

PANNONPLAST MŰANYAGIPARI RT.

CONSOLIDATED FINANCIAL STATEMENTS

IN ACCORDANCE WITH

THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

AS ADOPTED BY THE EUROPEAN UNION

31 DECEMBER 2005

TABLE OF CONTENTS

Independent auditor's report	1
Consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union	
Consolidated income statement 31 December 2005	2
Consolidated balance sheet 31 December 2005	3
Consolidated statement of cash-flow 31 December 2005	4
Consolidated equity movement table 31 December 2005	6
Consolidated supplementary notes	7-30

This is a translation of the Hungarian Report

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Pannonplast Műanyagipari Rt.

We have audited the accompanying consolidated financial statements of Pannonplast Műanyagipari Rt. and subsidiaries ("the Group"), which comprise the consolidated balance sheet as of December 31, 2005, and the related consolidated statements of operations, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

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

Qualification

The Group realised a HUF 1,030,228 thousand gain on the sale of a subsidiary as of December 31, 2005. Our opinion is that this gain should have been accounted for in financial year 2006 according to the supporting documents. If the Company recorded the sale according to the supporting documents, consolidated income after taxes and the equity would be lower by HUF 1,030,228 thousand as of December 31, 2005.

Qualified clause

In our opinion, except for the above qualification, the consolidated financial statements present fairly, in all material respects the financial position of Pannonplast Műanyagipari Rt. and subsidiaries as of December 31, 2005 and the result of their operations, changes in equity and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Budapest, March 6, 2006

(The original Hungarian version has been signed.)

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PANNONPLAST MŰANYAGIPARI RT.
CONSOLIDATED STATEMENT OF OPERATIONS
DECEMBER 31, 2005
(thousands of HUF)

	Notes	2005	2004
Sales	3	22 773 881	26 561 260
Cost of sales		-18 030 772	-20 630 501
Gross profit		4 743 109	5 930 759
G&A expenses		-5 418 880	-6 940 133
Other expenses	4	-1 112 351	-1 134 511
Other income	5	870 590	647 238
Operating income before financial result		-917 532	-1 496 647
Financial result	6	847 675	-655 195
Income before taxes and minority interest		-69 857	-2 151 842
Income tax		-65 004	350 978
Income after taxes before minority interest		-134 861	-1 800 864
Minority interest		-118 243	-97 322
Income		-253 104	-1 898 186

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

PANNONPLAST MŰANYAGIPARI RT.
CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2005
(thousands of HUF)

	Notes	2005	2004
NON CURRENT ASSETS			
Intangibles	7	744 413	916 116
Fixed assets	8	9 704 218	13 983 131
Investments		3 600	24 390
Total non current assets		10 452 231	14 923 637
Long term receivables	9	2 670	3 135
CURRENT ASSETS			
Inventories	10	2 386 462	3 515 480
Receivables	11	3 661 972	5 254 293
Other receivables	12	2 953 446	1 937 693
Cash		2 399 859	1 116 557
Total current assets		11 401 739	11 824 023
NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE	13	1 243 148	0
TOTAL ASSETS		<u>23 099 788</u>	<u>26 750 795</u>
EQUITY			
Share capital	14	421 093	421 093
Reserves	15	12 245 502	14 215 728
Income of the year		-253 104	-1 898 186
Minority interest	16	756 029	1 419 795
Total equity		13 169 520	14 158 430
Long term loans	17	537 467	2 002 374
Provision	19	81 377	78 204
SHORT TERM LIABILITIES			
Suppliers		3 340 640	4 439 608
Short term loans	18	4 926 769	4 607 565
Long term loans within 1 year	17	244 766	420 950
Other short term liabilities	20	799 249	1 043 664
Total short term liabilities		9 311 424	10 511 787
TOTAL EQUITY AND LIABILITIES		<u>23 099 788</u>	<u>26 750 795</u>

PANNONPLAST MŰANYAGIPARI RT.
CONSOLIDATED CASH FLOW STATEMENT
DECEMBER 31, 2005
(Thousand of HUF)

	Notes	2005	2004
Operating activities			
Income after taxes		-253 104	-1 898 186
<i>Adjustments to income before taxes</i>			
Depreciation and amortisation		2 146 229	2 450 322
Deferred tax		3 209	-422 669
Foreign exchange loss/(gain) on loans		69 420	-133 988
Impairment on the tangible and intangible fixed assets		479 515	79 762
Impairment and scrapping of inventories		67 345	96 556
Provisioning		4 357	78 204
Provision on bad debt		76 159	259 085
Gain on disposal of tangible and intangible fixed assets		-552 929	-183 885
Gain on proceeding of subsidiaries	24 b	-1 157 527	168 134
Change in minority interest		118 243	97 322
<i>Change in working capital</i>			
Inventories (increase)		-128 665	-132 303
Receivables (increase)/decrease		-137 467	142 829
Liabilities increase		192 579	761 634
		<hr/>	<hr/>
NET CASH FROM OPERATING ACTIVITIES		927 364	1 362 817
Investing activities			
			-
Sale of subsidiary	24 b	1 483 030	552 448
Purchasing of tangible and intangible fixed assets		(1 995 036)	-970 806
Sales of tangible and intangible fixed assets		1 201 410	538 079
Decrease in the long term receivables		69	1 287
		<hr/>	<hr/>
NET CASH USED IN INVESTING ACTIVITIES		689 473	121 008

