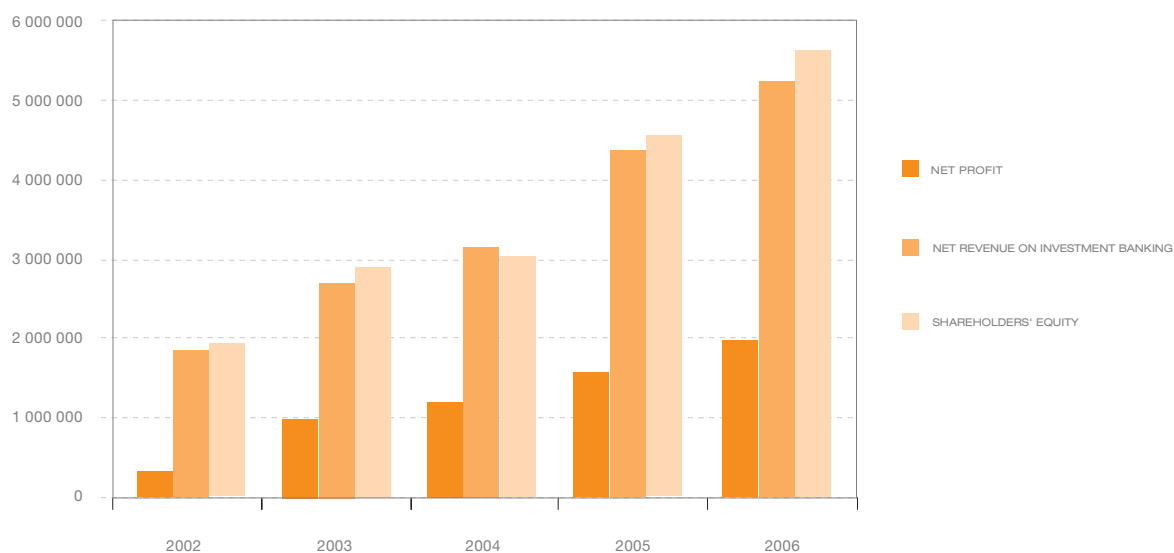




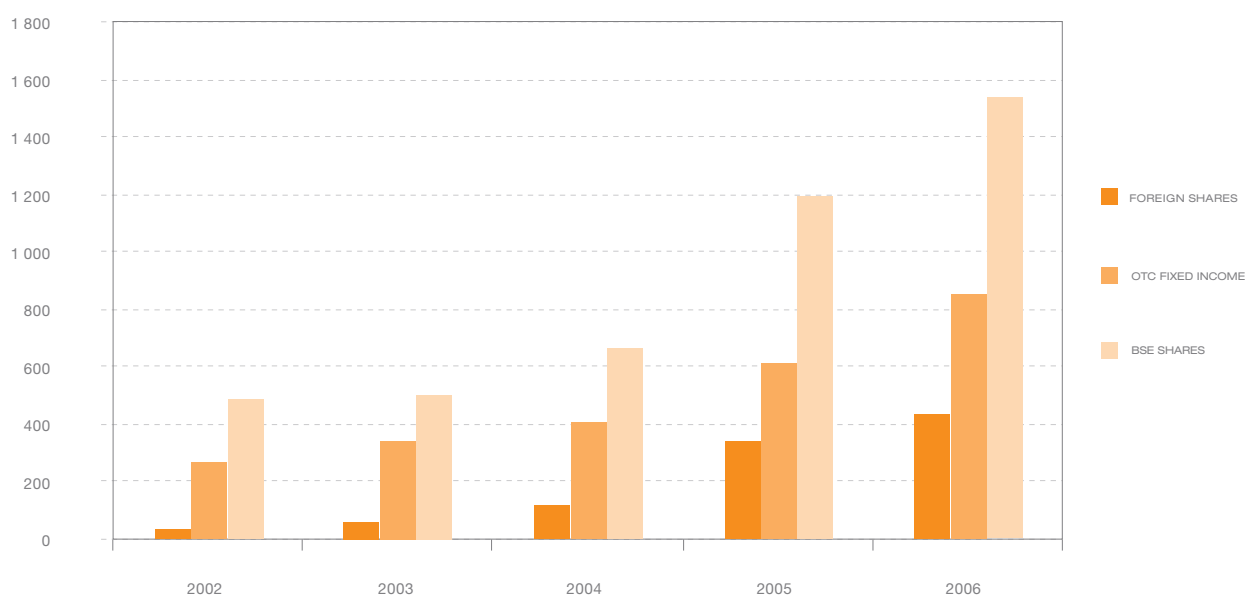
CONDENSED FINANCIAL INFORMATION (HUF THOUSAND)

	2002 IAS consolidated	2003 IFRS consolidated	2004 IFRS consolidated	2005 IFRS consolidated	2006 IFRS consolidated
Total assets	3 357 376	5 162 307	5 664 653	9 035 290	1 4451 075
Shareholders' equity	1 917 201	2 875 720	3 058 949	4 553 811	5 616 396
Share capital	1 000 000	1 000 000	1 000 000	1 000 000	1 000 000
Net revenue on investment banking	1 843 533	2 686 561	3 133 446	4 362 938	5 206 518
Net profit	330 223	958 519	1 166 327	1 531 149	1 952 385
Turnover (HUF million)	818 062	946 134	1 213 423	2 139 214	2 842 093
Number of employees	83	87	95	109	118
Return on equity	18%	50%	41%	50%	43%

