

**Fotex Holding SE**  
**75, Parc d'activités**  
**L-8308 Capellen**

**R.C.S. Luxembourg B 146.938**

**Consolidated financial statements as at 30 June 2011**

**Fotex Holding SE and its subsidiaries**  
**Consolidated statement of financial position**  
**Figures in EUR**

	Notes	June 30 2011 EUR	December 31 2010 EUR
<b>Assets:</b>			
Current assets:			
Cash and short term deposits	4	16,822,647	17,245,883
Other current financial assets	5	8,637,989	515,301
Accounts receivable and prepayments	6	9,679,287	6,483,893
Income tax receivable		97,503	440,601
Inventories	7	7,865,501	7,637,998
Total current assets		43,102,927	32,323,676
Non-current assets			
Property, plant & equipment	8	111,838,820	112,226,193
Deferred tax asset		440,267	419,510
Intangible assets	10	2,816,305	2,814,996
Other non current financial assets	5	1,659,475	6,838,490
Goodwill arising on acquisition	11	10,565,543	10,067,494
Total non current assets		127,320,410	132,366,683
Total assets:	19	170,423,337	164,690,359
<b>Liabilities and shareholder's equity</b>			
Current liabilities:			
Interest-bearing loans, borrowings and overdrafts	15	847,059	848,825
Provisions		111,513	217,373
Accounts payable and other liabilities	12	5,811,502	8,912,889
Total current liabilities:		6,770,074	9,979,087
Non-current liabilities:			
Interest bearing loans and borrowings	15	37,715,026	37,852,693
Other long-term liabilities	12	1,572,375	1,939,830
Deferred tax liability		578,239	550,981
Total non current liabilities		39,865,640	40,343,504
Shareholder's equity:			
Issued capital	13	30,543,933	30,543,933
Capital reserve		32,895,729	32,895,729
Goodwill write off reserve	13	(1,372,778)	(1,534,125)
Retained earnings		78,293,524	71,637,487
Treasury shares, at cost	13	(19,266,955)	(19,266,955)
Fair value revaluation reserve	13	2,600,901	0
Equity attributable to equity holders of the parent company		123,694,354	114,276,069
Non – controlling interest in consolidated subsidiaries		93,269	91,699
Total shareholder's equity		123,787,623	114,367,768
Total liabilities and shareholder's equity		170,423,337	164,690,359

See the accompanying notes to the consolidated financial statements.

**Fotex Holding Se and its subsidiaries**  
**Consolidated Income statement**  
**Figures in EUR**

	Notes	June 30 2011	March 31 2011	June 30 2010
		EUR	EUR	EUR
Revenue	19	19,380,529	9,384,175	18,279,115
Operating expenses	14	(15,092,873)	(7,380,903)	(14,401,149)
Interest income		657,153	275,543	695,888
Interest expense		(1,060,161)	(586,326)	(575,240)
Income before income taxes	19	3,884,648	1,692,489	3,998,614
Income tax expense	16	(801,937)	(411,777)	(786,142)
Net income		<u>3,082,711</u>	<u>1,280,712</u>	<u>3,212,472</u>
Attributable to				
Equity holders of the parent company		3,074,971	1,277,882	3,215,667
Non – controlling interest		7,740	2,830	(3,195)
Net income		<u>3,082,711</u>	<u>1,280,712</u>	<u>3,212,472</u>
Earnings per share	23	<u>0.05</u>	<u>0.02</u>	<u>0.05</u>
Diluted earnings per share	23	<u>0.05</u>	<u>0.02</u>	<u>0.05</u>

See the accompanying notes to the consolidated financial statements.

**Fotex Holding SE its subsidiaries**  
**Consolidated Statement of Comprehensive Income**  
**Figures in EUR**

	<u>Notes</u>	<u>June 30 2011</u> EUR	<u>March 31 2011</u> EUR	<u>June 30 2010</u> EUR
Net income		3,082,711	1,280,712	3,212,472
Other comprehensive income:				
Exchange differences on translation of foreign operations	18	3,747,052	3,673,445	(4,379,932)
Total comprehensive income		<u>6,829,763</u>	<u>4,954,157</u>	<u>(1,167,460)</u>
Attributable to:				
Equity holders of the parent company		6,817,384	4,946,781	(1,164,167)
Non-controlling interest		12,379	7,376	(3,293)
		<u>6,829,763</u>	<u>4,954,157</u>	<u>(1,167,460)</u>

See the accompanying notes to the consolidated financial statements.

**Fotex Holding SE and its subsidiaries**  
**Consolidated Statements of Changes in Equity**

**30 June 2011**

	Issued Capital	Capital reserve	Goodwill Write off Reserve	Retained Earnings	Treasury shares	Fair value revaluation reserve	Total	Non-controlling interest	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
1 January 2011	30,543,933	32,895,729	(1,534,125)	71,637,487	(19,266,955)	–	114,276,069	91,699	114,367,768
Profit for the period 2011	–	–	–	3,074,971	–	–	3,074,971	7,740	3,082,711
Other comprehensive income (Note 18)	–	–	–	3,742,413	–	–	3,742,413	4,639	3,747,052
Total comprehensive income	–	–	–	6,817,384	–	–	6,817,384	12,379	6,829,763
Redeemed treasury shares (Note 13)	–	–	–	–	–	–	–	–	–
Minority dividends	–	–	–	–	–	–	–	(10,809)	(10,809)
Reversed written off goodwill reserve (Note 13)	–	–	161,347	(161,347)	–	–	–	–	–
Fair value revaluation of financial assets classified as available for sale (Note 13)	–	–	–	–	–	2,600,901	2,600,901	–	2,600,901
<b>30 June 2011</b>	<b>30,543,933</b>	<b>32,895,729</b>	<b>(1,372,778)</b>	<b>78,293,524</b>	<b>(19,266,955)</b>	<b>2,600,901</b>	<b>123,694,354</b>	<b>93,269</b>	<b>123,787,623</b>

See accompanying notes to the consolidated financial statements.

**Fotex Holding SE and its subsidiaries**  
**Consolidated Statements of Changes in Equity**

**30 June 2010**

	Issued Capital	Capital reserve	Goodwill Write off Reserve	Retained Earnings	Treasury shares	Total	Non-controlling interest	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
1 January 2010	30,543,933	32,895,729	(1,856,818)	67,493,126	(19,121,608)	109,954,362	83,613	110,037,975
Profit for the period 2010	–	–	–	3,215,667	–	3,215,667	(3,195)	3,212,472
Other comprehensive income	–	–	–	(4,379,834)	–	(4,379,834)	(98)	(4,379,932)
Total comprehensive income	–	–	–	(1,164,167)	–	(1,164,167)	(3,293)	(1,167,460)
Redeemed treasury shares (Note 13)	–	–	–	–	(83,529)	(83,529)	–	(83,529)
Minority dividends	–	–	–	–	–	–	–	–
Reversed written off goodwill reserve (Note 13)	–	–	161,347	(161,347)	–	–	–	–
<b>30 June 2010</b>	<b>30,543,933</b>	<b>32,895,729</b>	<b>(1,695,471)</b>	<b>66,167,612</b>	<b>(19,205,137)</b>	<b>108,706,666</b>	<b>80,320</b>	<b>108,786,986</b>

See accompanying notes to consolidated financial statements.