PANNONPLAST MŰANYAGIPARI RT.
CONSOLIDATED CASH FLOW STATEMENT
DECEMBER 31, 2005
(Thousand of HUF)

	jegyzet száma	2005	2004
NET CASH USED IN INVESTING ACTIVITIES		689 473	121 008
Financing activities			
Repayment of long term loans (decrease)		-1 455 653	-938 493
Short term loans increase/(decrease)		1 530 781	-447 134
Paid dividend to the minority interest by subsidiaries		-128 166	-151 708
Foreign exchange difference		-72 040	8 297
Minority interest		1 820	-
NET CASH (USED IN)/FROM FINANCING ACTIVITIES		-123 258	-1 529 038
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1 493 579	-45 213
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	24 a	<u>754 365</u>	<u>799 578</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	24 a	<u><u>2 247 944</u></u>	<u><u>754 365</u></u>

PANNONPLAST MŰANYAGIPARI RT.
CONSOLIDATED EQUITY MOVEMENT TABLE
DECEMBER 31, 2005
(Thousand of HUF)

	2005	2004
EQUITY AS OF 1 JANUARY	14 158 430	16 104 466
Change in minority interest	-663 766	-56 147
Foreign exchange difference	-72 040	8 297
Loss of the current year	-253 104	-1 898 186
EQUITY AS OF 31 DECEMBER	<u>13 169 520</u>	<u>14 158 430</u>

PANNONPLAST MŰANYAGIPARI RT.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

1. Operations

Pannonplast Műanyagipari Rt. (“the Company” or “Pannonplast”) is a Hungarian enterprise, acting as Holding Company for a Group (“the Group”) whose principal business activity is plastic processing mainly for the packaging, household, entertaining, car manufacturing and construction industries. On May 31, 1991, the enterprise was transformed into a company limited by shares pursuant to Act XII of 1989 on the Transformation of Economic Organisations. The Group operations in Hungary are located in Budapest, Debrecen, Szombathely, Székesfehérvár. The Group also has operations in Romania and Ukraine.

The subsidiaries and joint ventures are listed in Note 30.

2. Summary of significant accounting policies

2.1 General

The accounting policies followed by the Group in the preparation of these consolidated financial statements conform with International Financial Reporting Standards (“IFRS”) adopted by European Union. The consolidated financial statements are prepared in accordance with the historical cost convention with the exception of certain components of property, plant and equipment (see Note 2.5). The consolidated income statement was prepared in accordance with the principal of prepayments and accruals. The reporting currency of the Group is the Hungarian forint (“HUF”).

2.2 Basis of consolidation

These consolidated financial statements include the assets, liabilities, revenues and expenses of all majority-owned subsidiaries. Intercompany transactions and balances are eliminated on consolidation. When the Company is an investor in a jointly controlled company, the method of proportional consolidation is used to integrate the invested company into the consolidated financial statements, whereby the Company’s proportional share of the assets, liabilities, revenues and expenses are consolidated on a line-by-line basis.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (the “EU”). IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB).

2.3 Accounting for acquisitions

Upon acquisition, subsidiaries are accounted for under the fair value method of accounting. Any goodwill or negative goodwill arising on acquisition is recognized in the consolidated balance sheet and accounted for as indicated below.

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 and before January 1, 2005 were recorded as Depreciation and amortization in the Consolidated Statement of Operations, in anticipation of future economic benefits, on a straight-line basis over a period of five to ten years. From January 1, 2005 the Group stopped the depreciation of the goodwill and eliminated the accumulated amortisation with the gross book value in accordance with the IFRS3. 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.

PANNONPLAST MŰANYAGIPARI RT.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

2. Summary of significant accounting policies, continued

2.4 Foreign currency transactions

Foreign currency transactions are converted into HUF at the exchange rate prevailing at the transaction date. Assets and liabilities denominated in foreign currencies have been converted into HUF at the official exchange rate prevailing at the balance sheet date. Foreign exchange differences are charged or credited in determining income before income taxes.

On consolidation, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve.

2.5 Property, plant and equipment

Pannonplast's property, plant and equipment were valued at May 31, 1991 by independent professional valuers. From December 31, 1992 fixed assets are stated in the consolidated balance sheet at historical cost (plant and machinery) or the revalued amount (land and buildings) less accumulated depreciation.

Depreciation is provided on historical cost or revalued amounts using the straight-line method over the estimated remaining useful lives of the assets, which is generally for buildings between 20 and 50 years and for plant and machinery between 3 and 7 years.

Depreciation is not provided on land or on assets under construction.

2.6 Impairment

At each balance sheet date, the Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication in accordance with internal or external information that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the amount of such an impairment loss (if any). If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss are recognized as an expense immediately.

2.7 Intangible fixed assets

Intangible assets are included in the consolidated balance sheet at cost less accumulated amortization. Amortization is accounted for on the straight-line method over the estimated useful lives of the assets at the following rates:

PANNONPLAST MŰANYAGIPARI RT.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

2. Summary of significant accounting policies, continued

2.7 Intangible fixed assets, continued

Purchased know how	5 years
Research and development costs	5 years
Purchased software	3 years

Amortisation of property rights is over the length of the purchased right.

The carrying value of each intangible asset is reviewed annually and adjusted for permanent impairment where it is considered necessary.

2.8 Capitalised leases

Assets held under finance leases and the related lease obligations are recorded in the consolidated balance sheet at the fair value of the leased assets at the inception of the lease. The amounts by which the lease payments exceed the recorded lease obligations are treated as finance charges, which are charged to the consolidated statement of income.

2.9 Investments

Investments include investments in associates and other investments.

Investments in associates comprise those investments in enterprises in which the Company holds 20% or more of the voting power of the enterprise. Investments in associates are accounted for using the equity method of accounting. Adjustments are also made to the carrying cost of an investment in an associate when an other than temporary diminution in value of the investee occurs.

