

Cinema City International N.V.

Quarterly Consolidated Financial Report

for the four quarters ended

31 December 2006

Quarterly Report for the four quarters ended 31 December 2006

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Director's report

DIRECTORS' REPORT

General

Introduction

Cinema City International N.V. (the "Company"), incorporated in the Netherlands, is a subsidiary of I.T. International Theatres Ltd. ("ITIT" or "parent company"). The Company (and together with its subsidiaries, the "Group"), is principally engaged in the operation of entertainment activities in various countries including: Poland, Hungary, Czech Republic, Bulgaria and Israel. The Company, through related entities, has been a family operated theatre business since 1929. In December 2006, the Company completed a successful initial public offering of its shares on the Warsaw Stock Exchange, having sold over 10 million primary shares and close to 8 million secondary shares at an offering price of PLN 19.30 (EUR 5.05) per share, giving the Company a post-money market capitalization of approximately EUR 256 million. The Company's headquarters and principal place of business are located in Rotterdam, the Netherlands.

Highlights during 2006

2006 was a successful year for the Company, with revenues, EBITDA (Earnings Before Interest, Taxation, Depreciation and Amortization) and net income having increased materially in comparison to the prior year. The movie theatre operations recovered strongly from a relatively weak 2005, and our real estate activities continued to perform well. Consolidated revenue increased from EUR 108.2 million during 2005 to EUR 143.8 million during 2006. Consolidated EBITDA increased from EUR 24.0 million in 2005 to EUR 31.2 million for 2006. Net income increased from EUR 7.9 million for 2005 to EUR 11.7 million for 2006.

The Company's theatre operations performed strongly during 2006, supported by a relatively strong supply of movies. Geographically, Poland, which produced relatively the weakest results in 2005, performed very well, supported both by a string of well received international movies and a strong local supply. In 2005, the Polish market was particularly weak due to a combination of poorly received international movies, little local supply and the death of the Pope, which caused the Company to close all of its Polish cinemas for nearly two weeks in April. In addition, the new screens which the Company opened in Poland during the latter part of 2005 and which had their first full year of operations in 2006, helped to increase the positive results and contributed to record breaking results in Poland both in terms of number of admissions and EBITDA.

The Company's real estate activities continued to contribute to the Company's results on the same level as in 2005. During 2006, the Company sold its remaining 25% interest in the Mall of Sofia, which was the main contributor to this strong result. The sale, which was to the same two European private equity companies that purchased the first 25% of the company holding in the project a year earlier, was completed just prior to the Mall's opening in June. In July 2006, the Company signed an agreement to acquire, together with its original Mall of Sofia partner, 60% of a Bulgarian company whose main asset is a parcel of land in Plovdiv, Bulgaria. Plovdiv is one of the largest secondary cities in Bulgaria. Similar to the Mall of Sofia project, the Company plans to develop a modern shopping and entertainment centre on this parcel (without an office complex), which will include a multiplex theatre. The Company plans to sell the shopping center while maintaining the lease of the multiplex theatre.

Director's report

Highlights of the Company's 2006 theatre and film distribution operations are as follows:

- Ø In March 2006, the Company opened its 4th project in Prague, a 5 screen multiplex.
- Ø In May 2006, the Company opened a 15 screen multiplex (including an IMAX[®] theatre) in a new shopping centre in Łodz, Poland.
- Ø In July 2006, the Company opened its first Cinema City in Sofia, Bulgaria, 13 screens multiplex including an IMAX[®] theatre. With this opening, the Company is now operating in five countries.
- Ø In July 2006, the Company also opened its first new generation multiplex in Israel, the 15 screen YES Planet Multiplex in Ramat Gan, just north of Tel Aviv, and closed the old 4 screen multiplex in the same place. This new multiplex is the first project in Israel that is using the Company's new Israeli brand name "Planet". It is also being sponsored by the leading Israeli TV satellite company, "YES".
- Ø In September 2006, the Company commenced the operation of its DVD distribution company in Hungary. This distribution company is already the exclusive distributor of films and DVDs for two major US studios: Warner Bros and Sony (Columbia).

The Company's total screen count at the end of 2006 following these openings has grown to 466 (including 7 IMAX[®] theatres).

Most recently, in January 2007 the Company closed two multiplex theatres in Israel – in Ashdod and Karmiel. These closings are in line with the Company's ongoing plans to modernize and upgrade its Israeli chain through the closing of its smallest and oldest multiplexes while opening modern state-of-the-art larger multiplex theatres.

In January 2007, the Company acquired a modern recently developed 18 screen multiplex cinema in Poznań, Poland that previously had been operated by the Kinopolis Group. Under the agreement with Kinopolis, the Company acquired certain assets relating to Kinopolis' operation of the Poznań theatre and entered into a long-term lease of the 18 screen complex with Kinopolis, which continues to own the building. This multiplex has now become the Company's second theatre operation in Poznań.

In January 2007, the Company resolved a two year old dispute with the developer of two of the Company's planned multiplex sites in Poland – Wloclawek and Elblag. In early 2005, the developer sought to cancel existing lease agreements entered into with the Company for the development of multiplexes on those sites. Under the settlement, the Company has agreed not to seek to enforce the lease agreements and development of the sites in return for an agreed upon cash payment.

In December 2006, the Company completed a successful initial public offering of its shares on the Warsaw Stock Exchange. The Company sold 10 million new shares and 8 million existing shares held by certain stockholders at an offering price of PLN 19.30 (EUR 5.05) per share. Following the IPO, the Company had a total market capitalization of over EUR 256 million. CAIB served as the lead manager and ING Bank N.V. served as the co-manager in the offering. The Company's shares trade under the symbol "CCIINT".