**Fotex Holding SE and its subsidiaries**  
**Consolidated Statements of Cash Flows (EUR)**

	30 June 2011	30 June 2010
	EUR	EUR
Cash flows from operating activities:		
Income / (Loss) before non-controlling interests and income taxes	3,884,648	3,998,614
Depreciation and amortization	2,793,313	2,472,128
Provision used and reversed	(113,988)	(5,746)
Scrapped inventories, impairment loss of debtors and investments, reversed impairment loss, impairment of tangible assets	368,892	156,317
Gain on disposal of tangible and intangible assets	(6,240)	(924)
Gain on disposal of other investments	(83,859)	0
Interest income	(657,153)	(695,888)
Interest expense	1,060,161	575,240
Changes in assets and liabilities:		
Accounts receivable and prepayments	1,217,270	2,267,744
Inventories	(231,060)	597,368
Accounts payable and accrued expenses	(3,101,387)	(2,500,925)
Cash flows from operating activities	5,130,597	6,863,928
Income taxes paid	(186,773)	(786,142)
Net cash from operating activities:	4,943,824	6,077,786
Cash flows from investing activities:		
Purchase of tangible and intangible assets:	(5,200,930)	(21,078,628)
Sale of tangible and intangible assets:	4,666	6,700
Change in investments	52,888	(833,460)
Interest received	239,789	695,888
Net cash used in investing activities:	(4,903,587)	(21,209,500)
Cash flows from financing activities:		
Loans received	0	13,878,675
Repayments of loans received	(353,498)	(266,415)
Repayments of loans granted (given)	96,968	199,962
Dividend paid	(10,809)	0
Interest paid	(820,666)	(575,240)
Purchase of treasury shares	0	(83,529)
Change other long term liabilities	(357,013)	121,403
Net cash used in financing activities:	(1,445,018)	13,274,856
Net increase/decrease in cash and cash equivalents:	(1,404,781)	(1,856,858)
Cash and cash equivalents at beginning of year	17,245,883	12,997,087
Effect of foreign currency translation	981,545	88,925
Cash and cash equivalents at 30 June:	16,822,647	11,229,154
See accompanying notes to consolidated financial statement.		

## 1. General information

Fotex Group's report on its operations in the period I-VI months 2011 is prepared in accordance with IFRS requirements. These figures are consolidated but not audited.

As part of the Group's restructuring process, the scope of subsidiaries taken into account at the consolidation has changed compared to the basis period as follows:

At 31 December 2010, the companies court registered the merger of Balaton Glas Hotel Kft. into Keringatlan Kft. effective as of 1 January 2011.

In the second quarter 2011 all possessions and activity of Downington S.à.r.l. have been taken over by its sole previous owner, which is Upington S.à.r.l. As an effective date of April 7, 2011 Downington S.à.r.l. has been cancelled from the Luxembourg companies register

At 24 June 2011, Fotex Netherlands BV established its subsidiary, called FN 2 BV, in The Netherlands to further develop and manage the property portfolio in The Netherlands.

Subsidiaries taken into account at the consolidation at 30 June 2011 and at 30 June 2010 are as follows:

Subsidiaries	Principal Activities	Issued capital EUR		Ownership (%)		Voting rights %	
		30/06/2011	30/06/2010	30/06/2011	30/06/2010	30/06/2011	30/06/2010
Ajka Kristály Üvegipari Kft	Crystal manufacturing and retail	5,050,721	5,050,721	100.0	100.0	100.0	100.0
Balaton Bútor Kft	Furniture manufacturer	1,325,100	1,325,100	100.0	100.0	100.0	100.0
Balaton Glas Hotel Kft	Property management (Note 21)	-	882,922	-	100.0	-	100.0
Downington Sàrl,	Investment holding	-	2,050,000	-	100.0	-	100.0
Europrizma Kft	Administration services	35,879	35,879	100.0	100.0	100.0	100.0
Fotex Cosmetics Kft	Cosmetics retailer	870,723	870,723	100.0	100.0	100.0	100.0
Fotexnet Kft	Internet retail and other services	28,349	226,603	100.0	98.6	100.0	98.7
Hungaroton Music Zrt	Music archive	480,399	480,399	99.2	99.2	99.2	99.2
Hungaroton Records Kft	Music release and music retailing	1,707,078	1,707,078	99.8	99.8	100.0	100.0
Keringatlan Kft	Property management	20,558,176	20,677,166	100.0	100.0	100.0	100.0
Fotex Netherlands B.V.	Property management	18,000	18,000	100.0	100.0	100.0	100.0
FN 2 B.V.	Property management (Note 21)	18,000	-	100.0	-	100.0	-
Primo Zrt	Clothing retailing and wholesaling	1,859,657	1,859,657	100.0	100.0	100.0	100.0
Sigma Kft	Property services	100,650	100,650	75.1	75.1	75.1	75.1
Székhely 2007 Kft	Property management	86,109	86,109	99.1	99.1	99.1	99.1
Upington Investments Ltd	Investment holding	12,500	1,710	100.0	100.0	100.0	100.0

At their meetings held on 26 September 2008 and 9 December 2008, the shareholders of Fotex Nyrt. Fotex Group's holding company, decided to transform Fotex Nyrt. into a European public limited company. Further to the decision of the shareholders, as of 31 December 2008, the Court of



## **1. General information (continued)**

Registration cancelled Fotex Nyrt. from the companies register on the grounds of transformation and, according to the Court's decision dated 9 January 2009, registered FOTEX HOLDING SE Nyilvánosan Működő Európai Részvénytársaság (FOTEX HOLDING SE European public limited company) as of 1 January 2009.

In connection with the transformation into a European public limited company, the dematerialized shares had to be replaced. The replacement took place on 25 February 2009. As a result of the replacement, the product list listed at the Budapest Stock Exchange (BSE) was changed. One dematerialized subscribed share of Fotex Nyrt. at HUF 100 face value is equivalent to one dematerialized subscribed share of Fotex Holding SE Nyrt. at EUR 0.42 face value. The rights related to the shares as set out in the company statutes have remained unchanged.

Following the transformation into a European public limited company, the Company's annual general meeting held on 28 April 2009 decided to move the Company's registered office to Luxembourg. The Company was registered in the Luxembourg (new registered office) companies register at 4 June 2009. The Company's new registered address is at 75, Parc d'activités, L-8308 Capellen, Luxembourg. The Metropolitan Court of Budapest, cancelled the Company from the Hungarian companies register on 28 August 2009.

## **2. Significant accounting policies**

### **Basis of presentation**

The accounting policies have been consistently applied by the Group and are consistent with those used in the previous year. The consolidated financial statements have been prepared on a historical cost basis.

### **Statement of compliance**

The subsidiaries of the Group maintain their official accounting records and prepare their individual financial statements in accordance with the accounting regulations of their country of registration. The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. IFRS comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

Effective 1 January 2005, the Group prepares its consolidated financial statements in accordance with IFRS that have been adopted by the EU. At 30 June 2011, due to the endorsement process of the EU, and the activities of the Group, there is no difference in the policies applied by the Group between IFRS and IFRS that have been adopted by the EU.