2.10 Income taxation

The taxation charge is based on the tax payable under the appropriate fiscal law, adjusted for deferred taxation.

Deferred taxation is provided on losses available for carryforward for offset against future taxable profits and on temporary differences in the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates that have been enacted at the date of the consolidated balance sheet.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories is determined using the average cost method.

PANNONPLAST MŰANYAGIPARI RT.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

2. Summary of significant accounting policies, continued

2.12 Securities

Securities consist of discounted treasury-bills issued by the Hungarian Government, bonds issued by the Hungarian Government and Hungarian financial institutions and certificates of deposit issued by Hungarian financial institutions. Such securities are held for trading purposes by the Group and, accordingly, are included as current assets in the consolidated balance sheet.

Discounted treasury-bills are included in the consolidated balance sheet at fair value. Amortisation of discounts on such securities is accounted for on a straight-line basis during the period from acquisition to maturity. Unrealised gains and losses are included in net profit or loss for the year.

Hungarian Government and commercial bonds and certificates of deposit are initially recorded at cost and are remeasured to fair value at subsequent reporting dates.

Own shares are held at cost and presented as a reduction in shareholders' equity. Gains or losses on the sale of own shares are accounted for directly to reserves.

2.13 Statement of cash flows

Cash and cash equivalents comprise cash in hand and at bank, bank overdrafts and bank deposits with a maturity date of three months, or less, from the date of acquisition.

2.14 Earnings per share

Earnings per share attributable to the Company's shares are determined based on the attribution of earnings for the period divided by the weighted average number of ordinary shares during the period.

2.15 Fair value of financial instruments

The carrying amount of certain of the financial instruments including cash and cash equivalents, securities, receivables and payables falling due within one year approximate fair value because of their short maturities. The carrying amount of short-term debt, which primarily represents loans with variable interest rates, approximates fair value.

2.16 Provision

Provisions are recorded if the Company has current legal or contingent liabilities resulting from past events, and an outflow of funds manifesting itself in economic benefits is likely to cover the liability, and a reliable estimate of the amount of the liability may be made.

2.17 Comparative figures

Certain comparative figures have been reclassified to conform with the 2004 consolidated financial statement presentation.

PANNONPLAST MŰANYAGIPARI RT.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

2. Summary of significant accounting policies, continued

2.18. Introduction of new reporting standards

Some significant changes took place during 2004 regarding International Financial Reporting Standards; the revised standards were first applicable in the year starting January 1, 2005.

IFRS 2 - Share-based payments caused a significant change in the Company's consolidated financial statements from January 1, 2005.

a.) IFRS 2 - Share-based payments

In accordance with the rules of IFRS 2 the Company recorded share-based payments at the fair value of the service, which equalled the fair value of the shares provided and recognised as an expenditure in the consolidated financial statements. IFRS 2 - Share-based payments was applied retrospectively from January 1, 2005 to options that were provided after November 7, 2002.

The 2004 AGM approved and the September 10, 2004 extraordinary general meeting modified an option and bonus plan covering the three year period between 2004 and 2006 that provided for annual benefits. In the case of options pertaining to 2003 and 2004 subject to IFRS 2 the provision of the option was December 31, 2002.

The Company was unable to meet the conditions set forth in the management share option plan during 2004, therefore, it was not possible to exercise the share option as of December 31, 2004. Thus neither the restatement of the 2004 taxed profit nor an opening adjustment as of January 1, 2005 is required.

The 2005 AGM approved call options for a total of 420,000 ordinary Pannonplast shares to be provided to the 5 member Board of Directors and the executive management of the Company. As of the balance sheet date the liability accrued with respect to the options was determined on the basis of the fair value (HUF 58,363 thousand).

b.) IFRS 3 - Business combinations

The Company has applied IFRS 3 - Business combinations since March 31, 2004 whose transitional provisions pertaining to acquisitions prior to March 31, 2004 are applicable in the first business year starting after March 31, 2004 (January 1, 2005 for the Group). Accordingly, the following opening items were recorded as of January 1, 2005:

- The amortisation of goodwill was stopped and the accumulated goodwill amortisation was derecognised against the value of goodwill.
- Impairment testing will be required regarding goodwill in accordance with IAS 36 - Impairment of assets.

PANNONPLAST MŰANYAGIPARI RT.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

3. Sales

Sales by product type are as follows:

	2005 th HUF	2004 th HUF
Pipes and fittings	2,447,119	4,667,033
Rigid films and packaging	7,991,888	6,919,576
Foams	1,999,755	1,897,881
Containers and crates	3,809,165	2,248,148
Technical plastic components	5,241,818	6,390,074
Moulds	397,186	508,819
Other	886,950	3,929,729
	<u>22,773,881</u>	<u>26,561,260</u>

Sales by geographical region are as follows:

	2005 th HUF	2004 th HUF
Domestic sales	12,549,905	15,686,671
Export sales	<u>10,223,976</u>	<u>10,874,589</u>
	<u>22,773,881</u>	<u>26,561,260</u>

The majority of export sales are to the countries of the European Union. Sales from operating companies in Romania and Ukraine are included among export sales in these consolidated financial statements.