Director's report**Financial information**

The Condensed unaudited Consolidated Financial Statements for the 12 months ended 31 December 2006 have been prepared by management under International Financial Reporting Standards ("IFRS") as adopted by the European Union, adopting the same accounting principles as used in the 2005 Annual Accounts.

Overview of results

The Company's net income for 2006 was EUR 11,738,000. An analysis of net income is shown below.

	For the 12 months ended 31 December	
	2006	2005
	EUR	
	(thousands, except per share data)	
Revenues	143,791	108,181
Operating costs, excluding depreciation and amortisation	<u>106,266</u>	<u>78,771</u>
Gross result	37,525	29,410
General and administrative expenses	<u>6,277</u>	<u>5,387</u>
EBITDA *	31,248	24,023
Depreciation and amortisation	<u>13,901</u>	<u>12,096</u>
Operating profit	17,347	11,927
Financial income	795	2,198
Financial expenses	(5,465)	(4,951)
Loss on disposals and write-off of other investments	<u>(34)</u>	<u>(151)</u>
Net income before net result from associates	12,643	9,023
Net result from associates	<u>-</u>	<u>(103)</u>
Net income before taxation	12,643	8,920
Income taxes	<u>1,377</u>	<u>1,198</u>
Net income before minority interests	11,266	7,722
Minority interests	<u>(472)</u>	<u>(188)</u>
Net income attributable to equity holders of the parent company	<u>11,738</u>	<u>7,910</u>
Net earnings per ordinary share (basic and diluted of EUR 0.01 each)	0.28	0.19

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

Director's report

Revenues

Total revenues increased by 32.9% from EUR 108.2 million during the the year ended 31 December 2005 to EUR 143.8 million during the year ended 31 December 2006.

Theatre operating revenues increased by 34.6% from EUR 73.6 million during the year ended 31 December 2005 to EUR 99.1 million during the year ended 31 December, 2006. The increase in theatre revenues was mainly as a result of an increase in number of admissions because of strong supply of movies especially in Poland compared to relatively weak supply of movies in the same period last year, and a result of the contribution of new cinemas opened in 2005 and in the first half of 2006.

Distribution operating revenues increased by 45% from EUR 15.1 million during the year ended 31 December 2005 to EUR 21.9 million during the year ended 31 December 2006. The increase was mainly due to increase in the distribution activity in Poland because of strong supply of movies, due to the contribution of Forum Film Hungary, a new subsidiary distributing films in Hungary starting from the middle of 2005 and due to the first time contribution of Forum Home Entertainment Hungary a new subsidiary which is distributing DVDs in Hungary starting its activities only in September 2006.

Video operating revenues decreased by 16.3% from EUR 4.9 million during the year ended 31 December 2005 to EUR 4.1 million during the year ended 31 December 2006. The decrease was primarily a result of a decrease in DVD rentals during 2006. As of May, the Group has merged its video and DVD retail operations in Israel with Blockbuster, and is now only consolidating 50% of the new merged group revenue.

Other revenue increased by 28.3% million from EUR 14.5 million during the year ended 31 December 2005 to EUR 18.6 million during the year ended 31 December 2006. The increase in other revenue was primarily attributed to the increase in revenues from the real estate activities.

Director's report

Operating Costs

Operating costs increased by 34.9% from EUR 78.8 million during the year ended 31 December 2005 to EUR 106.3 million during the year ended 31 December 2006. This net increase resulted primarily from the total effects of:

- an increase in theatre operating expenses primarily explained by the increase in theatre revenues as described above. Theatre operating expenses, excluding depreciation and amortization, as a percentage of total theatre revenue decreased to 73.3% for the year ended 31 December 2006, from 78.9% for the year ended 31 December 2005;
- an increase in distribution operating expenses as a result of the increase in revenues as described above. Distribution operating expenses, excluding depreciation and amortization, as a percentage of total distribution revenue increased to 91.2% for the the year ended 31 December 2006, from 81.6% for the the year ended 31 December 2005. This increase is mainly due to the larger weight of Central Europe in the Group's total distribution activities. The distribution activities in Israel are more diverse and enjoy higher profit margins than the relatively new distribution activities in Central Europe.
- a decrease in video operating expenses as a result of the decrease in revenues as described above. Video operating expenses, excluding depreciation and amortization, as a percentage of total video revenue during the year ended 31 December 2006 remained at a similar level as in during the year ended 31 December 2005.

General and administrative expenses

General and administrative expenses increased by 16.7% from EUR 5.4 million for the year ended 31 December 2005 to EUR 6.3 million during the year ended 31 December 2006. General and administrative expenses as a percentage of total revenue decreased to 4.4% for the the year ended 31 December 2006, from 5.0% for the year ended 31 December 2005.

Director's report

EBITDA

As a result of the factors described above, the earnings before interest tax depreciation and amortisation (EBITDA) increased by 30% from EUR 24.0 million for the year ended 31 December 2005 to EUR 31.2 million for the year ended 31 December 2006.

Depreciation and amortisation

Depreciation and amortisation expenses increased by 14.9% from EUR 12.1 million for the year ended 31 December 2005 to EUR 13.9 million for the year ended 31 December 2006. This is due to the commencement operation of the Company's new multiplex screens opened during 2005 and 2006.

Operating profit

As a result of the factors described above, the operating profit increased by 45.4% from EUR 11.9 million during the year ended 31 December 2005 to EUR 17.3 million during the year ended 31 December 2006

Financial income/expenses

The balance of financial income and expenses resulted in a net expense of EUR 4.7 million during the year ended 31 December 2006 compared to a net expense of EUR 2.8 million during the year ended 31 December 2005. This net increase is mainly due to the net effect of (1) an increase in average borrowings in local currencies throughout 2005 and 2006 due to the financing of the development plans in Poland and in Israel, (2) a reduction in interest income on loans to non-consolidated subsidiaries explained by the sale of the investment in Sadyba Best Mall in May 2005 whereby the loan was fully redeemed, and (3) exchange rates differences.