FINANCIAL FIGURES (HUF THOUSAND)



TURNOVER (HUF BILLION)





## MANAGEMENT REPORT

### Yet another record year

In 2006, its thirteenth full year of business, Concorde Securities Ltd. and its subsidiaries achieved total investment services revenue of HUF 5 207 million (in 2005: HUF 4 363 million), with a securities trading volume of HUF 2 842 billion ( in 2005: HUF 2 139 million), which, after deducting costs and expenses, resulted in a pre-tax profit of HUF 2 242 million and an after-tax profit of HUF 1 952 (in 2005: HUF 1 764 million and HUF 1 531 million respectively). The company's equity capital increased from HUF 4 554 million to HUF 5 396 million, before payment of dividends for year 2006.

### Vigorous world market, ailing public finances in Hungary

In recent years we were looking forward with reserved optimism and, discussing results, we listed the factors that can impede maintaining this rate of profitability and growth. We prove to have been excessively cautious with respect to the previous year, for the Company closed year 2006 breaking records again. The following is a brief discussion of the factors - some of them counteracting one another - that made our operating environment so pleasant.

It should be noted, first of all, that our profit, which expanded during the past four years to more than five times to the amount posted beforehand, was enabled - in addition to our adequately shaped business model and our efforts - not only by the suitable state of the domestic economic and capital market environment but also by the spectacular growth rates observed in the world markets and particularly in the world's financial markets as well as by ample liquidity driving prices and turnover rates higher and higher. In our annual reports we explained repeatedly that one of the numerous negative impacts of the irresponsible economic policies pursued in Hungary since 2000 was diverting funds from the capital market to consumption and the real estate market, and the attitude crisis as a consequence of which Hungarians made their decisions based on a trust in an almighty state instead of fending for themselves. This is the bad news. The good news is that the Prime Minister 're-elected' last year, launched the long overdue process of consolidating the public finance system and although we had not much to like about it as taxpayers, at long last there seems to be a political will to pursue a sounder and more acceptable fiscal policy from the aspect of both economics and the European Union. In a shorter run, improving macroeconomic stability resulting from the dramatically reduced public finance and balance of payments deficit, in a longer run the improvement in long term propensity to save, accompanying an increase in people's propensity to provide for themselves - enabled by a change in attitudes - are hoped to compensate us for the lost years and for the outstanding tax burdens. We hope to be able to discuss these trends in more detail next year on the basis of eye-pleasing actual figures in the next Annual Report.

Returning to factors having much more profound impacts on our markets we were happy to see that global growth and particularly the spectacular upswing in the developing markets continued, as a result of which investors could close a successful year again in almost all markets. The world continued to be characterised by low inflation, high growth rates, good

outlooks and a relative economic and geopolitical equilibrium, clearly explaining the favourable performance of bourses. China's and India's exchange indices (the indices of Chinese papers traded on the Hong Kong exchange increased by as much as 80.4 %) clearly reflected the economic dynamic of these two countries - turning out an increasing proportion of the world's economic growth - and other emerging markets also performed well. Investors on developed exchanges had not much to complain about either, while even the growth of energy and raw material prices, which had been a source of increasing concerns, also came to a halt and prices of most products even declined in the fourth quarter of the year. At the same time, thanks to the good economic conditions, companies also performed very well while their valuation remained reasonable and realistic. Accordingly, there is still no reason for sounding the alarm regardless of the fact that markets have been reaching new highs for years on end without any material correction, but we continue to maintain our cautious optimism and, accordingly, we take good care of the funds of our customers and of the operations of Concorde as well.

Based on the substantial expansion of our turnover both our institutional and our retail securities divisions delivered an excellent performance despite the continued decline in the levels of commissions in the case of our high turnover institutional customers and the increase of our costs and tax burdens on the whole of the Company. At the same time, our turnover in foreign securities grew significantly, continuing the recent years' practice aiming to enable our customers to make their choice from practically the whole range of world's investment opportunities and to reduce our dependence on the Budapest Stock Exchange and the performance of the securities traded there.

Our asset management team closed the year with the good results we have come to expect of them as their routine performance, in the form of a substantial increase in the portfolios under their management and in that of the high levels of returns they delivered. Through a more than 35 % expansion the total of the assets managed by Concorde Asset Management Ltd. grew from the HUF 99 billion recorded at the beginning of the year to over HUF 135 billion by the end of 2006. Our Hungarian equity and mixed funds delivered the best results in their category in terms of returns in 2006 again - as was the case in the past three and five years, respectively - and our fund of bonds also retained its second position. Consequently, as a result of a decision made by a panel of 72 professionals, Mastercard awarded our asset management team the award the Investment Fund Manager of the years 2006,

The enthusiastic and professional way of working, which is so characteristic of the Company as a whole, was also featured by Concorde Corporate Finance Ltd., with a number of successfully closed transactions in almost all fields of the trade, while a number of our projects that had been promising hefty returns, failed or ground to a halt, for reasons beyond our control, so on the whole this subsidiary was characterised by less favourable results than in the preceding years. A similar decline was observed in the movie financing operations pursued by Concorde Financial Advisory Ltd. as well, primarily as a result of processes in the Hungarian movies market keeping certain foreign productions away from this market. Improvements are expected in both areas in 2007.