4. Other expenses

	2005 th HUF	2004 th HUF
Impairment of intangible and fixed assets	432,471	79,762
Local taxes, fees, penalties	238,848	270,357
Provision and write off of receivables	76,159	259,085
Impairment of inventories	67,345	96,556
Settlement of APEH, VPOP account	63,458	-
Penalties and late interest	55,699	112,443
Goodwill terven felüli értécsökkenés	47,044	-
Loss, impairment	14,816	-
Fees, contributions	11,619	38,770
Cost related to loss	7,910	-
Provision for expected liabilities	4,375	78,204
Cancelled receivables	-	47,773
Given subsidies	-	22,447
Other	92,625	129,114
	<u>1,112,351</u>	<u>1,134,511</u>

PANNONPLAST MŰANYAGIPARI RT.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

5. Other revenues

	2005 th HUF	2004 th HUF
Gain on sale of intangible and tangible fixed assets	552,929	183,885
Discounts	59,811	184,292
Received compensation of energy	34,864	-
Received penalty, refund	29,443	28,025
Income due to damage	13,031	32,887
Subsidies received	4,831	130,409
VAT refund	559	-
Other	<u>175,122</u>	<u>87,740</u>
Total	<u><u>870,590</u></u>	<u><u>647,238</u></u>

6. Financial income and expense, net

	2005 th HUF	2004 th HUF
Interest and similar income	80,316	42,879
Other financial income	1,620,500	489,958
Interest expense	(461,742)	(580,124)
Other financial expense	<u>(391,399)</u>	<u>(607,908)</u>
Total	<u><u>847,675</u></u>	<u><u>(655,195)</u></u>

PANNONPLAST MŰANYAGIPARI RT.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

7. Intangible assets

At cost:

	Goodwill	Research & Development	Property and Other Rights	Purchased Software	Total
	th HUF	th HUF	th HUF	th HUF	th HUF
January 1, 2005	1,352,977	944,438	518,062	586,284	3,401,761
Adjustment due to IFRS 3 (See 2.18/b)	(1,083,617)	-	-	-	(1,083,617)
Additions	-	255,131	124,164	4,307	383,602
Disposals	-	(199,175)	(159,031)	(218,859)	(577,065)
Reclassification to non current fixed assets held for sale	-	(43,032)	(1,614)	(47,762)	(92,408)
December 31, 2005	<u>269,360</u>	<u>957,362</u>	<u>481,581</u>	<u>323,970</u>	<u>2,032,273</u>

Accumulated amortisation:

	Goodwill	Research & Development	Property and Other Rights	Purchased Software	Total
	th HUF	th HUF	th HUF	th HUF	th HUF
January 1, 2005	1,083,617	507,292	494,888	399,848	2,485,645
Adjustment due to IFRS 3 (See 2.18/b)	(1,083,617)	-	-	-	(1,083,617)
Additions	-	129,540	12,858	18,018	160,416
Disposals	-	(37,518)	(91,022)	(126,681)	(255,221)
Impairment	47,045	3,643	190	7,460	58,339
Reclassification to non current fixed assets held for sale	-	(41,747)	(1,155)	(34,800)	(77,702)
December 31, 2005	<u>47,045</u>	<u>561,210</u>	<u>415,759</u>	<u>263,845</u>	<u>1,287,860</u>
Net book value January 1, 2005	<u>269,360</u>	<u>437,146</u>	<u>23,174</u>	<u>186,436</u>	<u>916,116</u>
Net book value December 31, 2005	<u>222,315</u>	<u>396,152</u>	<u>65,822</u>	<u>60,125</u>	<u>744,413</u>

PANNONPLAST MŰANYAGIPARI RT.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

8. Property, plant and equipment

At cost:

	Land & Buildings	Machinery & Vehicles	Assets under Construct-ion	Total
	th HUF	th HUF	th HUF	th HUF
January 1, 2005	7,717,718	19,110,199	160,712	26,988,629
Additions	446,520	570,042	422,160	1,438,722
Disposals	(1,872,813)	(3,980,675)	-	(5,853,488)
Reclassification to non current fixed assets held for sale	-	(2,925,887)	-	(2,925,887)
December 31, 2005	<u>6,291,425</u>	<u>12,773,679</u>	<u>582,872</u>	<u>19,647,976</u>

Accumulated depreciation:

	Land & Buildings	Machinery & Vehicles	Assets under Construct- ion	Total
	th HUF	th HUF	th HUF	th HUF
1 January 2005	934,773	12,070,725	-	13,005,498
Additions	119,186	1,866,627	-	1,985,813
Disposals	(432,013)	(3,098,322)	-	(3,530,335)
Provisions for impairment	-	419,275	1,900	421,175
Reclassification to non current fixed assets held for sale	-	(1,938,393)	-	(1,938,393)
December 31, 2005	<u>621,946</u>	<u>9,319,912</u>	<u>1,900</u>	<u>9,943,758</u>
Net book value January 1, 2005	<u>6,782,945</u>	<u>7,039,474</u>	<u>160,712</u>	<u>13,983,131</u>
Net book value December 31, 2005	<u>5,669,479</u>	<u>3,453,767</u>	<u>580,972</u>	<u>9,704,218</u>

Certain land, buildings and machinery are pledged as security for borrowings (see Notes 17 and 18).

9. Long-term receivables

	2005 th HUF	2004 th HUF
Employee housing loans	<u>2,670</u>	<u>3,135</u>

Housing loans are extended to employees interest free. The loans are repayable over periods up to fifteen years, but become immediately repayable or interest bearing in the event that the recipient ceases to be an employee. The loans are collateralised by the employees' homes.

10. Inventories

PANNONPLAST MŰANYAGIPARI RT.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

	2005 th HUF	2004 th HUF
Raw materials	1,192,896	1,731,619
Work in progress	392,208	417,850
Finished goods	898,486	1,402,368
Advances given for inventories	6,574	-
	<u>2,490,164</u>	<u>3,551,837</u>
Provision for inventories	<u>(103,702)</u>	<u>(36,357)</u>
Inventories	<u><u>2,386,462</u></u>	<u><u>3,515,480</u></u>

Certain inventories are pledged as security for borrowings in 2005 (see Notes 17 and 18).