Income tax

The income tax charge as a percentage of profit before income tax was 10.9% in the current year compared to 13.4% in the previous year.

Minority interest

Minority interests for the years ended 31 December 2006 and 31 December 2005 comprised the share of minority shareholders in losses from subsidiaries that are not 100% owned by the Company (EUR 0.5 million and EUR 0.2 million respectively).

Net income

As a result of the factors described above, the Company realised a net income of EUR 11.7 million during the year ended 31 December 2006 compared to net income of EUR 7.9 million during the year ended 31 December 2005.

Director's report**Selected financial data**

PLN/EUR	Exchange rate of Euro versus the Polish Zloty			
	Average exchange rate	Minimum exchange rate	Maximum exchange rate	Year end exchange rate
2006	3.8951	3.7565	4.1065	3.8312
2005	4.0254	3.8223	4.2756	3.8598

Source: National Bank of Poland ("NBP")

Selected financial data	EUR		PLN	
	(thousands, except per share data)			
	For the year ended 31 December			
	2006	2005	2006	2005
Revenues	143,791	108,181	560,080	435,472
Operating profit	17,347	11,927	67,568	48,011
Income before taxation	12,643	9,023	49,246	36,321
Net income attributable to Equity holders of the parent company	11,738	7,910	45,721	31,841
Cash flows from operating activities	29,384	14,616	114,454	58,835
Cash flows used in investment activities	(26,727)	(13,470)	(104,104)	(54,222)
Cash flows provided by/(used in) financing activities	45,365	(624)	176,701	(2,512)
Increase in cash and cash equivalents	48,027	630	187,070	2,536
Total assets	257,460	202,021	986,381	779,761
Provisions	7,495	9,606	28,715	37,077
Long term liabilities	75,592	86,443	289,608	333,653
Short term liabilities	50,587	42,872	193,809	165,477
Shareholders' equity	132,176	73,117	506,393	282,217
Share capital	507	407	1,942	1,571
Average number of equivalent shares	41,436,329	40,724,000	41,436,329	40,724,000
Net earnings per ordinary share (basic and diluted)	0.28	0.19	1.10	0.78

Selected financial data were translated from EURO into PLN in the following way:

(i) Balance sheet data were translated using the average exchange rate published by the National Bank of Poland for the last day of the year / period.

(ii) Income Statement and cash flows data were translated using the arithmetical average of average exchange rates published by the National Bank of Poland for the last day of every month within year / period.

Director's report

Outlook for the year 2007

In 2007, the Company plans to open approximately 100 screens in the various countries where the Company is or will become active. These include the following projects:

- ∅ The Company has 4 new multiplexes scheduled to be opened in Poland in 2007, all related to projects currently under construction. These 4 multiplexes, with 32 screens in total, are located in Lublin, Sosnowicz, Rybnik and Gliwice. Currently, the Company expects to open at least 3 of these multiplexes by mid-year 2007.
- ∅ The Company is developing a “megaplex” project in Budapest, Hungary, which will become the Company’s largest theatre to date, with 24 screens and an IMAX[®] theatre. The project, scheduled to open in the second half of the year, is being built on leased space as part of a new shopping mall and entertainment centre that is now under construction.
- ∅ In Romania, the Company has recently signed lease agreements for three multiplexes in key cities, and currently plans to open at least two of these multiplexes by the end of the year 2007. These three multiplexes are in addition to the leases previously signed by the Company for three multiplex theatres in Bucharest, scheduled to open in 2008.
- ∅ The Company has one multiplex site under development in Israel scheduled to be opened during 2007.
- ∅ The Company has one multiplex site under development in the Czech Republic scheduled to be opened during 2007.

Director's report**Additional information to the report****Major shareholders**

To the best of the Company's knowledge as of the date of publication of this report for the fourth quarter of 2006, the following shareholders are entitled to exercise over 5% of voting rights at the General Meeting of Shareholders in the Company:

	As of 28 February 2007 Number of shares/ % of shares	Increase/ (decrease) Number of shares	As of 31 December 2006 Number of shares/ % of shares	Increase/ (decrease) Number of shares	As of 30 September 2006 Number of shares/ % of shares
I.T. International Theaters Ltd.,	32,709,996 / 64.49%	-	32,709,996 / 64.49%	(2,349,652)	35,059,648/ 86.09%
ING Nationale - Nederlanden Polska Otwarty Fundusz Emerytalny	2,616,914 / 5.2%	330,937	2,285,977 / 4.50%	2,285,977	-

Changes in ownership of shares and rights to shares by Management Board members in the fourth quarter of 2006 and until the date of publication of the report

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

Shares

	As of 28 February 2007 Number of shares/ % of shares	Increase/ (decrease) Number of shares	As of 31 December 2006 Number of shares/ % of shares	Increase/ (decrease) Number of shares	As of 30 September 2006 Number of shares/ % of shares
Moshe Greidinger*	11,566,255 / 22.8%	-	11,566,255 / 22.8%	(2,577,431)	14,143,686 / 34.7%
Amos Weltsch	-	-	-	(600,000)	600,000 / 1.47%
Israel Greidinger*	11,566,255 / 22.8%	-	11,566,255 / 22.8%	(2,577,431)	14,143,686 / 34.7%

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

Rights to shares

The members of the Management Board did not own or receive any rights to shares in the Company during the period 30 September 2006 until 28 February 2007.

Changes in ownership of shares and rights to shares by Supervisory Board members in the fourth quarter of 2006 and until the date of publication of the report

The members of the Supervisory Board did not own any shares and/or rights to shares in the Company during the period 30 September 2006 until 28 February 2007.