The securities turnover is not likely to grow in 2007 at a rate similar to those achieved in previous years, while the rates of our commissions continue to decline, however, we have limited possibilities to reduce our costs as long as we are not pressed to do so. As a consequence of these circumstances and of the major tax increases it is difficult to find a scenario that would not result in a perceptible reduction in our profits this year.

## Other events

HUF 65 million for financial assistance

In line with our practice adopted years ago we celebrated our excellent financial performance towards the end of the year by thinking over how we could help those in need as a result of their health status or for other reasons, keeping our focus on young people again. The most important event was the establishment of a charity foundation called Mosoly Otthon Alapítvány, which - with Concorde's initial sponsorship, partly through funds made available for Mosoly Alapítvány earlier - is aimed to improve the care accorded to young people with autistic and other mental disorders at home and in health care homes by establishing new institutions and by providing assistance to the improvement of existing facilities.

Main sponsorship activities in 2006:

- Mosoly Otthon Foundation (HUF 30 million)
- Bátor Tábora Foundation (HUF 5 million)
- Foundations taking care of and developing autistic children (HUF 2 million)
- Budapest Olympic Movement (HUF 10 million)
- Tunyogi Erzsébet Gyógyító Játsszóház Foundation for Children with Multiple Disabilities (HUF 1 million)
- Another 15 foundations working to improve the conditions primarily of people in need (HUF 7 million)

The best Hungarian securities firm

The excellence of Concorde's work is also reflected not only 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 and 2006 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. Also in 2005 we were awarded the prize 'Best Research House of the Year'.

We were particularly pleased when one of the new prizes launched in Hungary in 2006 by Mastercard 'The Investment Fund Manager of the Year, 2006' was awarded to Concorde Asset Management Ltd. as a result of a decision made by a panel of 72 professionals.

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 devoting our time and money as well to noble and important social goals, 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.



Gábor Borda



György Jaksity



Norbert Streitmann

## REPORTS OF THE DIVISIONS

### SECURITIES TRADING

#### Equities

In terms of securities trading Concorde closed a successful year in 2006. Turnover transacted on the Budapest Stock Exchange rose 29%, while volumes transacted on the foreign bourses grew by 28%. The overall turnover on the Budapest Stock Exchange was 34.6% higher than in the previous year and as a consequence of decreasing concentration in the market Concorde was third in terms of trading volume, with a market share of 11,79 %.

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

	2002	2003	2004	2005	2006
BSE equities turnover (HUF million)	3 024 629	3 696 051	5 219 773	9 661 044	13 000 952
Market share (%)	15,99%	13,25%	12,56%	12,31%	11,79%
Ranking order	2	3	3	3	3

While the volume transacted on the Budapest Stock Exchange rose by 29 % we earned 33 % higher sales revenue on commission-based operations, which was supplemented by commission-based activities on exchanges abroad, making up an increasing proportion of Concorde's commission revenues.

- Stock exchange trading volume of Concorde Securities Ltd. (Huf thousand)

	2002	2003	2004	2005	2006
Equities	483 713 980	490 691 320	655 653 868	1 189 111 947	1 532 623 432
Government securities	8 065 346	3 199 931	6 365 989	121 395	0
Corporate bonds	1 731 744	3 178 842	9 855 597	852 641	7 503 935
Other securities	810 670	12 414 000	7 727 128	14 416 943	1 236 091
Total	494 321 740	509 484 093	679 602 582	1 204 502 926	1 541 363 458

Our foreign securities trading activities delivered a substantially increased turnover in 2006, like in previous years. The commissions on orders to be effected on foreign bourses more than doubled in 2006 again, increasing by 138 %. Some 35.5 % of the commissions on domestic equity transactions came in 2006 from the retail division

- Foreign securities trading volume (HUF thousand)

	2002	2003	2004	2005	2006
Equities	30 587 948	58 063 200	115 688 638	318 618 480	397 846 340
Government securities		920 438	5 134 076	24 338 039	39 171 906
Other securities		156 423	331 046	546 409	3 371 214
<b>Total</b>	<b>30 587 948</b>	<b>59 140 061</b>	<b>121 153 760</b>	<b>343 502 928</b>	<b>440 389 461</b>

#### Fixed-income and treasury operations

As a secondary trader we are operating our fixed-income division in order to provide high standard services for our - primarily domestic, institutional and private - customers as well as to carry out FX deals linked to international securities transactions and other capital market transactions. In year 2006 we concluded transactions involving fixed-income products, primarily Hungarian government securities, in a total amount of HUF 670 billion.