11. Accounts receivable

	2005 th HUF	2004 th HUF
Trade receivables	4,227,102	5,743,264
Allowance for doubtful receivables	<u>(565,130)</u>	<u>(488,971)</u>
Total accounts receivable, net	<u><u>3,661,972</u></u>	<u><u>5,254,293</u></u>

Certain accounts receivable are pledged as security for borrowings in 2005 (see Notes 17 and 18).

PANNONPLAST MŰANYAGIPARI RT.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

12. Other receivables

	2005 th HUF	2004 th HUF
Receivables from sale of subsidiaries	1,692,420	-
Deferred taxation	630,189	626,980
Prepayments	167,846	191,817
Not realised fair value adjustment	33,707	-
Other taxes (mostly VAT)	13,527	460,532
Receivables from employees	3,244	10,430
Corporate income tax paid in advance	1,312	106,549
Bill of exchange	-	70,267
Other	411,201	471,118
	<u>2,953,446</u>	<u>1,937,693</u>
Total other receivables	<u>2,953,446</u>	<u>1,937,693</u>

As of December 31, 2005 the Company had forward purchase contracts representing 202,700 Pannonplast Rt. shares, where the expiry date was March 16, 2006 and the average deal price was HUF 1,847. The primary objective of these forward deals was to provide coverage for the management share option plan.

PANNONPLAST MŰANYAGIPARI RT.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

13. Non-current assets classified as held for sale

The following table contains the Group's non-current assets as of 31 December 2005:

GROSS VALUE	PMM Rt.'s assets		Total
	Intangible Assets	Fixed Assets	
	th HUF	th HUF	
January 1, 2005	-	-	-
Reclassification	<u>92,408</u>	<u>3,166,835</u>	<u>3,259,243</u>
December 31, 2005	<u>92,408</u>	<u>3,166,835</u>	<u>3,259,243</u>
ACCUMULATED DEPRECIATION	PMM Rt.'s assets		Total
	Intangible Assets	Fixed Assets	
	th HUF	th HUF	
January 1, 2005	-	-	-
Reclassification	<u>77,702</u>	<u>1,938,393</u>	<u>2,016,095</u>
December 31, 2005	<u>77,702</u>	<u>1,938,393</u>	<u>2,016,095</u>
Net book value as of January 1, 2005	<u>-</u>	<u>-</u>	<u>-</u>
Net book value as of December 31, 2005	<u>14,706</u>	<u>1,228,442</u>	<u>1,243,148</u>

In the meaning of a 2005 contract Pannonplast Műanyagipari Rt will sell part of its assets located at the Székesfehérvár and Szombathely sites of PMM Rt in the course of 2006. In accordance with IFRS 5 the Group recognised these assets for sale on a separate line in the balance sheet.

PANNONPLAST MŰANYAGIPARI RT.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

14. Share capital

	2005 th HUF	2004 th HUF
Share capital	<u>421,093</u>	<u>421,093</u>

Share capital as of December 31, 2005 consists of 4,210,930 ordinary shares (4,210,930 shares in 2004), at a nominal value of HUF 100.

15. Reserves

The determination of reserves available for distribution is based on the statutory unconsolidated balance sheet of Pannonplast Rt. prepared in accordance with the Hungarian Law on Accounting. Reserves available for distribution, including net income for the year after income tax and before dividends were th HUF 1,191,257 th HUF (610,519 th HUF in 2004).

16. Minority interest

	2005 th HUF	2004 th HUF
Balance as of 1 January	1,419,795	1,475,942
Purchase of minority interest in subsidiaries	-	(1,761)
Minority interests in newly founded subsidiaries	1,820	-
Dividends paid to minority investors	(128,166)	(151,708)
Minority shareholders` share of net profit of the subsidiaries for current year	118,243	97,322
Decrease of minority interest due to sale of minority shares	<u>(655,663)</u>	<u>-</u>
Balance of 31 December	<u>756,029</u>	<u>1,419,795</u>

Pannonplast Rt together with a company not belonging to the Group founded Pannonplast-Humán Kft in 2005 with a capital of HUF 7,000 thousand, in which the Company had a 74% share. The Kft was registered by the Registry Court on July 5, 2005. This way the value of the minority interest increased by HUF 1,820 thousand.

Pannonplast Polifin A Vagyonkezelő Kft., the 51% owner of Polifoam Műanyagfeldolgozó Kft entered into a contract concerning the sale of the latter with a company not belonging to the Group on December 27, 2005. As a result of the sale the value of the minority interest decreased by HUF 655,663 thousand.

The Group obtained further shares in Dexter Szerszámkészítő Rt without any obligation of payment (1,681 pieces shares). With this transaction, the Company`s ownership in Dexter Rt increased to 93.9%. The minority interest decreased by HUF 1,761 thousand.

PANNONPLAST MŰANYAGIPARI RT.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

17. Long-term debt

	2005 th HUF	2004 th HUF
Long-term debt	782,233	2,423,324
Less current maturities	<u>(244,766)</u>	<u>(420,950)</u>
Total long-term debt	<u><u>537,467</u></u>	<u><u>2,002,374</u></u>

The interest rate of HUF loans was within the range of 0% and BUBOR + 0.8% as of December 31, 2005. The low-interest long-term loans were received by the Company from various state institutions for development purposes. The amount of low-interest long-term loans was HUF 6,528 thousand as of December 31, 2005 (HUF 14,250 thousand on December 31, 2004). The interest-free long-term loans received from development institutions for specific purposes may not be transferred to third parties.