Director's report

Additional information to the report (cont'd)

Changes in the composition of the Supervisory Board

During an Extraordinary General Meeting of Shareholders held in November 2006, Mr Yair Shilhav was appointed member of the Supervisory Board of the Company. The appointment came into force with immediate effect.

Other

As of 31 December 2006, the Group has issued guarantees for loans that in total amount to EUR 12 million and Polish zloty 115.5 (EUR 29.9) million in connection with loans provided to subsidiaries.

As of 31 December 2006, the Group has no litigations for claims or liabilities that in total exceed 10% of the Group's equity.

The following net movements in the Group's main provisions took place during the financial year 2006 (between brackets the net movements during the fourth quarter of 2006 are shown):

- an increase in the provision for deferred tax liabilities of EUR 272,000 (increase of EUR 568,000).
- a decrease in the provision for accrued employee retirement rights of EUR 866,000 (decrease of EUR 736,000).
- a decrease in the provision related to onerous lease contracts of EUR 1,608,000 (decrease of EUR 402,000).

The Management Board

Moshe J. (Mooky) Greidinger
President of the board
General Director

Amos Weltsch
Management board
Operational Director

Israel Greidinger
Management board
Financial Director

Rotterdam, 28 February 2007

Condensed Consolidated Financial Statements for the year ended 31 December 2006
CONDENSED CONSOLIDATED BALANCE SHEET

	31 December 2006 (Unaudited)	30 September 2006 (Unaudited)	31 December 2005 (Audited*)	30 September 2005 (Unaudited)
	EUR (thousands)			
ASSETS				
FIXED ASSETS				
Intangible fixed assets	719	313	198	238
Property and equipment	170,554	166,396	166,610	157,352
Financial fixed assets	796	633	1,057	1,844
Investment in associate	71	82	2,283	2,387
Total fixed assets	172,140	167,424	170,148	161,821
CURRENT ASSETS				
Inventories	3,919	3,424	2,998	2,937
Trade and other receivables	24,815	22,297	23,653	20,679
Securities	3,392	56	55	54
Cash and cash equivalents	53,194	12,072	5,167	3,674
Total current assets	85,320	37,849	31,873	27,344
TOTAL ASSETS	257,460	205,273	202,021	189,165
SHAREHOLDERS' EQUITY AND LIABILITIES				
SHAREHOLDERS' EQUITY				
Minority interests	(895)	(844)	(411)	(281)
LONG-TERM LIABILITIES				
Long-term loans, net of current portion	65,739	71,247	73,888	70,169
Provisions	7,495	6,352	9,606	9,944
Other long-term liabilities	2,358	4,289	2,949	3,117
Total long-term liabilities	75,592	81,888	86,443	83,230
CURRENT LIABILITIES				
Short-term bank credit	25,637	24,842	18,299	18,362
Other current liabilities	24,950	19,388	24,573	17,026
Total current liabilities	50,587	44,230	42,872	35,388
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	257,460	205,273	202,021	189,165

*) Extracted from the 2005 Annual Accounts.

Condensed Consolidated Financial Statements for the year ended 31 December 2006**CONDENSED CONSOLIDATED INCOME STATEMENT**

	For the 12 months ended 31 December 2006 (Unaudited)	For the quarter ended 31 December 2006 (Unaudited)	For the 12 months ended 31 December 2005 (Audited*)	For the quarter ended 31 December 2005 (Unaudited)
EUR				
(thousands, except per share data and number of shares)				
Revenues	143,791	34,357	108,181	31,591
Operating costs	<u>120,167</u>	<u>28,722</u>	<u>90,867</u>	<u>26,873</u>
Gross margin	23,624	5,635	17,314	4,718
General and administrative expenses	<u>6,277</u>	<u>1,709</u>	<u>5,387</u>	<u>1,490</u>
Operating profit	17,347	3,926	11,927	3,228
Financial income	795	408	2,198	616
Financial expenses	(5,465)	(2,008)	(4,951)	(1,451)
Loss on disposals and write-off of other investments	<u>(34)</u>	<u>(20)</u>	<u>(151)</u>	<u>(84)</u>
Income before result from associates	12,643	2,306	9,023	2,309
Net result from associates	<u>-</u>	<u>-</u>	<u>(103)</u>	<u>(96)</u>
Income before taxation	12,643	2,306	8,920	2,213
Income taxes	<u>1,377</u>	<u>925</u>	<u>1,198</u>	<u>1,000</u>
Net income before minority interests	<u>11,266</u>	<u>1,381</u>	<u>7,722</u>	<u>1,213</u>
Attributable to:				
Equity holders of the Parent Company	11,738	1,451	7,910	1,328
Minority interests in loss of consolidated subsidiaries	<u>(472)</u>	<u>(70)</u>	<u>(188)</u>	<u>(115)</u>
Net income before minority interests	<u>11,266</u>	<u>1,381</u>	<u>7,722</u>	<u>1,213</u>
Weighted average number of equivalent shares	<u>41,436,329</u>	<u>43,550,087</u>	<u>40,724,000</u>	<u>40,724,000</u>
Net earnings per ordinary share (basic and diluted) of EUR 0.01 each	<u>0.28</u>	<u>0.03</u>	<u>0.19</u>	<u>0.03</u>

*) Extracted from the 2005 Annual Accounts.