- OTC trading volume (HUF thousand)

	2002	2002	2003	2004	2005	2006
Equities	8 099 929	4 067 369	1 786 819	660 460	1 096 887	3 314 082
Government securities	258 011 406	261 113 097	330 180 370	364 444 398	462 004 732	662 777 274
Corporate bonds	223 182	2 178 643	537 094	1 851 763	420 062	1 379 716
Other securities	31 974 163	25 781 313	45 006 048	45 710 019	127 779 333	192 869 199
<b>Total</b>	<b>298 308 680</b>	<b>293 140 422</b>	<b>377 510 331</b>	<b>412 666 640</b>	<b>591 301 014</b>	<b>860 340 271</b>

As a consequence of the increase in foreign-securities trading and the activity of foreign clients we concluded foreign exchange transactions of a total of HUF 139 billion, up 53 % on the turnover booked in 2005.



## Derivative transactions

Despite the fact that the decline in the number of contracts in the autumn and the reintroduction of taxation was followed by a substantial drop in turnover on the index market, Concorde Securities Ltd. delivered an outstanding turnover of HUF 393 billion on the market of derivative products, thereby earning a HUF 110 million commission revenue matching the outstanding performance of 2005. It should be noted that in the area of individual equities our turnover grew by 50 % while on the equities option and the BUX option market we multiplied our turnover, whereby we managed to keep up our leading position in these two option markets.

The expansion in the individual equities market relied on an increase in the spot market turnover and the related increase in prices, as well as the above mentioned change in the sizes of contracts. For in contrast to the index market the growth in the turnover of equity contracts was facilitated by altering the sizes of contracts, which could not, for the time being, be disturbed even by the reintroduction of taxes on exchange transactions. The changes brought in new customers and the number of our futures and option customers increased by 40 %.

## RETAIL CUSTOMERS

The equities turnover of our retail division increased substantially, from HUF 402 billion to HUF 717 billion. The division's sales revenue expanded by 15 % in 2006 to over HUF 2 billion. At the end of 2006 the total amount of the assets entrusted to Concorde in equities, investment funds and government securities amounted to almost HUF 110 billion, some 46 % more than at end-2005.

Concorde's increase in equities trading was enabled primarily by the upswing observed in foreign securities markets. While the division's commission revenue increase fell somewhat short of the growth in its total income, the revenue from trading in foreign securities grew by almost a hundred percent.

In 2006 the number of our investment advisors continued to increase, by the end of the year we employed almost twice as many experts in this function, so now we have 20 advisors to provide daily assistance for our customers.

The Concorde Call service was also strengthened together with the team of analysts generating this service. Our aim is to conduct comprehensive monitoring of the world's capital markets. Last year we provided our customers with almost as many as 3,000 domestic and international pieces of news and investment ideas.

## RESEARCH

Concorde performed its research tasks relating to enterprises on the Hungarian stock exchange in 2006 just as successfully as in earlier years. Our analysts usually predicted the exchange-traded companies quarterly and annual figures more precisely than did the market consensus. They form a highly accurate picture of the operations of those enterprises, and accordingly, foreign investors also regard our firm as their leading local partner, coming to us for information and analysis related to the Hungarian market. The high standards of the work of the research team is recognised by the valuation of the London based AQ Research Ltd., according to which two of our researchers were among the first three Hungarian analysts providing the most precise and timely recommendations. Our macro-economic analyst has for the second year running won the prestigious title of the year's macro-economic analyst providing the most accurate economic forecasts.

In order to support the retail division, Concorde's research team is also monitoring the performance of a number of foreign equity markets. As part of this activity an integrated new and research service referred to as Concorde Call was re-launched two years ago. We provide our customers with brief daily summaries – either in text messages or in e-mail – of the latest news affecting the world's equity markets. Concorde Call also contributed to the Budapest Stock Exchange choosing Concorde as Best Research House of the year in 2005.

We continue to provide services to a number of international news agencies and companies engaged in compiling and disseminating market reports. Some of our more notable corporate partners include S&P EMDB, 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

The portfolio of assets managed by Concorde Investment Management Ltd. expanded by more than 35%, from HUF 99 billion at the start of the year to over HUF 135 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 more than 60% in 2006.

The Hungarian equity and bond market generated high rates of returns - much higher than we had expected - amidst changes in the Hungarian and the international investment climate. Two elections took place and we saw rather serious, sometimes atrocious domestic political events in 2006 along with an alarming correction in the emerging markets. Despite interest

rate increases in the US and in Europe global liquidity remained high and in the wake of the interest in emerging - including Central European - markets we closed a very successful year in terms of returns.

The number of investment funds managed by the Company increased by more than 100 %, the amount of the assets managed in them exceeded HUF 70 billion. New markets were also entered and Concorde CEE Fund was launched, focusing on the Central European region, intending to cover a new area and to provide customers with an opportunity to enter the rest of the markets of this region as well. In terms of their performance the Concorde Investment Funds were among the best three in their respective asset categories: the Concorde Equities Fund and the Concorde 2000 (mixed) Fund were the best in their category. With this performance they continue to be in the leading pack in the three, the five and now also the ten year yield lists.

We are particularly happy to announce that among the numerous contestants the 'Investment Fund Manager of the Year, 2006', a new prize launched by Mastercard in 2006, was awarded to Concorde investment manager. With this achievement the Fund Manager took the first position in both contests of investment fund managers during the past 10 years.