As a result of Fotex's transformation to an SE (Societas Europaea) from 1 January 2009, Fotex Holding SE became a European Company. The reporting currency of the consolidated financial statements is EUR.

## 2. Significant accounting policies (continued)

### Basis of consolidation

The consolidated financial statements comprise the financial statements of Fotex and its subsidiaries as at 30 June 2011. The financial statements of the subsidiaries are prepared for the same reporting period as Fotex, using consistent accounting policies.

All intra-group balances, revenues and expenses and gains and losses resulting from intra-group transactions are eliminated.

Non-controlling interests represent the portion of income or loss and net assets not held by the Group and are presented separately in the consolidated income statement and within shareholders' equity in the consolidated statement of financial position, separately from the equity attributable to equity holders of the parent. Acquisitions of minority interests are accounted under the entity concept method. The entire difference between the cost of the additional interest in the subsidiary and the minority interest's share of the assets and liabilities reflected in the consolidated statement of financial position at the date of the acquisition of the minority interest is reflected as being a transaction between owners.

As a result of its transformation into a European public limited company, the Company's financial records have been kept in EUR since 1 January 2009. Accordingly, Fotex Group's consolidated financial statements for the period I-VI months 2011 are prepared in EUR.

The functional currency of the Group's subsidiaries included in the consolidation is the Hungarian Forint ("HUF"), except for the subsidiaries outside of Hungary, whose functional currency is EUR. Considering that the reporting currency is EUR, it was necessary to convert the elements of the statement of financial position and income statements of subsidiaries from HUF to EUR.

The following foreign currency ("FX") rates have been applied at the conversion from HUF to EUR:

The income statement has been converted to EUR using the quarterly Hungarian National Bank ("MNB") average FX rate:

	2011	2010
I. quarter	272.48 HUF/EUR	268.57 HUF/EUR
II. quarter	266.33 HUF/EUR	274.38 HUF/EUR

Assets and liabilities have been converted to EUR using the MNB FX rate as at 30 June 2011: 265.61 HUF/EUR (31 December 2010: 278.75 HUF/EUR). The elements of own equity are converted by using the historical FX rates except the current year's result and the non-controlling interest. The current year's result is converted by using the quarterly Hungarian Nation Bank ("MNB") average FX rates and the non-controlling interest is converted by using the MNB FX rate as at 30 June 2011 (265.61).

## 3. Significant accounting judgements, estimates and assumptions

In the process of applying the Group's accounting policies, management has made judgements on the balance sheet date of prior year. The management makes these judgements at the preparation of the annual financial statements, and in the interim financial statements the effect of judgements, which have been made on the prior year's balance sheet date, are applied. The key assumptions concerning the future and other key sources of estimation uncertainty made at the prior year's balance sheet date, have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities

### **3. Significant accounting judgements, estimates and assumptions (continued)**

at the preparation of current year's closing annual financial statement. From these the following has the most significant effect on the figures presented in the financial statement.

#### *Operating Lease Commitments-Group as Lessor*

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties and so accounts for them as operating leases.

#### *Impairment of Goodwill*

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

#### *Impairment of Intangibles*

The Group determines whether intangible assets with indefinite useful lives such as merchandising and media rights are impaired on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the intangible assets are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

#### *Deferred Tax Assets*

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable income will be available against which the losses can be utilised. On an annual basis significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable income together with future tax planning strategies. The recognised tax loss as at 30 June 2011 is EUR 1,151,151 (31 December 2010: EUR 1,136,887)

#### *Fair Value of Investment Properties*

The Group determines on an annual basis and presents in the notes the fair value of investment property as the present value of the estimated future cash flows generated from leasing such assets. Future cash flows are determined separately for the following categories of investment property: retail outlets, offices, warehouses, other real estate property and plots of land using average rental fees currently realisable by the Group; present values are calculated using a uniform discount rate that is considered by management as appropriate for the valuation of real estate property on the relevant markets.

#### 4. Cash and cash equivalents

Liquid assets held at banks bear daily floating interest rates and are deposited for the short-term (1 day to 3 months) in view of the prompt liquidity needs of the Group. Such deposits yield interest according to the applicable short-term rates. The fair value of cash and short-term deposits at 30 June 2011 is EUR 16,822,647 (31 December 2010: EUR 17,245,883).

Cash includes fixed deposits of EUR 2,545,149 (31 December 2010: EUR 2,740,413) at rates ranging from 3.74% to 5.3% (2010: 3.5% to 7.1 %). The Company has EUR, USD and HUF deposits. The lower rates are on foreign currencies while the higher ones are on HUF.

#### 5. Other financial assets

	30 June 2011	31 December 2010
	EUR	EUR
Short term		
Cash deposit connected to rented properties	654,717	279,509
Other short-term investment – less impairment loss	7,983,272	235,792
Other short-term investments, total	8,637,989	515,301
	30 June 2011	31 December 2010
	EUR	EUR
Long term		
Cash deposit connected to rented properties	1,546,677	1,933,037
Investments held to maturity	105,309	4,804,608
Loans to senior officers	-	92,393
Long-term part of long-term loans to other companies – less impairment loss	7,489	8,452
Other long-term investments, total	1,659,475	6,838,490

#### Cash deposit connected to rented properties

The Group has received 2 to 3 months deposits from its tenants which are held at a bank. Deposits are only repayable if the related rental contract is terminated. Based on the historical and expected rental cancellation rate, the Group has classified the deposits which are expected to be repayable in more than one year to the long-term, and the deposits which are expected to be repayable within 3 months and a year were classified as short-term.

#### Other short-term investment less impairment loss

The other short-term investment - less impairment loss line contains mutual funds investments and OTP and MOL bonds.

Previously OTP and MOL bonds were classified as long term held to maturity investments, although the intention of the company with these securities has changed, that's why these bonds have been reclassified to available for sale category as of June 15, 2011, which is disclosed in the other short-term investments – less impairment loss line.

The Group has 7,100 subordinated OTP Bank Nyrt, (“OTP”) bonds of EUR 1,000 face value each purchased by the Group on 1 and 2 December 2008 and on 27 January 2009 for EUR 3,509,853. The bonds were issued at 19 September 2006 as value date maturing on 19 September 2016 at a rate of 100% of the face value. The bonds bear 5.27% interest and interest is paid on 19 September each year.

## 5. Other financial assets (continued)

The cost of the investment less the effective interest at 30 June 2011 is EUR 4,458,547 (31 December 2010: EUR 4,093,865). The applied average effective interest rate is 18%. The fair value of OTP bonds as of June 30, 2011 is EUR 6,749,996 (at 31 December 2010: EUR 6,146,738).

The Group has 1,000 MOL Nyrt (“MOL”) bonds of EUR 1,000 face value each purchased on 10 March 2009 for EUR 524,380. The MOL bonds mature on 5 October 2015 and bear an interest of 3.88% payable on 5 October each year. The cost of the investment less the effective interest at 30 June 2011 is EUR 658,961 (31 December 2010 EUR 608,801). The applied average effective interest rate is 16%. The fair value of MOL bonds as of June 30, 2011 is EUR 968,413 (at 31 December 2010: EUR 889,873).