Condensed Consolidated Financial Statements for the year ended 31 December 2006**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

	For the 12 months ended 31 December 2006 (Unaudited)	For the quarter ended 31 December 2006 (Unaudited)	For the 12 months ended 31 December 2005 (Audited*)	For the quarter ended 31 December 2005 (Unaudited)
EUR (thousands)				
Balance as of the beginning of the period	73,117	79,999	60,074	70,828
Net income for the period	11,738	1,451	7,910	1,328
Issue of ordinary shares	46,492	46,492	-	-
Share based payment	20	20	-	-
Foreign currency translation adjustment	809	4,214	5,133	961
Balance at the end of the period	132,176	132,176	73,117	73,117

CONDENSED STATEMENT OF RECOGNISED INCOME AND EXPENSES

	For the 12 months ended 31 December 2006 (Unaudited)	For the quarter ended 31 December 2006 (Unaudited)	For the 12 months ended 31 December 2005 (Audited*)	For the quarter ended 31 December 2005 (Unaudited)
EUR (thousands)				
Foreign exchange translation differences before minority interest	797	4,233	5,084	946
Net income recognised directly in equity	797	4,233	5,084	946
Net income before minority interest	11,266	1,381	7,722	1,213
Total recognised income and expense for the period	12,063	5,614	12,806	2,159
Attributable to:				
Equity holders of the Company	12,547	5,665	13,043	2,289
Minority interests	(484)	(51)	(237)	(130)
Total recognised income and expense for the period	12,063	5,614	12,806	2,159

Condensed Consolidated Financial Statements for the year ended 31 December 2006**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

	For the 12 months ended 31 December 2006 (Unaudited)	For the quarter ended 31 December 2006 (Unaudited)	For the 12 months ended 31 December 2005 (Audited*)	For the quarter ended 31 December 2005 (Unaudited)
	EUR (thousands)			
Cash flows from operating activities	29,384	8,927	14,616	3,444
Cash flows from investing activities	(26,727)	(9,324)	(13,470)	(2,597)
Cash flows from financing activities	45,365	41,403	(624)	607
Effect of changes in consolidation	-	-	(69)	-
Increase/(decrease) in cash and cash equivalents	48,022	41,006	453	1,454
Cash and cash equivalents at the beginning of the period	5,167	12,072	4,537	3,674
Foreign currency exchange differences on cash	5	116	177	39
Cash and cash equivalents at the end of the period	53,194	53,194	5,167	5,167

*) Extracted from the 2005 Annual Accounts.

Condensed Consolidated Financial Statements for the year ended 31 December 2006

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**Note 1 – General and principal activities**

(a) The accompanying Condensed Consolidated Financial Statements present the financial position per 31 December 2006, results of operations, changes in shareholders' equity, and cash flows for the year ended 31 December 2006 of Cinema City International N.V. ("the Company") and its subsidiaries (together referred to as "the Group") and the Group's interest in associates. The 31 December 2006 Condensed Consolidated Financial Statements were authorised for issue by the management board members on 28 February 2007.

(b) Cinema City International N.V., incorporated in the Netherlands. The shares in the Company are traded on the Warsaw Stock Exchange. As at 31 December 2006, 64.5% of the outstanding shares in the Company are held by I.T. International Theatres Ltd. ("ITIT"), incorporated in Israel. The Group is principally engaged in the operation of entertainment activities in various countries including: Poland, Hungary, Czech Republic, Bulgaria and Israel. The Company is also engaged in managing and establishing its own entertainment real estate projects for rental purposes, in which the Company operates motion picture theatres. In addition, the Company is involved in short-term and long-term real estate trading in Central Europe. The Company's business is in large dependent both upon the availability of suitable motion pictures from third parties for exhibition in its theatres, and the performance of such films in the Company's markets.

Note 2 – Summary of significant accounting policies**A. Basis of preparation**

The Condensed Consolidated Balance Sheets as of 31 December 2006, as of 30 September 2006 and as of 30 September 2005, the Condensed Consolidated Income Statement, the Condensed Consolidated Statements of changes in Shareholders' Equity, the Condensed Statement of recognised income and expenses and the Condensed Consolidated Statements of Cash Flows for the 12 months and 3 months ended 31 December 2006 and for the 3 months ended 31 December 2005 have not been audited. The Condensed Consolidated Balance Sheet as at 31 December 2005, the Condensed Consolidated Income Statement for the year ended 31 December 2005, the Condensed Consolidated Statement of Cash Flows for the year ended 31 December 2005, and the Condensed Statement of Shareholders' Equity for the year ended 31 December 2005 are extracted from the 2005 Annual Accounts.

The Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. In the preparation of these financial statements, the Company has followed the same accounting policies used in the Company's 2005 Annual Accounts. The Company's 2005 Annual Accounts have been prepared in accordance with IFRS adopted by the EU to be used for preparation of consolidated financial reporting. The 31 December 2006 Condensed Consolidated Financial Statements should be read in conjunction with the audited 2005 Annual Accounts. In addition, the Company has adopted the standards and interpretations with an effective date before 31 December 2006.

Condensed Consolidated Financial Statements for the year ended 31 December 2006

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

A. Basis of preparation (cont'd)

As a result of transactions and other events in 2006 that did not occur or exist in 2005, the following accounting policies that were not disclosed in the Company's 2005 Annual Accounts have been applied in these Condensed Consolidated Financial Statements:

Share capital

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

Employee benefits – share options granted

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

B. Functional and presentational currency

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

The financial statements of the above mentioned foreign operations are translated from the functional currency into euros (presentation currency) for both 2005 and 2006 as follows:

Assets and liabilities, both monetary and non-monetary are translated at the closing exchange rate. Income statement items were translated at the average exchange rate for the year. Foreign exchange differences arising on translation have been recognised directly in equity.

C. Use of estimates and judgements

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

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

Condensed Consolidated Financial Statements for the year ended 31 December 2006**Note 2 – Summary of significant accounting policies (cont'd)****D. Principles of consolidation**

These Condensed unaudited Consolidated Financial Statements include the accounts of the Company, its subsidiaries, and jointly controlled entities. Subsidiaries are those enterprises which are controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control effectively commences until the date that control effectively ceases. Jointly controlled entities are those enterprises over whose activities the Company has joint control, established by contractual agreements. The Consolidated Financial Statements include the Company's proportionate share of the enterprises' assets, liabilities, revenues and expenses with items of similar nature on a line-by-line basis, from the date that joint control commences until the date that joint control ceases.