## **FILM FINANCING**

In 2006 the Concorde Film Fund operated by Concorde Financial Advisory Ltd. organised the funding of 32 film productions. The number of foreign productions in Hungary dropped in 2006, while we contributed to the completion of substantially more animation productions than before. We also contributed to financing festival winner film productions such as Taxidermia and Sun Queen, the animated feature of the largest budget in recent years, was shown in cinemas in 2007. According to statistics published by the National Film Office Concorde continues to maintain its market leading position in domestic commercial film financing.

## **CORPORATE FINANCE**

2006 was a year of extreme acquisition and fusion activities in most of the world's geographical markets and sectors, which had only a limited impact on the Hungarian market owing to its special characteristics, creating less favourable market conditions for Concorde Corporate Finance Ltd. In contrast to earlier years no major privatisation transaction took place and the elections in April as well as the subsequent political and economic turbulences also dampened such activities of companies.

Nevertheless, Concorde Corporate Finance Ltd. closed a successful year in 2006 again. Based on the established good relationship we assisted Magyar Telekom Ltd. as an advisor in its acquisition of KFKI-LNX leading independent system integrator for HUF 9.7 billion (EUR 35 million) along with acquiring a participation in the content provider M-Factory Ltd.

Some other major assignments in 2006:

- We participated in elaborating and implementing the public purchase offer placed by the French group CECAB for Globus Preserves Ltd., one of the leading canned and frozen product manufacturer. This transaction contributed to strengthening CECAB's leading position in the European vegetables market.
- We conducted the organised sale of Habostorta Ltd. as a consequence of which the company was acquired by the German media and publisher group Georg von Holtzbrinck. This transaction was something of a pioneering venture in two aspects: on the one hand, this was the first time that a multinational group purchased a new media company in Hungary, on the other hand this was the first transaction we jointly concluded with our German M&A International partner company, that is Angermann, which contributed to identifying the ultimate buyer and to the negotiations conducted with them.
- In addition to the above transactions we provided general financial advise to Magyar Telekom in regard to business planning, company valuation and regulation issues. Besides successfully closed transactions Concorde Corporate Finance worked on a number of major acquisition, company sale and equity raising transactions at the end of 2006, which have been carried over to 2007.





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## **INDEPENDENT AUDITOR'S REPORT**

### **To the Shareholders and Board of Directors of Concorde Securities Ltd.**

We have audited the accompanying consolidated financial statements of Concorde Securities and subsidiaries, which comprise the consolidated balance sheet as at December 31, 2006, and the related consolidated income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Concorde Securities Ltd. and subsidiaries as of December 31, 2006, and of its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Budapest, February 23, 2007

**Tamás Horváth**

Deloitte

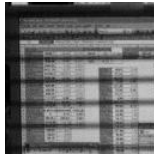
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CONSOLIDATED BALANCE SHEET  
as of December 31, 2006 and 2005

(all amounts in thousands of HUF unless otherwise stated)

	Notes	December 31, 2006	December 31, 2005
<b>Assets</b>			
Current Assets:			
Cash and cash equivalents	3	7,738,256	4,054,993
Settlement with brokers, dealers and customers	4	2,755,053	1,539,854
Securities held for trading	5	1,544,061	2,051,451
Other receivable and accruals	6	1,405,308	634,955
<b>Total current assets</b>		<b>13,442,678</b>	<b>8,281,253</b>
Non-current Assets:			
Goodwill on acquisition		70,400	70,400
Long-term investments	7	254,462	61,337
Loans to employees		13,254	23,075
Tangible and intangible fixed assets	8	661,896	599,225
Deferred tax assets	16	8,385	-
<b>Total non-current assets</b>		<b>1,008,397</b>	<b>754,037</b>
<b>Total assets</b>		<b>14,451,075</b>	<b>9,035,290</b>
<b>Liabilities and Shareholders' Equity</b>			
Current Liabilities:			
Settlement with brokers, dealers and customers	9	8,069,359	3,609,903
Short term borrowings		353,985	24,089
Other liabilities	10	411,333	633,996
Deferred tax liability	16	-	7,613
<b>Total current liabilities</b>		<b>8,834,679</b>	<b>4,275,601</b>
Shareholders' Equity:			
Share capital	11	1,000,000	1,000,000
Statutory reserves		651,241	464,263
Minority interest		219,700	205,878
Retained earnings		3,745,455	3,089,548
<b>Total shareholders' equity</b>		<b>5,616,396</b>	<b>4,759,689</b>
<b>Total liabilities and shareholders' equity</b>		<b>14,451,075</b>	<b>9,035,290</b>

The accompanying notes to consolidated financial statements on pages 26 to 39 form an integral part of these consolidated financial



CONSOLIDATED INCOME STATEMENT  
for the years ended December 31, 2006

(all amounts in thousands of HUF unless otherwise stated)