Because these securities are in the available for sale category at 30.06.2011, that’s why these bonds have been valued at fair value in the Statement of Financial Position, and the difference between the book value and fair value of bonds at 30.06.2011 has been accounted in fair value revaluation reserve of shareholder’s equity, see note 13

Loans to senior officers:

Arm’s length loans granted by Fotex to senior officers to purchase dividend preference shares were redeemed in the first half of 2011 totally (31 December 2010: 92,393) see Note 24.

Long-term loans to other companies:

The long-term part of long-term loans to other companies – less impairment loss line contains EUR 7,489 (31 December 2010: EUR 8,452) loans granted to employees.

## 6. Accounts receivable and prepayments

	30 June 2011	31 December 2010
	EUR	EUR
Debtors	3,594,730	5,531,848
Impairment loss on debtors	(944,071)	(946,542)
Tax assets	535,789	498,766
Other receivables and prepayments/accrued income	6,843,064	1,739,316
Impairment loss on other receivables	(350,225)	(339,495)
Total	<u>9,679,287</u>	<u>6,483,893</u>

The terms applicable to related parties are set out in Note 24.

Debtors typically pay between 0 and 60 days, during this period no late payment interest is charged.

Tax assets are typically received in three months.

The balance of Other receivables and prepayments/accrued income has increased significantly compared to the prior year-end because of the deposit (EUR 4,700,000) at the notary relating to purchase a property by FN 2 BV. which is the new Dutch subsidiary of the Group.

Impairment loss on debtors, tax assets and on other receivables at 30 June 2011 is EUR 1,294,296 EUR (31 December 2010: EUR 1,286,037).

## 6. Accounts receivable and prepayments (continued)

Movements in the impairment loss:

	<u>EUR</u>
1 January 2010	765,862
Charge for the year	656,965
Utilised	(62,942)
Unused amount reversed	(52,115)
FX loss	(21,733)
31 December 2010	<u>1,286,037</u>
Charge for the year	16,775
Utilised	(488)
Unused amount reversed	(64,647)
FX loss	<u>56,619</u>
30 June 2011	<u><u>1,294,296</u></u>

## 7. Inventories

	<u>30 June 2011</u>	<u>31 December 2010</u>
	<u>EUR</u>	<u>EUR</u>
Merchandise and finished products	8,611,371	8,361,764
Materials	1,164,804	1,124,639
Work in progress	<u>2,250,646</u>	<u>2,121,892</u>
Inventories, gross	<u>12,026,821</u>	<u>11,608,295</u>
Impairment of merchandise and finished products	(3,577,653)	(3,409,006)
Impairment of materials	(43,356)	(46,450)
Impairment of work in progress	<u>(540,311)</u>	<u>(514,841)</u>
Impairment of inventories	<u>(4,161,320)</u>	<u>(3,970,297)</u>
Total inventories, net	<u><u>7,865,501</u></u>	<u><u>7,637,998</u></u>

Management has identified a number of Group companies that have slow moving inventories. Management considers the recognised impairment loss of EUR 4,161,320 (2010: 3,970,297) as adequate, and as of June 30, 2011 no further inventory impairment has been created in I-VI months 2011. In first half of 2011 EUR 5,391 inventory provision has been disposed, because previously impaired inventories were sold. The remaining change in inventory impairment is due to changes in FX rates.

## 8. Property, plant & equipment

Movements in tangible assets during period I-VI months 2011 were as follows (the table contains the property plant & equipment and investment property together):

	Land, buildings, improvements	Furniture, machinery, equipment, fittings	Construction in progress	Total
	EUR	EUR	EUR	EUR
Cost:				
1 January 2011	132,002,513	18,843,351	436,957	151,282,821
Additions	125,076	371,343	-	496,419
Disposals and write downs	(562,061)	(186,717)	-	(748,778)
Currency (loss)/gain arising from retranslation	3,516,456	930,669	(285,527)	4,161,598
30 June 2011	<u>135,081,984</u>	<u>19,958,646</u>	<u>151,430</u>	<u>155,192,060</u>
Accumulated depreciation:				
1 January 2011	(23,530,138)	(15,526,490)	-	(39,056,628)
Depreciation expense	(2,242,086)	(541,283)	-	(2,783,369)
Disposals and write downs	153,074	167,413	-	320,487
Currency (loss)/gain arising from retranslation	(1,068,897)	(764,833)	-	(1,833,730)
30 June 2011	<u>(26,688,047)</u>	<u>(16,665,193)</u>	<u>-</u>	<u>(43,353,240)</u>
Net book value				
30 June 2011	<u>108,393,937</u>	<u>3,293,453</u>	<u>151,430</u>	<u>111,838,820</u>
31 December 2010	<u>108,472,375</u>	<u>3,316,861</u>	<u>436,957</u>	<u>112,226,193</u>

## 8. Property, plant & equipment (continued)

Movements in tangible assets during 2010 were as follows (the table contains the property, plant & equipment and investment property together):

	Land, buildings, improvements	Furniture, machinery, equipment, fittings	Construction in progress	Total
	EUR	EUR	EUR	EUR
Cost:				
1 January 2010	114,042,089	20,205,460	1,115,426	135,362,975
Additions	20,234,847	946,258	-	21,181,105
Disposals and write downs	(218,866)	(1,728,509)	(654,668)	(2,602,043)
Currency (loss)/gain arising from retranslation	(2,055,557)	(579,858)	(23,801)	(2,659,216)
31 December 2010	<u>132,002,513</u>	<u>18,843,351</u>	<u>436,957</u>	<u>151,282,821</u>
Accumulated depreciation:				
1 January 2010	(19,870,659)	(16,868,950)	-	(36,739,609)
Depreciation expense	(4,297,973)	(838,697)	-	(5,136,670)
Disposals and write downs	64,764	1,692,875	-	1,757,639
Currency (loss)/gain arising from retranslation	573,730	488,282	-	1,062,012
31 December 2010	<u>(23,530,138)</u>	<u>(15,526,490)</u>	<u>-</u>	<u>(39,056,628)</u>
Net book value				
31 December 2010	<u>108,472,375</u>	<u>3,316,861</u>	<u>436,957</u>	<u>112,226,193</u>
31 December 2009	<u>94,171,430</u>	<u>3,340,062</u>	<u>1,111,874</u>	<u>98,623,366</u>

## 9. Real estate property

The Group's assets principally comprise of real estates owned by the parent company and the subsidiaries and rented out predominantly to third parties. Most of the Group's revenues are realized from real estate utilization. This type of activity is highly sensitive to macroeconomic trends. Based on the forecasts in 2011 a slightly higher GDP increase is expected compared to prior year, although the effect of expected economic performance improvement won't influence the real estate market, due to the fact that the effects of macroeconomic trends appear ca 1- 2 years later on the real estate market. From a Group point of view the year 2011 won't be easier compared to the two previous years, rather stagnation is expected.

The changes on retail real estate market have the greatest effect on the Group's activity due to the structure of the Group's real estate portfolio, so at the forecasting of the revenue the changes in this sector should have mainly taken into account. The trend on the retail real estate market is the following:

- in 2010 the retail turnover has decreased by 2.3% compared to prior year, and in 2011 the rise of purchasing power and that's why the increase in retail turnover also can not be expected
- due to the significant decline of demand on the real estate market, the opportunities to let decreased significantly and mostly the retail real estate market has been effected and the latest recovery can be expected in this segment.