As of December 31, 2005 long-term loans included EUR loans in the value of HUF 56,689 thousand. The interest rate of EUR loans was EURIBOR + 0.8% on December 31, 2005.

As of December 31, 2004 long-term loans included EUR-denominated loans in the amount of HUF 1,988,124 thousand. The interest rates of EUR loans were within the range of EURIBOR + 0.5% and EURIBOR + 2.55% as of December 31, 2004.

Long-term investment loans are collateralised with tangible assets and inventories.

18. Short-term debt

	2005 th HUF	2004 th HUF
Bank loans	4,926,769	4,397,285
Bank overdrafts	<u>-</u>	<u>210,280</u>
Total short-term debt	<u><u>4,926,769</u></u>	<u><u>4,607,565</u></u>

Short term loans included EUR-denominated loans in the value of HUF 3,548,944 thousand as of December 31, 2005. The interest rates of EUR loans were within the range of EURIBOR + 0.3% and EURIBOR + 0.8% as of December 31, 2005.

Short-term loans included EUR and ROL-denominated loans in the value of HUF 2,154,608 thousand and HUF 274,493, respectively, as of December 31, 2004. The interest rates of EUR loans were LIBOR + 0.55% or within the range of EURIBOR + 0.5% and EURIBOR + 2.55% as of December 31, 2004, while the interest rates of ROL loans were 18.8% and 19.7% as of December 31, 2004.

The interest rates of HUF loans were 0% or within the range of BUBOR + 0.5% and BUBOR + 1% as of December 31, 2005. (On December 31, 2004 they were at 0% or within the range of BUBOR + 0.5% and BUBOR + 2.35%).

PANNONPLAST MŰANYAGIPARI RT.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

18. Short-term debt, continued

The Group prolonged the term of its syndicated loan with the consortium lead by CIB Bank Rt. on June 21, 2004. In order to consolidate the bank financing of the Group within one credit institution, the Group entered into a loan facility agreement with OTP Bank Rt in December 2005 in the amount of HUF 8,954,011 thousand. They entered into loan, overdraft and bank guarantee agreements within the scope of the aforesaid facility.

The collateral for the loan is as follows:

- the total assets of the entities involved in the loan facility agreement;
- absolute joint and several guarantee;
- mortgage on movable and immovable property in the total amount of HUF 11,000,000 thousand;
- a cash deposit of HUF 100,000 thousand.

19. Provision

	Provision th HUF
Balance at January 1, 2005	78,204
Provision made	4,357
Release of provision	(1,184)

Balance at December 31, 2005	81,377

The majority of provisions made is related to the subsidies received. Three subsidiaries of the Company have received interest-free loans and non-repayable investment subsidies from the Ministry of Economic Affairs in recent years. The subsidy contracts contain different income limits, as well as limitations relating to alienation and utilisation. These indicators are not expected to be met by the aforementioned three subsidiaries, thus an interest liability is likely to occur. The amount of the related provision is HUF 74.5 million.

20. Other current liabilities

	2005 th HUF	2004 th HUF
Wages and social security	153,317	259,354
Corporate income tax	1,308	3,009
Other taxation (mainly VAT and customs duties)	101,599	168,900
Accrued expenses	289,105	481,036
Liabilities from share option of management	58,363	-
Advances received from customers	35,295	64,706
Other	160,262	66,659
	_____	_____
Total other current liabilities	799,249	1,043,664

The 2005 AGM approved call options for a total of 420,000 ordinary Pannonplast shares to be provided to the 5 member Board of Directors and the executive management of the Company. The accrued liability relating to these options amounted to HUF 58,363 thousand as of the balance sheet date.

PANNONPLAST MŰANYAGIPARI RT.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

21. Taxation

	2005 th HUF	2004 th HUF
Current year tax charge	68,213	71,691
Deferred tax charge/(credit), net	<u>(3,209)</u>	<u>(422,669)</u>
Total	<u><u>65,004</u></u>	<u><u>(350,978)</u></u>

A reconciliation of the deferred tax assets included in other receivables is as follows:

	2005 th HUF	2004 th HUF
Balance at 1 January	626,980	204,311
Increase in deferred tax asset	<u>3,209</u>	<u>422,669</u>
Balance at 31 December	<u><u>630,189</u></u>	<u><u>626,980</u></u>

The rate of corporate income tax for 2005 is 16% (the same as in 2004).

A reconciliation of the current year tax charge is as follows:

	2005 th HUF	2004 th HUF
Loss before income taxes and minority interest	69,373	(2,151,842)
Loss before income tax of loss making companies	(1,018,700)	(2,736,119)
Profit before income tax of profitable companies	1,088,073	584,277
Income tax at 16%	174,092	93,484
Permanent differences	(105,879)	(21,793)
Corporate income tax	68,213	71,691
Deferred tax effect of loss carryforward	<u>(3,209)</u>	<u>(422,669)</u>
Current year tax charge	<u><u>65,004</u></u>	<u><u>(350,978)</u></u>

A deferred tax asset has been recognised for certain accumulated losses available to be carried forward and offset against future taxable income. No deferred taxation has been recorded for temporary differences as the amount is not significant to the consolidated financial statements.