	Notes	December 31, 2006	December 31, 2005
Net revenue on stock-broking		3,745,869	2,917,011
Net revenue on securities traded on proprietary account	12	485,896	196,621
Net revenue on issuance activities		18,054	174,341
Net revenue on corporate finance activities		234,815	479,882
Net revenue on asset management		721,884	595,083
Net revenue on investment banking activities		5,206,518	4,362,938
Net interest income	13	149,739	229,297
Other expenses, net		(16,365)	(138,632)
Net revenue		5,339,892	4,453,603
Wages and salaries	14	(1,516,597)	(1,358,425)
Brokerage, clearing and exchange fees		(455,269)	(267,661)
Communication		(156,943)	(204,124)
General and administration expenses	15	(968,948)	(859,766)
Profit before tax		2,242,135	1,763,627
Income tax expense	16	(171,022)	(104,483)
<b>Net profit</b>		<b>2,071,113</b>	<b>1,659,144</b>
Attributable to:			
Equity holders of parents		1,952,385	1,531,149
Minority interest		118,728	127,995

The accompanying notes to consolidated financial statements on pages 26 to 39 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
for the years ended December 31, 2006 and 2005

(all amounts in thousands of HUF unless otherwise stated)

	Share capital	Statutory reserve	Minority interest	Retained earnings	Total
January 1, 2005	1 000 000	303 326	195 133	1 755 623	3 254 08
Net profit	-	-	127 995	1 531 149	1 659 144
Statutory reserve	-	160 937	-	(160 937)	-
Dividends paid to minority interest	-	-	(117 250)	-	(117 250)
Other capital movements	-	-	-	(36 287)	(36 287)
<b>December 31, 2005</b>	<b>1 000 000</b>	<b>464 263</b>	<b>205 878</b>	<b>3 089 548</b>	<b>4 759 689</b>
Net profit	-	-	118 728	1 952 385	2 071 113
Paid dividends	-	-	(104 906)	(1 109 500)	(1 214 406)
Statutory reserve	-	186 978	-	(186 978)	-
<b>December 31, 2006</b>	<b>1 000 000</b>	<b>651 241</b>	<b>219 700</b>	<b>3 745 455</b>	<b>5 616 396</b>

The accompanying notes to consolidated financial statements on pages 26 to 39 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS  
for the years ended December 31, 2006 and 2005

(all amounts in thousands of HUF unless otherwise stated)

	Year ended December 31, 2006	Year ended December 31, 2005
Cash flows from operating activities:		
Profit before tax	2 242 135	1 874 211
Adjustments for:		
Depreciation and amortisation	200 126	173 569
(Gain) on sale of property, plant and equipment	(15 415)	-
(Gain) on sale of investments	(43 900)	-
Interest expense	117 185	24 825
Interest income	(266 924)	(254 122)
Operating profit before working capital changes	2 333 207	1 818 483
Decrease/(Increase) in securities held for trade	430 730	(480 975)
Increase in accounts receivable from settlement	(1 215 199)	(254 612)
Increase in accounts receivable and other current assets	(840 144)	(113 672)
Increase in accounts payable from settlement	4 459 456	2 080 160
(Increase)/decrease in accounts payable and accruals	(221 535)	121 258
Cash generated from operations	4 846 515	3 170 642
Interest paid	(118 313)	(25 953)
Interest received	266 924	239 440
Income taxes paid	(117 231)	(337 954)
Net cash flow provided by operating activities	4 877 895	3 046 175
Cash flows from investing activities:		
Purchase of property, plant and equipment	(283 179)	(183 361)
Purchase of long-term investments	(121 965)	-
Decrease/(Increase) in Loans granted to employees	9 817	(962)
Proceeds on sale of property, plant and equipment	35 797	(20 819)
Proceeds on sale of investments	49 400	-
Dividends paid to minority interest	(104 906)	(117 250)
Net cash flow used in investing activities	(415 028)	(322 392)
Cash flows from financing activities:		
Net Increase/(Decrease) of short term loans	329 896	(334 678)
Dividends paid on preferred shares and common shares	(1 109 500)	-
Payments of capital lease obligations	-	(582)
Net cash flow used in financing activities	(779 604)	(335 260)
Increase in cash and cash equivalents	3 683 263	2 388 523
Cash and cash equivalents at beginning of year	4 054 993	1 666 470
<b>Cash and cash equivalents at end of year</b>	<b>7 738 256</b>	<b>4 054 993</b>

The accompanying notes to consolidated financial statements on pages 26 to 39 form an integral part of these consolidated financial statements.

## 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 are different from those generally recognized in international financial markets. Certain adjustments have been made to the Company’s Hungarian statutory accounts, 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.

### Adoption of new and revised Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2006. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group’s accounting policies.

The following standards and interpretations - still in effect - were issued until the date of approval of these financial statements:

New standards		Entry into force
IFRS 7	Financial instruments: Disclosure	1 January 2007
IFRS 8	Operating segments	1 January 2009
Modifications of standards		
IAS 1	Presentation of Financial Statements	1 January 2007
IFRS 4	Insurance Contracts	1 January 2007
New interpretations		
IFRIC 11	IFRS 2 - Treasury share transactions	1 March 2007
IFRIC 12	Service Concession Arrangements	1 January 2008

According to the management the future application of the new and modified standards and interpretations will not have a considerable impact on the Group's financial statements.

### 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, 2006. 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.

Company	Group Ownership	Brief description of activities
Concorde Corporate Finance Ltd.	75.00%	Corporate finance
Concorde Investment Management Ltd.	75.00%	Fund management

As of 31 December 2006 two subsidiaries 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 2006.