## **9. Real estate property (continued)**

- the rental fees are presumed to be a low level, they stagnate
- the offered real estate portfolio of the Group and the quality and place of the released properties so many times do not fit to the requirements of the declining number of potential lessees.
- the prolongation of the expired rental contracts will be more difficult and more unfavourable rental conditions are expected to achieve as it was previously

Significant portion of the rental revenue will be derived from the let of the retail real estates, and the rental revenue originated from the let of offices and warehouses will represents a lower level as it happened in the previous periods also.

### **Retail real estates**

The continuous decline of the retail turnover hasn't stopped yet. It is expected that further stores situated at a less commercially frequented places and retailers with low economic potential will cease their operation during the year and in addition we can modestly taken into account the appearance of new multi national companies and expansion of domestic companies. According to the most optimistic opinions, the best case scenario is that the falling of rental fees would stop. The negotiations are also more difficult and more time-consuming. It is typical that shorter term rental agreements are signed.

### **Warehouses**

A continuous increase in the supply of state-of-the-art logistic centres and newly built warehouses make it increasingly difficult for us to rent out our less up-to-date warehouses. Since the beginning of the financial crises the logistic property rental fees have dropped significantly, the decreases in the market can be as high as 30-40%. Positive for the future, that real estate experts predict that positive change would appear first in office-warehouse segment of the real estate market, based on the market expectations slight increase in the rental fee is expected.

### **Offices**

It is assumed that the stop of the falling in demand and the decreasing degree of new offices will contribute to slight moderate in the record vacancy (at year-end 2010 it was 26%). Based on the real estate experts this rate would be at around 23-24% at year-end 2011. In case of rental fee most of the real estate experts believe that no increase would happen, but the decrease would also expect to stop. In view of the adverse market conditions, the Group pays extra attention to controlling and optimising its costs to attainable revenues. Nonetheless, the Group makes efforts to make the best of investment opportunities offered by the stagnating real estate market. The Group's Dutch subsidiary, Fotex Netherlands B.V., purchased five significant office buildings totalling an area of 30 386 m<sup>2</sup> (Zoetermeer, Gorinchem, Haarlem, Rotterdam, Zwolle). All these buildings are fully let with long term contracts, at good returns.

Adverse changes in the world's economy have made it particularly necessary to review the value of the Group's real estate properties on an annual basis. Our investment properties were revalued as part of the audited annual financial statements prepared at the end of 2010. The figures disclosed in the annual financial statements for 2010 are considered as relevant values with respect to the Group's real estate property which will be revalued by the Company in the audited financial statement for the current year.

**9. Real estate property (continued)**

Category	Area	Net book value	Estimated fair value
	m <sup>2</sup>	EUR	EUR
Retail outlets	145,716	33,883,648	163,121,683
Offices	39,008	47,879,633	65,063,516
Warehouses	97,111	3,141,146	15,138,744
Other structures	38,830	3,239,595	5,263,805
Plots of land	677,670	14,240,787	23,430,835
Total investment properties*	998,335	102,384,809	272,018,583

\* The Group has further 293,630 m<sup>2</sup> own property over its investment property disclosed in the table above.

**10. Intangible assets**

Movements in intangible assets during period I-VI. months 2011 were as follows:

	Media and merchandising rights	Other	Total
	EUR	EUR	EUR
Cost:			
1 January 2011	6,667,194	956,371	7,623,565
Additions		4,512	4,512
Disposals and write downs		(1,659)	(1,659)
Currency loss arising from retranslation		(85,104)	(85,104)
30 June 2011	6,667,194	874,120	7,541,314
Amortisation:			
1 January 2011	(4,008,798)	(799,771)	(4,808,569)
Amortisation expense		(9,944)	(9,944)
Impairment			
Disposals and write downs		1,659	1,659
Currency gain arising from retranslation		91,845	91,845
30 June 2011	(4,008,798)	(716,211)	(4,725,009)
Net book value:			
30 June 2011	2,658,396	157,909	2,816,305
31 December 2010	2,658,396	156,600	2,814,996

The column 'Other' reflects property rental rights associated with subsidiaries. As part of discontinuing its ownership of FTC acquired in 2001 (at a cost of HUF 1.9 billion – ca. EUR 7 million), Fotex acquired certain merchandising rights in FTC (media and brand merchandise, distribution and promotion rights [billboards]) in 2003 for an unlimited period. By 31 December 2005,

## 10. Intangible assets (continued)

there was no indication of any impairment. In view of the cash inflows in the near future and estimated potential inflows, management calculated the fair value of these rights based on the expected cash flows discounted at 8.5%. An impairment loss of EUR 4,008,798 was recorded in previous years. Based on management's estimates no additional impairment loss is required for the current year (2010: EUR 0).

Movements in intangible assets for 2010 were as follows:

	Media and merchandising rights	Other	Total
	EUR	EUR	EUR
Cost:			
1 January 2010	6,667,194	943,087	7,610,281
Additions	-	37,434	37,434
Disposals and write downs	-	(75,354)	(75,354)
Currency loss/gain arising from retranslation	-	51,204	51,204
31 December 2010	<u>6,667,194</u>	<u>956,371</u>	<u>7,623,565</u>
Amortisation:			
1 January 2010	(4,008,798)	(757,136)	(4,765,934)
Amortisation expense	-	(19,849)	(19,849)
Impairment	-	-	-
Disposals and write downs	-	31,322	31,322
Currency loss/gain arising from retranslation	-	(54,108)	(54,108)
31 December 2010	<u>(4,008,798)</u>	<u>(799,771)</u>	<u>(4,808,569)</u>
Net book value:			
31 December 2010	<u>2,658,396</u>	<u>156,600</u>	<u>2,814,996</u>
31 December 2009	<u>2,658,396</u>	<u>185,951</u>	<u>2,844,347</u>

## 11. Goodwill

Movements in goodwill on business combinations at 31 December 2010 and 30 June 2011 were as follows:

	<u>30 June 2011</u>	<u>31 December 2010</u>
	EUR	EUR
Cost:		
1 January	19,972,104	20,555,398
FX difference	988,041	(583,294)
Closing balance	<u>20,960,145</u>	<u>19,972,104</u>
Impairment:		
1 January	(9,904,610)	(10,193,878)
FX difference	(489,992)	289,268
Closing balance	<u>(10,394,602)</u>	<u>(9,904,610)</u>
Net book value:		
1 January	<u>10,067,494</u>	<u>10,361,520</u>
Closing balance	<u>10,565,543</u>	<u>10,067,494</u>

The Group considered whether there were any indicators of impairment of the value of goodwill. The Group estimated the value in use of cash generating units attributable to goodwill based on operating profits in both the reporting period and the basis period discounted at 10% discount rate. Based on this calculation, no impairment loss was recognised on goodwill.