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

A list of the companies whose financial statements are included in these Condensed Consolidated Financial Statements and the extent of ownership and control appears in Note 10.

E. Exchange rates

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

Exchange rate of euro					
<u>As of 31 December</u>	<u>Czech Crown (CZK)</u>	<u>Hungarian Forint (HUF)</u>	<u>Polish Zloty (PLN)</u>	<u>US Dollar (USD)</u>	<u>Israeli Shekel (NIS)</u>
2006	27.53	252.90	3.86	1.32	5.56
2005	29.00	252.62	3.86	1.18	5.45
<u>Change during the year</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
2006	(5.07)	0.11	0.00	11.86	2.02
2005	(4.95)	2.61	(5.62)	(13.24)	(7.30)
Exchange rate of euro					
<u>Average for the year</u>	<u>Czech Crown (CZK)</u>	<u>Hungarian Forint (HUF)</u>	<u>Polish Zloty (PLN)</u>	<u>US Dollar (USD)</u>	<u>Israeli Shekel (NIS)</u>
2006	28.37	264.91	3.91	1.26	5.59
2005	29.80	248.54	4.03	1.25	5.58
<u>Change year over year</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
2006	(4.80)	6.59	(2.98)	0.80	0.18
2005	(6.73)	(1.42)	(11.03)	0.81	0.00

Condensed Consolidated Financial Statements for the year ended 31 December 2006

Note 3 – Changes in Consolidated Entities**A. Changes in consolidated and associated entities during 2006:**

- (a) In May 2006, the Israeli government anti-monopoly office approved the merger of the Company's video retail operations in Israel, which operate under the brand name Video Giant., with its main competitor, Blockbuster. Under the agreement signed between the parties, Video Giant and Kafan Video Libraries Ltd. (operator of the Blockbuster video libraries in Israel) formed a 50/50 joint venture to operate the combined video chain under the brand name Blockbuster. The Company will provide the MD (chief executive officer) for the new JV, while Kafan will provide the chairman of the board. The JV will be jointly controlled between Kafan and the Company and the Company has consolidated the results of operations of this entity proportionally.
- (b) During the first half of 2006, the Company sold its remaining 25% interest in the MO Sofia EAD. The Company has received EUR 13.1 million.
- (c) Forum Film Home Entertainment KFT 100% shares -new subsidiary incorporated in Hungary. The company commenced its operation in September 2006 and specializes in video and DVD distribution in Hungary. This distribution company is expected to be the exclusive distributor of the Film DVD activity of 2 major US studios: Warner Bros and Sony (Columbia).
- (d) New Age Cinema KFT 100% shares -new subsidiary, incorporated in Hungary. The Company commenced operation in October 2006 and specializes in screen advertising.

B. Changes in consolidated entities during 2005:

- (a) Forum Hungary Film Distribution KFT - 100% shares. New subsidiary, incorporated in Hungary. This company commenced operation in February 2005 and specialises in distribution of films in Hungary.
- (b) Per 30 June 2005, the Company, through a subsidiary sold 25% of the shares in MO Sofia EAD after which the Company still holds a further 25% interest in this company. The Company has provided the buyers with a cost overrun guarantee, to cover its part in any costs of completion of the project exceeding the budget, and has retained the responsibility of the completion. The remaining 25% interest in MO Sofia EAD is included in the consolidated balance sheet per 31 December 2005 as "Investments in associate" under "Financial fixed assets". In prior years, the 50% interest was proportionally consolidated in the Company's financial statements.
- (c) All Job Poland S.p.Zoo - 100% shares. New subsidiary, incorporated in Poland. This company commenced operation in November 2005 and specialises in recruitment and employment of the company staff in Poland.

Condensed Consolidated Financial Statements for the year ended 31 December 2006

Note 4 – Share capital

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

The number of issued and outstanding ordinary shares as at 1 January 2005 was 40,724,000 and has remained unchanged during the financial year ended 31 December 2005. At 5 December 2006, as part of the Initial Public Offering of the Company's shares, the Company issued 10,000,000 ordinary shares. As a result of the share issue in 2006, the total number of shares issued and outstanding at 31 December 2006 totalled 50,724,000. All shares issued and outstanding at 31 December 2006 have been fully paid up.

Note 5 – Commitments and contingent liabilities

The Company and its subsidiaries did not enter into any new agreements or contracts which resulted in additional significant commitments or contingent liabilities since 31 December 2005. The commitments, contingent liabilities and liens as disclosed in the Company's 2005 Annual Accounts for the year ended 31 December 2005 have not materially changed as at 31 December 2006 with the exception of several other commitments such as going concern pledge agreement, trade mark pledge agreement, sponsor support agreement and receivables pledge agreement in connection to a loan in the amount of EUR 3.9 million provided by a Bulgarian bank to a subsidiary.

As of 31 December 2006, the Group has guarantees for loans that in total amount to EUR 12 million and Polish zloty 115.5 million (EUR 29.9 million) in connection with loans provided to subsidiaries.

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

Toward the end of February 2007, the Company learned that one of its main Polish competitors lost a similar case before the "second instance" court in Poland. Based on the advice of the Company's lawyers, the Management Board maintain the position that the complaint has no merit and the plaintiff has no standing. The Company will continue to defend the case vigorously.

Note 6 – Financial instruments

Exposure to credit, interest rate and currency risks arises in the normal course of the Company's business. These risks are described in fuller detail in the 2005 Annual Accounts. As at 31 December 2006, the Company has hedged some of its USD and EUR expenses through December 2006 in respect of its Polish and Hungarian theatre operations, against the Polish Zloty and the Hungarian forint respectively.