The Company sold its business shares in two subsidiaries: Tőzsdecápa Ltd. was sold on November 15, 2005, Ingatlanhitel Plusz Ltd. on February 24, 2006, and bought Eclipse Investment Ltd. on June 07, 2006.

Company	Group Ownership	Brief description of activities
Concorde Financial Consulting Ltd.	71.67%	facility management company
Eclipse Investment Ltd.	100.00%	venture capital company

### 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, 2006 and 2005.

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

	December 31, 2006	December 31, 2005
Cash	55 172	53 052
Current account	7 683 084	4 001 941
	7 738 256	4 054 993

Included within cash and current accounts is HUF 7,393,357 thousand (2005: HUF 2,885,664 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

	December 31, 2006	December 31, 2005
Receivables from services provided	766,512	526,338
Receivables from clearing house	590,770	346,936
Receivables from trading on the Budapest Stock Exchange	659,392	132,220
Receivables from loans to customers	776,709	571,390
	2,793,383	1,576,884
Allowance for doubtful receivables	(38,330)	(37,030)
	2,755,053	1,539,854

## 5. Securities held for trading

	December 31, 2006	December 31, 2005
Government bonds	452,063	892,761
Treasury Bills	865,289	710,253
Mortgage bonds	124,734	161,451
Listed shares	52,187	139,888
Investment funds	10,000	-
OTC shares	39,788	147,098
	1,544,061	2,051,451

Interest rates and maturity date on government securities as of December 31, 2006 are as follows:

	2006	Maturity	Coupon rate	
Discounted Treasury Bills	744,948	to July, 2007	-	
Discounted Treasury Bills	120,341	to December, 2007	-	
Treasury bonds	54,189	2007	fixed	6.25-9.25%
Treasury bonds	380,961	2008-2010	fixed	6.25-9.50%
Treasury bonds	16,913	2011-	fixed	5.50-8.00%
	1,317,352			

## 6. Other receivables and accruals

	December 31, 2006	December 31, 2005
Loan advanced to unconsolidated subsidiary Concorde Financial Consulting Ltd.	-	2,822
Loans to employees	65,936	75,285
Corporate tax receivable	74,370	139,112
Accrued interest on bank deposit	21,857	9,584
Other accrued interest	-	27,074
Debtors	155,747	162,9638
Receivables from banks	55,370	3,291
Dividends advance	899,450	-
Other	132,578	134,824
	1,405,308	634,955

## 7. Long-term investments

	December 31, 2006		December 31, 2005	
	book value	ownership%	book value	ownership%
Membership in Budapest Stock Exchange	49,234	5.08%	49,234	5.08%
Concorde Financial Consulting Ltd.	-	71.67%	-	99.67%
Ingatlanhitel Plusz Ltd.	-	-	5,500	25.45%-
Eclipse Investment Ltd.	198,656	100.00%-	-	-
Other long term investments	6,572		6,603	
	254,462		61,337	

In 2005 Eclipse shares were shown within the trading securities, this investment was recorded as long term investment in 2006. The Company acquired the 100% of Eclipse Investment Ltd.'s property.

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, 2006 are Concorde Financial Consulting Ltd., Eclipse Investment 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 Consulting Ltd. and Eclipse Investment Ltd. as of and for the year ended December 31, 2005 is set out below. The following condensed informations are based on statutory financial statements and do not include adjustments to present them in accordance with IFRS.

CONCORDE FINANCIAL CONSULTING LTD.	2006 (unaudited)	2005 (unaudited)
Total assets	34,590	11,207
Owners' equity	58,077	4,050
Net income	24,025	1,050

ECLIPSE INVESTMENT LTD.	2006 (audited)	2005 (audited)
Total assets	233,262	213,898
Owners' equity	232,790	213,861
Net income	18,929	(74,647)

## 8. Tangible and intangible fixed assets

	Intangible assets	Furniture, fixtures and equipment	Leasehold improvements	Total
<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)
January 1, 2006	622,903	747,526	52,613	1,423,042
Additions	87,297	150,040	45,842	283,179
Disposals	-	(63,069)	-	(63,069)
December 31, 2006	710,200	834,497	98,455	1,643,152
<b>Depreciation:</b>				
January 1, 2005	332,687	347,459	1,890	682,036
Charge for the year	56,489	115,979	1,451	173,919
Disposals	-	(32,151)	-	(32,151)
December 31, 2005	389,176	431,300	3,341	823,817
Charge for the year	64,069	133,871	2,186	200,126
Disposals	-	(42,687)	-	(42,687)
December 31, 2006	453,245	522,484	5,527	981,256
<b>Net book value:</b>				
December 31, 2005	233,727	316,226	49,272	599,225
December 31, 2006	256,955	312,013	92,928	661,896

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

	December 31, 2006	December 31, 2005
Cost of machinery and equipment	-	5,980
Accumulated depreciation	-	(5,980)
Net book value	-	-

## 9. Settlement with brokers, dealers and customers

	December 31, 2006	December 31, 2005
Payables to clients	7,393,357	2,885,664
Payables from trading on the Budapest Stock Exchange	676,002	137,355
Payables from the settlement of OTC transactions	-	586,884
	8,069,359	3,609,903