The goodwill is allocated to the following entities:

	<u>30 June 2011</u>	<u>31 December 2010</u>
	EUR	EUR
Keringatlan Kft:	10,565,543	9,943,673
Balaton Glas Hotel Kft:*		123,821
Net book value	<u>10,565,543</u>	<u>10,067,494</u>

\* At 31 December 2010, the companies court registered the merger of Balaton Glas Hotel Kft. into Keringatlan Kft. effective as of 1 January 2011.

Management estimates that goodwill is not impaired despite any potential changes in the underlying valuation model since the fair value of the investment properties, to which the goodwill relates, are significantly higher than the book value of the properties.

## 12. Accounts payable and other liabilities

	30 June 2011	31 December 2010
	EUR	EUR
Trade payables	1,425,129	2,235,663
Taxes payable (excluding income taxes)	704,369	948,680
Advances from customers	27,714	30,676
Accrued expenses	329,220	863,738
Deferred rental income	1,070,067	2,147,166
Remuneration approved for executive incentive scheme – dividend preference shares	–	651,000
Amounts payable to employees	261,767	182,881
Deposits from tenants (i)	654,717	279,509
Preference shares incentive scheme liability	583,562	556,054
Other liabilities	754,957	1,017,522
Total	<u>5,811,502</u>	<u>8,912,889</u>
Other long term liabilities (i)	<u>1,572,375</u>	<u>1,939,830</u>

Terms and conditions of the above financial liabilities:

Trade payables are non-interest bearing and are typically settled on a 20 to 30-days term. Other payables are non-interest bearing and have an average term of 1 to 3 months. Payables to employees are non-interest bearing and represent one monthly salary with contributions. Rental deposits are payable typically within 30 days of the end date of the underlying rental contract.

(i) The Group has received 2 to 3 months deposits of EUR 2,201,394 (31 December 2010: EUR 2,212,546) from its tenants which are repayable if the related rental contract is terminated. Based on the historical and expected rental cancellation rate, the Group has classified that part of the deposit liabilities as other long-term liabilities EUR 1,546,677 (31 December 2010: EUR 1,933,037) which are expected to be repayable in more than one year, and those parts which are expected within a year were classified as short-term tenant deposit liabilities EUR 654,717 (31 December 2010: EUR 279,509). Other long-term liabilities include car leases totalling EUR 6,914 (2010: 6,793 EUR) and guarantee liability totalling EUR 18,784 in addition to safety deposits received from customers.

Dividend preference shares in incentive scheme

The general meeting of the Company on 31 August 2007 authorised the Board of Directors to increase the capital by a maximum amount of EUR 3,093,041 (HUF 785,818,000), by issuing dividend preference shares (shares with dividend rights only, without voting right) against monetary contribution within 5 years from the date of the general meeting.

These dividend preference shares are to be used as a remuneration and long-term incentive system for executive officers, as well as senior employees. The dividend preference shares are intended to encourage good stewardship in members of management by directly connecting remuneration entitlement of preference shareholders to enhanced performance and stock exchange rates thereby contributing to increasing shareholder value for all. Fotex has an optional redemption right on dividend preference shares which is valid up to five years. Unless Fotex exercises its redemption right within five years of the end of employment of a member of management, the holder of such dividend preference shares may retain its shareholder rights. The dividend rate on the preference shares shall not exceed 50% of the given year's average stock exchange price of Fotex shares, but shall not be less

## **12. Accounts payable and other liabilities (continued)**

than an amount equivalent to double of the European central bank twelve months base interest rate relevant for the year, applied to the face value of the share. The total sum of the dividend determined for preference dividend cannot exceed 30% of the consolidated IFRS profit after taxes minus minority interests. The total preference dividend payable is subject to approval of the general meeting of the Company. Given the nature of the employee preference shares, the amount of shares in issue is treated as a short-term liability and any dividend payable will be treated as employee expense.

In November 2007, Fotex issued 2,000,000 dividend preference shares with a face value of EUR 840,000 (HUF 200 million). These dividend preference shares were presented in the consolidated statement of financial position as treasury shares. Group management purchased the dividend preference shares on 28 April 2008. On that date the dividend preference shares were shown as a liability (preference shares incentive scheme liability). Fotex granted arm's length loans to members of management to buy these shares.

On 13 May 2009, the Company's CEO exercised his redemption right under the approved incentive scheme and redeemed the dividend preference shares of the managers of certain subsidiaries where annual profits fell short of their budget. The shares were redeemed at the rates set out in the underlying sale-purchase contracts (120% of the face value). Fotex set off the redemption price payable against the loans and interest receivable from the affected persons under the loan agreements for the purchase of the dividend preference shares. No dividend was paid on the redeemed shares. No dividend preference shares were redeemed neither in 2010 nor till 30 June 2011, the change in dividend preference shares liability is due to changes in FX rates.

The shareholders' meeting of 26 April 2010, upon approval of the consolidated financial statements for 2009, decided to pay a dividend of EUR 0.42 per preference share. The total amount of preference dividends due to members of management of EUR 651,000 is presented among payments to personnel in the consolidated financial statements in 2009.

At their meeting of 7 April 2011, the Board of Directors approved to pay dividends on the preference shares equal to their face value. This dividend payment is subject to formal approval by the shareholders' meeting, which was approved by the shareholder's meeting. The total amount of preference dividends due to members of management of EUR 651,000 is presented among payments to personnel in the consolidated financial statements in 2010.

The annual general meeting, which will accept the current year's annual consolidated financial statements, will decide about the possible dividend paid for 2011 relating to dividend preference shares. Interim dividend advance hasn't been determined yet.

## **13. Share capital and reserves**

### *Share capital*

The Company's approved and issued share capital totals EUR 30,543,933 consisting of shares with face value of EUR 0.42 each. At 30 June 2011, the Company's issued share capital included 70,723,650 ordinary shares and 2,000,000 dividend preference shares (31 December 2010: 70,723,650 ordinary shares and 2,000,000 dividend preference shares).

### 13. Share capital and reserves (continued)

#### *Treasury shares*

The 2,000,000 dividend preference shares issued by the Company which are shown as part of “Issued Capital” (30 June 2011: EUR 840,000; 31 December 2010: EUR 840,000) are also shown in “Treasury Shares”. As of 30 June 2011, 1,550,000 (31 December 2010: 1,550,000) dividend preference shares are held by certain employees. These shares are still shown within “Treasury Shares” but also as liability (preference shares incentive scheme liability) as further disclosed in Note 12.

As of 30 June 2011, the Company holds 12,632,549 treasury shares (including dividend preference shares) for a total amount of EUR 19,266,955 (31 December 2010: 12,632,549 shares at a cost of EUR 19,266,955).

During first half of 2011, the company hasn't purchased own shares (during 2010 the company purchased 52,770 shares on arm's length basis). During first half of 2011 and 2010, no dividend preference shares from senior officers were redeemed.

#### Goodwill write-off reserve

In 1990, in connection with the transformation of the Company to an Rt. (public limited company) and associated increase in share capital, certain intangible assets of Fotex (principally the “Fotex” name) were valued by an independent appraiser at approximately EUR 7.7 million. This amount is shown as an intangible asset in the Company's local statutory financial statements and is amortised over 24 years. This amount is shown as a deduction from shareholders' equity in these consolidated financial statements of EUR 1,372,778 (31 December 2010: EUR 1,534,125).