In connection with these obligations, the Company has entered into forward foreign exchange contracts comprising a commitment to buy EUR 350,000 at the beginning of each month during 2007 and until December 2008 at fixed prices denominated in Polish Zloty, and forward foreign exchange contracts comprising a commitment to buy USD 195,000 at the beginning of each month during 2007 at fixed prices denominated in Hungarian forint. These forward foreign exchange contracts have been valued in the consolidated balance sheet at 31 December 2006 at their fair value.

Condensed Consolidated Financial Statements for the year ended 31 December 2006
Note 7 - Segment Reporting (cont'd)

For the year ended 31 December 2005						
EUR (thousands) – (audited *)						
	Theatre Operations	Distribution	Video & DVD	Other	Eliminations	Consolidated
Revenues						
External sales	73,641	15,138	4,877	14,525	-	108,181
Inter-segment sales	-	3,778	325	-	(4,103)	-
Total revenues	<u>73,641</u>	<u>18,916</u>	<u>5,202</u>	<u>14,525</u>	<u>(4,103)</u>	<u>108,181</u>
Segment results	<u>3,080</u>	<u>1,911</u>	<u>(708)</u>	<u>7,644</u>	<u>-</u>	<u>11,927</u>
Net financial expense						(2,753)
Loss on disposals and other write-offs						(151)
Net loss from associates						(103)
Income taxes						(1,198)
Minority interests						188
Net income						<u>7,910</u>

31 December 2005						
EUR (thousands)						
	Theatre Operations	Distribution	Video & DVD	Other	Unallocated	Consolidated
Segment assets	<u>172,923</u>	<u>7,280</u>	<u>3,016</u>	<u>17,745</u>	<u>1,057</u>	<u>202,021</u>
Segment liabilities	<u>28,867</u>	<u>2,584</u>	<u>1,851</u>	<u>1,497</u>	<u>94,105</u>	<u>128,904</u>
Capital expenditure	<u>29,795</u>	<u>1,011</u>	<u>1,292</u>	<u>3,168</u>	<u>-</u>	<u>35,266</u>

*) Extracted from the 2005 Annual Accounts

Condensed Consolidated Financial Statements for the year ended 31 December 2006

Note 8 – Share-based payments

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

On 6 December a total number of 477,000 options with an exercise price of EUR 5.05 each, vesting in 3 years and having an option term of 4 years, were granted to certain employees of the Group. Members of the Management Board did not receive any options during 2006. The vesting dates of the options are as follows:

	Number of options
6 December 2007	159,000
6 December 2008	159,000
6 December 2009	159,000
	<u>477,000</u>

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

The costs impact of the share-based payment on the financial statements of the Company was an expense of EUR 20,000 recognised in the income statement with a corresponding increase in equity.

Condensed Consolidated Financial Statements for the year ended 31 December 2006

Note 9 – Related party transactions

There were no material transactions and balances with related parties during the last quarter of 2006 other than disclosed below:

As part of the completion of the initial public offering on Warsaw stock exchange in December 2006, the Company incurred costs related both to the primary shares and the secondary shares. The Company charged the proportionate part of the mentioned expense (EUR 1,368,000) to the selling shareholders.

The receivables as per 31 December 2006 amount to EUR 1,258,000.

Condensed Consolidated Financial Statements for the year ended 31 December 2006**Note 10 - Details of corporations in the Group**

	31 December 2006			
	Direct/indirect voting right of the Company	The Company's equity share in subsidiary	Consolidation	Currency
	%	%	%	
I.T. International Theatres 2004 Ltd.	100%	100%	Full	(6)
I.T. Magyar Cinemas Kft	100%	100%	Full	(2)
Kino 2005 a.s.	100%	100%	Full	(3)
I.T. Sadyba B.V.	100%	100%	Full	(1)
Cinema City Poland Sp.Zoo	100%	100%	Full	(4)
IT Development 2003	100%	100%	Full	(4)
I.T. Czech Cinemas S.R.O.	100%	100%	Full	(3)
I.T. Sofia B.V.	100%	100%	Full	(1)
New Age Media Sp.Zoo	100%	100%	Full	(4)
Forum Film Poland Sp.Zoo	100%	100%	Full	(4)
All Job Poland Sp. Zoo	100%	100%	Full	(4)
Norma Film Ltd.	60%	50%	Full	(6)
Forum Film Ltd.	60%	50%	Full	(6)
Ya'af - Giant Video Library Network Ltd.	60%	30%	Full	(6)
Ya'af – Automatic Video Machines Ltd.	60%	50%	Full	(6)
Kafan et Anak limited partnership	30%	15%	Proportionate	(6)
Mabat Ltd.	100%	100%	Full	(6)
Teleticket Ltd.	100%	100%	Full	(6)
Cinema Plus Ltd.	100%	100%	Full	(6)
Cinema City Bulgaria EOOD	100%	100%	Full	(5)
Forum Film Home Entertainment KFT	100%	100%	Full	(2)
New Age Cinema KFT	100%	100%	Full	(2)
Forum Hungary Film Distribution KFT	100%	100%	Full	(2)
Mall of Plovdiv EOOD	30%	30%	Not consolidated-held for sale	(5)

(1) A holding company in the Netherlands.

(2) Hungarian corporation.

(3) Czech corporation.

(4) Polish corporation

(5) Bulgarian corporation.

(6) Israeli corporation.

The details of corporation during 2005 were similar to the details of corporation in 2006 as shown above, except for the changes in consolidation disclosed in Note 3.

Associate companies valued using the equity method:

- MO Sofia EAD, Bulgaria in which the Company held a 25% interest from 30 June 2005 through early January 2007 (before 30 June 2006: a 50% interest which was proportionally consolidated).