## 10. Other current liabilities and accruals

	December 31, 2006	December 31, 2005
Payables	98,796	106,019
PIT and social contribution	186,863	208,203
Accrued interest of overdraft	-	396
Taxes payable	47,019	71,096
Other	78,655	248,282
	411,333	633,996

## 11. Share capital and reserves

	December 31, 2006		December 31, 2005	
	Issued capital	Ownership rate	Issued capital	Ownership rate
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 %
Tózsdecápa Ltd.	300,000	30.00 %	-	-
Other	48,800	4.88 %	48,800	4.88 %
Treasury shares	-	-	-	-
Total shareholders' equity	1,000,000	100.00 %	1,000,000	100.00 %

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

The Management sold its Concorde Securities dividend preferred shares to Tózsdecápa Ltd. on January 20, 2006.

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

	Common shares		Dividend preferred shares	
	Outstanding	Treasury	Outstanding	Treasury
January, 1, 2006	670 000	-	330 000	-
December 31, 2006	670 000	-	330 000	-

Concorde Securities Ltd's distributable reserves under Hungarian regulations were HUF 3,116,407 thousand and HUF 2,572,291 thousand as of December 31, 2006 and 2005, respectively. Dividends for the year ended December 31, 2005 were declared at the Company's Annual General Meeting on April 18, 2007.

## 12. Net revenue on securities traded on proprietary account

	December 31, 2006	December 31, 2005
Government and corporate bonds	98,297	129,302
Treasury Bills	150,154	131,321
Shares	283,400	25,102
Futures	25,574	(24,768)
Other	(71,529)	(64,336)
	485,896	196,621

## 13. Interest income and expense

	December 31, 2006	December 31, 2005
Interest income	266,924	254,122
Interest expense	(117,185)	(24,825)
Net interest income	149,739	229,297

## 14. Wages and salaries

	December 31, 2006	December 31, 2005
Salaries	1,043,432	828,444
Social insurance contribution	318,608	221,230
Other employee related contribution	74,266	111,475
Other employee related expenses	80,291	197,276
	1,516,597	1,358,425

The number of a full time equivalent staff employed at year-end was 118 (2005: 102 full time equivalent staff were employed).

## 15. General and administration expenses

	December 31, 2006	December 31, 2005
Bank charges	74,030	43,658
Local tax	132,008	117,638
Travel	60,198	78,404
Insurance fees	11,997	10,697
Rental	102,035	110,170
Professional fees	138,530	69,404
Office supplies	67,727	67,657
Depreciation	210,348	177,931
Marketing	27,412	15,670
Membership fees	7,646	7,004
Training	9,719	8,455
Other	127,298	153,078
	968,948	859,766

## 16. 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:

	December 31, 2006	December 31, 2005
Income before tax and minority interest	2,242,135	1,763,627
Tax at statutory rate of 16%	358,742	282,180
Solidarity tax rate of 4%	89,685	-
Temporary differences, net	16,000	-
Permanent differences, net	(293,405)	(177,697)
Taxation charge in IFRS financial statements	171,022	104,483

The "solidarity tax" to improve the balance of public finances was introduced in Hungary from 1 September 2006. It amounts to 4%.

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

	December 31, 2006	December 31, 2005
Deferred tax liability at the beginning of the year	(7,613)	(7,613)
Current year charges	16,000	-
Deferred tax assets (liabilities)	8,387	(7,613)
Deferred tax liability		
Investment reserve	-	(16,000)
Deferred tax asset		
Goodwill amortization	8,387	8,387
Net deferred tax asset / (liability)	8,387	(7,613)

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.

## **17. Off balance sheet items, commitments and contingencies**

The balance of client's securities is HUF 72,767 million at face value as of December 31, 2006 (2005: HUF 57,715 million).

At face value HUF 70,313 million from these securities are deposited in custody at the Central Clearing House and Depository Ltd. (KELER Ltd.) (2005: HUF 53,818 million).

## **18. Significant related party transactions**

The following is a summary of significant related party transactions during the year 2006:

The Company provided a HUF 62,000 thousand loan facility to Concorde Financial Consulting Ltd. in 2001, an unconsolidated subsidiary of the Company. In 2006 Concorde Financial Consulting Ltd. repaid all its HUF 2,822 thousand loan facility to the Company. The year-end balance was HUF 0. The interest was cancelled.

## **19. Maturity analysis of assets and liabilities and liquidity risk**

As of December 31, 2006, all monetary assets and liabilities mature within one month of the balance sheet date, with the exception of HUF 7,393,357 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, 2006 the net monetary assets maturing within one month of the balance sheet date were HUF 7,670,325 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.

## **20. 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.

## **21. Fair values**

At December 31, 2006, 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 ASSET MANAGEMENT LTD.

- Chief executive officer

László Szabó

- Supervisory Board

György Jaksity, chairman  
Gábor Borda  
Norbert Streitmann

### CONCORDE CORPORATE FINANCE LTD.

- Managing director

Tobias Edmund Mansel-Pleydell

### CONCORDE FINANCIAL CONSULTING LTD.

- Managing director

Mihály Boris  
András Szombati

### AUDITORS

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