#### Fair value revaluation reserve

At 15 June 2011 OTP and MOL bonds, which were classified as held to maturity securities previously, have been reclassified to available for sale category, because the company's intention has changed relating to these bonds. Because these securities are in the available for sale category at 30.06.2011, that's why the difference between the book value and fair value of bonds, which is EUR 2,600,901 at 30.06.2011, has been accounted in fair value revaluation reserve of shareholder's equity.

### 14. Selling, general and administration expenses

	30 June 2011	31 March 2011	30 June 2010
	EUR	EUR	EUR
Payments to personnel	(3,284,852)	(1,562,155)	(3,330,787)
Material-type expenses	(7,821,757)	(3,792,143)	(7,835,097)
Other expenses	(1,192,951)	(572,306)	(763,137)
Depreciation charges	(2,793,313)	(1,454,299)	(2,472,128)
	(15,092,873)	(7,380,903)	(14,401,149)

#### 14. Selling, general and administration expenses (continued)

Other expenses include the following:

	30 June 2011	31 March 2011	30 June 2010
	EUR	EUR	EUR
Impairment of receivables (Note 6)	(16.287)	(463)	(4.086)
Realised FX gain/loss (net)	79.824	37,758	32.762
Taxes payable (mostly property tax)	(685.149)	(358,496)	(775.024)
Other expenses	(571.339)	(251,105)	(16.789)
Other expenses, total	<u>(1.192.951)</u>	<u>(572,306)</u>	<u>(763,137)</u>

#### 15. Long term liabilities

The Group's Dutch subsidiary, Fotex Netherlands B.V. obtained the following mortgage loans from FGH Bank N.V. in 2009 (3 loans) and in 2010 (1 loan).

The details of loan are presented below:

Item	Start date	End date	Loan EUR	Interest	Long-term portion at 30 June 2011 EUR	Short-term portion at 30 June 2011 EUR	Long-term portion at 31 December 2010 EUR	Short-term portion at 31 December 2010 EUR
I, mortgage	16/4/2009	1/5/2016	18,400,000	One month Euribor + 2,7% (rounding +0,05) on two working days prior to the start date of the interest period*	17,459,562	345,105	17,425,958	346,158
II, mortgage	1/11/2009	1/11/2016	3,800,000	Three-month Euribor + 2,26% (rounding +0,05) on two working days prior to the start date of the interest period*	3,458,018	87,188	3,460,587	87,412
III, mortgage	18/12/2009	1/1/2015	3,750,000	Three-month Euribor + 2,20% (rounding +0,05) on two working days prior to the start date of the interest period	3,531,892	85,458	3,550,054	85,443
IV, mortgage	21/5/2010	1/5/2015	14,000,000	fixed 4,32 % p.a	13,290,554	329,308	13,416,094	329,812
<b>Total</b>			<b>39,950,000</b>		<b>37,740,026</b>	<b>847,059</b>	<b>37,852,693</b>	<b>848,825</b>

Long term interest bearings loans and borrowing contains EUR 25,000 transaction cost, which incurred relating to the potential V. mortgage loan, which would have been used for financing an expected future economic transaction.

The above loans are secured by mortgage on Fotex's Dutch real estates.



## 15. Long term liabilities (continued)

The book values of these real estates at 30 June 2011 were as follows:

2719 EP Zoetermeer, Einsteinlaan 20	10,140,138 EUR
Gorichem, Stadhuisplein 1a, 70 and 70a	13,400,325 EUR
Haarlem, Schipholpoort 20	5,193,374 EUR
3012 BL Rotterdam, Witte de Withstraat 25	5,779,895 EUR
8017 JV Zwolle, Zuiderzeelaan 43-51	18,084,737 EUR

## 16. Corporate tax

During 2010 the Hungarian tax authority (APEH) enacted certain changes to the corporate income tax rate for 2010 and future years. Prior to the change the corporate income tax rate was 20%. From 1 January 2010 the tax rate for the first half of the year was 19%, the rate for the second half of the year was 10% on the first HUF 250 million of taxable profit and was 19% above this amount. From 1 January 2011 the tax rate on the first HUF 500 million of taxable profit is 10% and above this amount 19%. From 1 January 2013 the tax rate for all taxable profit will be 10%.

The Group is subject to periodic audit by the Hungarian, Dutch and Luxembourg Tax Authorities. As the application of tax laws and regulations for many types of transactions are susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date upon final determination by the relevant Tax Authority.

The income tax rate applicable to Fotex Holding SE's and Upington Investments S.à.r.l.'s income earned in Luxembourg is 22.05%, which results in a total tax of 31.05% as increased by Capellen's municipal tax; the income tax rate for Fotex Netherlands BV and FN 2 BV for the first EUR 200,000 taxable profit is taxed at 20% and the amount above the EUR 200,000 is taxed at 25%.

The tax rates used in the deferred tax calculation differ from company to company based on its expected tax position. For Keringatlan a tax rate of 15% has been applied whilst for the remaining Hungarian companies a rate of 10% has been used based on expected profitability.

For the Luxembourg and Dutch entities: at the applicable income tax rates described above.

The Group has carried forward losses of EUR 1,151,151 which can be written off from taxable income of the Group members. Furthermore the Group carries forward losses of EUR 14,513,340 which have arisen at subsidiaries that have been loss-making for some time and, in view of the current economic trends, are not expected to generate profits in the foreseeable future against which any such carried forward loss could be written off. As a result of the above, carried forward losses of EUR 14,513,340 were not considered in the consolidated financial statements as basis for deferred tax assets of which EUR 14,513,340 can be rolled forward for an indefinite period.

## 17. Discontinuing operation

The Group had no discontinuing operations in either 2010 or in the period of I-VI months of 2011.

## **18. Other comprehensive income components**

Foreign exchange differences arising on the translation of the functional currencies to EUR of subsidiaries whose functional currency is other than EUR are presented through other comprehensive income. Such foreign exchange differences arise from the fluctuations between EUR and the functional currency of the subsidiaries during the year.

## **19. Segment information**

For management purposes, the Group is divided into 8 business lines:

- Furniture production and sales
- Investment property management
- Cosmetics retailing
- Crystal and glass production and sales
- Music records release and distribution
- Clothing retailing and wholesaling
- Advertising
- Other – administration and holding activities

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The profit or loss of each business segment contains revenues and expenses directly attributable to the segment and revenues and expenses that can be reasonably allocated to the segment from the Group's total profit or loss attributable to transactions with third parties or with other Group segments. The transfer prices applied in inter-segment transactions are based on the cost of the transactions as increased by the margins set out in the underlying Group policies. Profit is distributed among the segments before adjustment for non-controlling interests.

The Group has operations in The Netherlands, in Luxembourg and in Hungary. More than 89% of the group's revenues realized in Hungary. Geographical segments are not presented in the consolidated financial statements as the costs of producing such information would exceed its merits.

Segment assets and liabilities reflect operating assets and liabilities directly or reasonably attributable to each segment. Assets attributable to each segment are presented at cost less any impairment loss in the Group consolidated statement of financial position.

Corporate and other items include primarily general overhead and administrative costs that relate to the Group as a whole and assets that are not directly attributable to any of the segments, for example short-term and long-term investments and liabilities that serve financing rather than operating purposes.