Condensed Consolidated Financial Statements for the year ended 31 December 2006**Note 11 – Condensed unconsolidated financial statements of Cinema City International N.V.****Condensed unconsolidated balance sheet as at 31 December 2006**

	31 December 2006 (Unaudited)	30 September 2006 (Unaudited)	31 December 2005 (Audited*)	30 September 2005 (Unaudited)
	EUR (thousands)			
ASSETS				
FIXED ASSETS				
Property and equipment	30	1,755	1,755	5,394
Investments in subsidiaries	86,460	81,228	62,685	49,812
Loans to subsidiaries	-	-	2,944	2,944
Total fixed assets	86,490	82,983	67,384	58,150
CURRENT ASSETS				
Trade and other receivables	18,093	14,428	8,364	14,762
Cash and cash equivalents	45,758	539	1,436	1,748
Total current assets	63,851	14,967	9,800	16,510
TOTAL ASSETS	150,341	97,950	77,184	74,660
SHAREHOLDERS' EQUITY AND LIABILITIES				
SHAREHOLDERS' EQUITY				
Share capital	507	407	407	407
Premium on share capital	89,945	43,553	43,553	43,553
Retained earnings	25,019	24,999	17,089	17,089
Net profit for the year	11,738	10,287	7,910	6,582
Accumulated currency translation adjustments	4,967	753	4,158	3,197
Total shareholders' equity	132,176	79,999	73,117	70,828
CURRENT LIABILITIES				
Other current liabilities	18,165	17,951	4,067	3,832
Total current liabilities	18,165	17,951	4,067	3,832
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	150,341	97,950	77,184	74,660

*) Extracted from the 2005 Annual Accounts

Condensed Consolidated Financial Statements for the year ended 31 December 2006**Note 11 – Condensed unconsolidated financial statements (cont'd)****Condensed unconsolidated income statement**

	For the 12 months ended 31 December 2006 (Unaudited)	For the quarter ended 31 December 2006 (Unaudited)	For the 12 months ended 31 December 2005 (Audited*)	For the quarter ended 31 December 2005 (Unaudited)
EUR				
(thousands, except per share data and number of shares)				
Revenues	887	887	834	834
General and administrative expenses	(406)	(48)	(431)	19
operating profit	481	839	403	853
Financial income	113	87	482	6
Financial expenses	(153)	(104)	(2,025)	(1,978)
Currency exchange result	-	-	773	(36)
Income before taxation	441	822	(367)	(1,155)
Income taxes	-	-	-	-
Income after taxation	441	822	(367)	(1,155)
Result from subsidiaries after taxation	11,297	629	8,277	2,483
Net income	11,738	1,451	7,910	1,328
Weighted average number of equivalent shares	41,436,329	43,550,087	40,724,000	40,724,000
Net earnings per ordinary share (basic and diluted) of EUR 0.01 each	0.28	0.03	0.19	0.03

*) Extracted from the 2005 Annual Accounts.

Condensed Consolidated Financial Statements for the year ended 31 December 2006**Note 11 – Condensed unconsolidated financial statements (cont'd)****Condensed unconsolidated statement of changes in shareholders' equity**

	For the 12 months ended 31 December 2006 (Unaudited)	For the quarter ended 31 December 2006 (Unaudited)	For the 12 months ended 31 December 2005 (Audited*)	For the quarter ended 31 December 2005 (Unaudited)
EUR (thousands)				
Balance as of the beginning of the period	73,117	79,999	60,074	70,828
Net income for the period	11,738	1,451	7,910	1,328
Issue of ordinary shares	46,492	46,492	-	-
Share based payment	20	20	-	-
Foreign currency translation adjustment	809	4,214	5,133	961
Balance at the end of the period	<u>132,176</u>	<u>132,176</u>	<u>73,117</u>	<u>73,117</u>

*) Extracted from the 2005 Annual Accounts.

Condensed unconsolidated cash flow statement

	For the 12 months ended 31 December 2006 (Unaudited)	For the quarter ended 31 December 2006 (Unaudited)	For the 12 months ended 31 December 2005 (Audited*)	For the quarter ended 31 December 2005 (Unaudited)
EUR (thousands)				
Cash flows from operating activities	(2,357)	(2,964)	1,143	(3,877)
Cash flows from investing activities	167	1,671	(97)	3,649
Cash flows from financing activities	46,512	46,512	-	(84)
Increase/(decrease) in cash and cash equivalents	44,322	45,219	1,046	(312)
Cash and cash equivalents at the beginning of the period	<u>1,436</u>	<u>539</u>	<u>390</u>	<u>1,748</u>
Cash and cash equivalents at the end of the period	<u>45,758</u>	<u>45,758</u>	<u>1,436</u>	<u>1,436</u>

*) Extracted from the 2005 Annual Accounts.

Condensed Consolidated Financial Statements for the year ended 31 December 2006

Note 11 – Condensed unconsolidated financial statements (cont'd)

Additional information to the condensed unconsolidated financial statements of Cinema City International N.V.

The accounting principles and measurement basis of these Condensed Unconsolidated Financial Statements are consistent with those applied with respect to the 2005 Annual Accounts and have remained unchanged. In the preparation of these financial statements, the Company has followed the same accounting policies as used for the Condensed Consolidated Financial Statements as referred to in Note 2 A. The Company's 2005 Annual Accounts have been prepared in accordance with IFRS adopted by the EU to be used for preparation of consolidated financial reporting. The 31 December 2006 Condensed Unconsolidated Financial Statements should be read in conjunction with the audited 2005 Annual Accounts. In addition, the Company has adopted the standards and interpretations with an effective date before 31 December 2006.

As the significant event for the Group also apply to the Company on a stand-alone basis, reference is made to the Directors' Report where the highlights during the financial year 2006, including the initial public offering of the Company's shares, are described.