PANNONPLAST MŰANYAGIPARI RT.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

21. Taxation, continued

The following losses carryforward future offset against any future taxable income are:

	2005 th HUF	2004 th HUF
Subsidiaries		
Losses carried forward	8,169,797	4,316,264
Potential deferred tax asset	1,307,168	690,602
Provision against uncertainty of future realization	(676,979)	(63,622)
Deferred tax asset	<u>630,189</u>	<u>626,980</u>

22. Profit per share

	2005	2004
Net profit for the year (th HUF)	<u>(253 104)</u>	<u>(1,898,186)</u>
Weighted average number of issued shares for the year (shares)	<u>4,210,930</u>	<u>4,210,930</u>
Loss per share (HUF)	<u>(60)</u>	<u>(451)</u>

23. Sale of subsidiaries

a., Sale of Multicard Kft.

During 2004, the Group entered into a sale agreement to dispose of its investment in Multicard Kft.

The results of Multicard Kft. operations included in the consolidated financial statements, were as follows:

	2005 th HUF	2004 th HUF
Revenue	-	240,068
Cost of sales	<u>-</u>	<u>(144,978)</u>
Gross profit	-	95,090
Operating income and expense, net	-	(1,736)
Financial expense	<u>-</u>	<u>6,267</u>
Profit for the period	<u>-</u>	<u>4,531</u>

The carrying amounts of the assets and liabilities of Multicard Kft. at the date of disposal are disclosed in Note 24/b.

PANNONPLAST MŰANYAGIPARI RT.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

23. Sale of subsidiaries, continued

b., Sale of Kaposlast Kft.

During 2004, the Group entered into a sale agreement to dispose of its investment in Kaposlast Kft.

The results of Kaposlast Kft. operations included in the consolidated financial statements, were as follows:

	2005 th HUF	2004 th HUF
Revenue	-	792,653
Cost of sales	-	(579,854)
Gross profit	-	212,799
Operating income and expense, net	-	33,458
Financial expense	-	(16,261)
Profit for the period	-	17,555

The carrying amounts of the assets and liabilities of Kaposlast Kft. at the date of disposal are disclosed in Note 24/b.

c., Pannonplast Karbantartó Kft. értékesítése

During 2004, the Group entered into a sale agreement to dispose of its investment in Pannonplast Karbantartó Kft.

The results of Pannonplast Karbantartó Kft. operations included in the consolidated financial statements, were as follows:

	2005 th HUF	2004 th HUF
Revenue	-	240,796
Cost of sales	-	(146,436)
Gross profit	-	94,360
Operating income and expense, net	-	2,347
Financial expense	-	(1,829)
Profit for the period	-	15,920

PANNONPLAST MŰANYAGIPARI RT.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

The carrying amounts of the assets and liabilities of Pannonplast Karbantartó Kft. at the date of disposal are disclosed in Note 24/b.

23. Sale of subsidiaries, continued

d., Sale of Recyclen Kft.

During 2004, the Group entered into a sale agreement to dispose of its investment in Recyclen Kft.

The results of Recyclen Kft. operations included in the consolidated financial statements, were as follows:

	2005 th HUF	2004 th HUF
Revenue	-	113,039
Cost of sales	-	<u>(62,395)</u>
Gross profit	-	50,644
Operating income and expense, net	-	12,035
Financial expense	-	<u>3,915</u>
Profit for the period	<u>-</u>	<u>15,310</u>

The carrying amounts of the assets and liabilities of Recyclen Kft. at the date of disposal are disclosed in Note 24/b.

e., Voluntary liquidation of MÜKI Kft.

Pannonplast Rt resolved the voluntary liquidation of MÜKI Műanyagipari Kutatóintézet Kft. Starting date of the voluntary liquidation is July 1, 2004.

The results of MÜKI Kft. operations included in the consolidated financial statements, were as follows:

	2005 th HUF	2004 th HUF
Revenue	-	23,978
Cost of sales	-	<u>(12,372)</u>
Gross profit	-	11,606
Operating income and expense, net	-	(63,850)
Financial expense	-	<u>(730)</u>
Loss for the period	<u>-</u>	<u>(64,580)</u>

The carrying amounts of the assets and liabilities of MÜKI Kft. at the date of disposal are disclosed in Note 24/b.

PANNONPLAST MŰANYAGIPARI RT.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

23. Sale of subsidiaries, continued

f., Sale of shares of Polifoam Műanyagfeldolgozó Kft

On December 27, 2005 the Group dispose of its investments in Polifoam Műanyagfeldolgozó Kft

The results of Polifoam Műanyagfeldolgozó Kft. operations included in the consolidated financial statements, were as follows:

	2005 th HUF	2004 th HUF
Revenue	1,999,755	-
Cost of sales	<u>(1,035,436)</u>	<u>-</u>
Gross profit	964,319	-
Operating income and expense, net	276,802	-
Financial expense	<u>8,593</u>	<u>-</u>
Profit for the period	<u><u>243,236</u></u>	<u><u>-</u></u>

The carrying amounts of the assets and liabilities of Polifoam Műanyagfeldolgozó Kft. at the date of disposal are disclosed in Note 24/b.

g., Sale Pannonpipe Műanyagipari Kft. and Pipelife Romania SRL

During 2005, the Group entered into a sale agreement to dispose of its investments in Pannonpipe Műanyagipari Kft. and Pipelife Romania SRL.

The results operations of the two companies included in the consolidated financial statements, were as follows:

	2005 th HUF	2004 th HUF
Revenue	2,447,119	-
Cost of sales	<u>(1,887,223)</u>	<u>-</u>
Gross profit	559,896	-
Operating income and expense, net	194	-
Financial expense	<u>(63,964)</u>	<u>-</u>
Profit for the period	<u><u>(63,795)</u></u>	<u><u>-</u></u>

PANNONPLAST MŰANYAGIPARI RT.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

The carrying amounts of the assets and liabilities of Pannonpipe Műanyagipari Kft and Pipelife Romania SRL at the date of disposal are disclosed in Note 24/b.

24. Notes to the cash flow statement

a., Analysis of cash and cash equivalents

Cash and cash equivalents at 31 December consists of:

	2005 th HUF	2004 th HUF
Restricted cash	(151,912)	(151,912)
Cash and deposits	2,399,859	1,116,557
Bank overdrafts	-	(210,280)
	<hr/>	<hr/>
Net cash and cash equivalents	<u>2,247,947</u>	<u>754,365</u>

b., Sale or liquidation of investments:

	2005 th HUF	2004 th HUF
Intangible fixed assets	(109,460)	(55,297)
Tangible fixed assets	(1,818,818)	(643,767)
Investments	(20,791)	-
Long term receivables	(396)	(1,162)
Inventory	(1,190,338)	(176,153)
Accounts receivable and other receivables	(2,327,087)	(284,431)
Cash at bank and in hand	(73,443)	(146,272)
Short-term loans	1,245,322	184,277
Accounts payable and other liabilities	1,547,982	255,951
Minority interest	655,663	-
	<hr/>	<hr/>
Net assets	(2,091,366)	(866,854)
Selling price of sold investments	3,248,893	698,720
	<hr/>	<hr/>
Loss on sale of investments	<u>1,157,527</u>	<u>(168,134)</u>

PANNONPLAST MŰANYAGIPARI RT.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

24. Notes to the cash flow statement, continued

c., Purchase of minority interests

	2005 th HUF	2004 th HUF
Purchase price of minority interest	-	-
Purchased minority interests	-	(1,761)
Goodwill	-	1,761
Provision for impairment	-	(1,761)

d., Analysis of net inflow of cash in respect of sale of joint venture:

	2005 th HUF	2004 th HUF
Selling price of sold investments	3,248,892	698,720
Cash balances of sold investments	(73,443)	(146,272)
Unpaid portion of selling price of subsidiaries	(1,690,420)	-
Net cash inflow	<u>1,483,030</u>	<u>552,448</u>

e., Non-cash movement:

Included in the consolidated statement of cashflows for the years ended December 31, 2005 are ThHUF 72,040 of non-cash movements arising from foreign currency translation differences on consolidation of foreign subsidiaries. (This was 8,297 th HUF as of December 31, 2004.)

25. Capital commitments

	2005 th HUF	2004 th HUF
Contracted for but not included in the consolidated financial statements	<u>170,429</u>	<u>250,042</u>
Authorised but not contracted for	<u>436,163</u>	<u>467,500</u>

PANNONPLAST MŰANYAGIPARI RT.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

26. Contingent liabilities

Two subsidiaries, Moldin Kft. Merged to Pannonplast Műszaki Műanyagok Rt and Pannonplast Műszaki Műanyagok Rt. were granted non-repayable subsidy for construction projects from the Ministry of Economy during 2000 and 2001 in total amount of HUF 263 million. The subsidy contracts includes certain expectation for sales, as well as limitations relating to transfer of assets and utilisation. Any deviation from these contractual terms may result in an obligation to pay back the loan and the related interest.

According to management, the subsidised companies meet the conditions set forth in the contracts; and no obligation to pay the subsidies back is expected. The Group raised provision for contingent liabilities, see also Note 19.

27. Foreign exchange rate and interest rate risk

Details of the Group's borrowings in foreign currencies are included in Notes 17. and 18. Other foreign currency assets and liabilities arise from the export and import of finished goods and raw materials, respectively.

The Group has two subsidiaries and a joint venture in Romania and Ukraine. Exchanges losses arising from the devaluation of the local currency are recorded on consolidation directly to shareholders' equity, (see Note 24).

The majority of the Group's borrowings bear interest at variable interest rates.

28. Pensions

The Group contributed ThHUF 46,062 into pension funds on behalf of 596 employees in 2005. (In 2004 ThHUF 73,235 on behalf of 822 employees). Apart from these annual contributions based on salary, the Group has no other obligations above the contributions paid into the State run pension scheme.

PANNONPLAST MŰANYAGIPARI RT.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

29. Subsidiaries

All subsidiaries, with the exception of Kuala Ingatlanhasznosító Kft., Polifin A Vagyonkezelő Kft. and Pannonplast-Humán Kft are engaged in manufacturing activities, primarily plastics processing.

The Company's consolidated subsidiaries, and its percentage holding in each company are as follows:

<u>Hungary</u>	2005	2004
Almand Műanyagipari Kft.	100%	100%
Dexter Szerszámgyártó Zrt.	94%	94%
FCI Furukawa Kompozit Szigetelő Kft.	58%	58%
Kuala Ingatlanhasznosító Kft.	100%	100%
MŰKI Műanyagipari Kutatóintézet Kft. VA**	-	100%
Pannon-Effekt Műanyagipari Kft.	100%	100%
Pannonplast Műszaki Műanyagok Zrt.*	100%	100%
Pannonplast Polifin A Vagyonkezelő Kft.	100%	-
Pannonplast-Humán Kft.	74%	-
Pannunion Csomagolóanyag Kft.	100%	100%
Polifoam Műanyagfeldolgozó Kft.	-	51%
Tu-Plast Tubusgyártó Kft.	60%	60%

* Previously Moldin 2000 Rt.

** Under voluntary liquidation

Foreign subsidiaries:

Romania

	2005	2004
Unical SRL.	100%	100%

Ukraine

Interagropak TOV.	51%	51%
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30. Subsequent events

Pannonplast Rt. decreased its shares in a Dexter Zrt. to 25,1 % (from 93,9%) as of January 31, 2006.

As of February 13, 2006 the loss making industrial plastic operation settled in Székesfehérvár was sold.