## 19. Segment information (continued)

Capital expenditures in the reporting period reflect the total cost of segment assets that are expected to be used for more than one period (properties, equipment, fittings).

	30. June 2011			31 March 2011			30. June 2010		
	Net Sales external	Net Sales inter-segment	Net sales	Net Sales external	Net Sales inter-segment	Net sales	Net Sales external	Net Sales inter-segment	Net sales
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Furniture	1,250,105	48,600	1,298,705	607,011	24,226	631,237	1,015,495	50,363	1,065,858
Investment property	11,947,556	93,687	12,041,243	5,739,115	187,450	5,926,565	11,070,527	797,401	11,867,928
Cosmetics retailing	276,832	234	277,066	149,834	114	149,948	379,834	232	380,066
Crystal and glass production and sales	3,541,512	104	3,541,616	1,813,533	103	1,813,636	3,457,563	125	3,457,688
Music records release and distribution	512,803	23,799	536,602	242,569	10,436	253,005	845,357	82,186	927,543
Clothing retailing and wholesaling	278,871	4,962	283,833	159,665	2,396	162,061	320,598	–	320,598
Advertising*	51,692	1,756	53,448	7,030	22,070	29,100	–	–	–
Other	1,521,158	505,381	2,026,539	665,418	433,736	1,099,154	1,189,741	562,783	1,752,524
Inter-segment elimination	–	(678,523)	(678,523)	–	(680,531)	(680,531)	–	(1,493,090)	(1,493,090)
Net sales	<u>19,380,529</u>	<u>–</u>	<u>19,380,529</u>	<u>9,384,175</u>	<u>–</u>	<u>9,384,175</u>	<u>18,279,115</u>	<u>–</u>	<u>18,279,115</u>

\* Europrizma's scope of activity has changed: it provides administrative services to other companies in stead of advertising agency services since February 1, 2010

## 19. Segment information (Continued)

Crystal and glass sales mainly reflect export sales realised in foreign currencies. Nearly half of net own produced furniture sales is from export. Other sales mainly reflect domestic sales realised in HUF.

Profit before tax	30 June 2011	31 March 2011	30 June 2010
	EUR	EUR	EUR
Furniture	(30,566)	(28,853)	(162,722)
Investment property	3,517,760	1,592,224	4,133,504
Cosmetics retailing	(29,661)	(16,366)	(34,191)
Crystal and glass production and sales	651,049	240,816	486,056
Music records release and distribution	(27,772)	(61,423)	12,217
Clothing retailing and wholesaling	(54,056)	(14,672)	7,960
Advertising*	(22,142)	(11,190)	–
Other	(119,964)	(8,047)	(444,210)
Profit before tax:	3,884,648	1,692,489	3,998,614

\* Europrizma's scope of activity has changed: it provides administrative services to other companies in stead of advertising agency services since February 1, 2010

Assets:	30 June 2011			31 December 2010		
	Consolidated assets	Intra-business line assets	Total assets	Consolidated assets	Intra-business line assets	Total assets
	EUR	EUR	EUR	EUR	EUR	EUR
Furniture	3,967,972	142,589	4,110,561	3,844,151	80,331	3,924,482
Investment property	137,023,772	3,256,353	140,280,125	134,961,026	1,481,723	136,442,749
Cosmetics retailing	1,531,283	–	1,531,283	1,600,316	7,780	1,608,096
Crystal and glass production and sales	10,172,802	–	10,172,802	9,768,298	–	9,768,298
Music records release and distribution	1,215,011	739	1,215,750	1,580,732	13	1,580,745
Clothing retailing and wholesaling	1,018,173	225,908	1,244,081	1,531,372	273,498	1,804,870
Advertising*	29,393	1,228	30,621	–	–	–
Other	15,464,931	22,901,469	38,366,400	11,404,464	18,625,210	30,029,674
Balances among business lines set off	–	(26,528,286)	(26,528,286)	–	(20,468,555)	(20,468,555)
Total assets:	170,423,337	–	170,423,337	164,690,359	–	164,690,359

\* Europrizma's scope of activity has changed: it provides administrative services to other companies in stead of advertising agency services since February 1, 2010

**19. Segment information (Continued)**

Liabilities and accruals	30 June 2011			31 December 2010		
	Consolidated liabilities	Intra-business line payables	Total liabilities	Consolidated liabilities	Intra-business line payables	Total liabilities
	EUR	EUR	EUR	EUR	EUR	EUR
Furniture	197,471	505,543	703,014	371,710	348,905	720,615
Investment property	42,511,111	15,174,386	57,685,497	44,722,545	11,088,046	55,810,591
Cosmetics retailing	105,362	211,783	317,145	157,638	188,618	346,256
Crystal and glass production and sales	1,649,437	7,435,932	9,085,369	2,228,255	6,930,572	9,158,827
Music records release and distribution	78,766	10,448	89,214	224,558	10,915	235,473
Clothing retailing and wholesaling	41,032	489,000	530,032	51,380	587,347	638,727
Advertising*	7,530	7,337	14,867	–	–	–
Other	2,045,005	3,039,004	5,084,009	2,566,505	1,300,008	3,866,513
Balances among business lines set off		(26,873,433)	(26,873,433)	-	(20,454,411)	(20,454,411)
Liabilities and accruals	46,635,714	–	46,635,714	50,322,591	–	50,322,591

Tangible asset additions:	30 June 2011	31 December 2010
	EUR	EUR
Furniture	792	77,721
Investment property	119,922	20,659,443
Cosmetics retailing	–	475
Crystal and glass production and sales	306,820	36,366
Music records release and distribution	3,734	15,628
Clothing retailing and wholesaling	362	153,204
Advertising*	5,725	-
Other	63,576	275,702
Tangible asset additions:	500,931	21,218,539

Depreciation:

	30 June 2011	31 March 2011	30 June 2010
	EUR	EUR	EUR
Furniture	32,338	17,128	31,729
Investment property	2,336,001	1,198,761	2,157,283
Cosmetics retailing	22,725	12,433	29,026
Crystal and glass production and sales	157,496	78,469	145,979
Music records release and distribution	14,412	7,317	18,550
Clothing retailing and wholesaling	17,242	9,800	5,025
Advertising*	1,714	1,501	–
Other	211,385	128,890	84,536
Depreciation:	2,793,313	1,454,299	2,472,128

\* Europrizma's scope of activity has changed: it provides administrative services to other companies in stead of advertising agency services since February 1, 2010

## 20. Financial risk management objectives and policies

The Group's primary financial liabilities, other than derivatives, include creditors, operating lease contracts and loans taken to purchase properties. The Group's various financial receivables include debtors, cash and short-term deposits and loan receivables. The Group's liquid assets are held in larger banks in Hungary, The Netherlands and Luxembourg. Financial liabilities and receivables are directly attributable to the Group's operations.

The highest risks related to the Group's financial instruments are FX risk, lending risk and interest risk. Management monitors all these risks and applies the following risk management procedures.

### *Interest risk*

The Group entered into EUR loans to buy properties in The Netherlands for the period between 2009 and 2016. The loan interests vary between one month EURO-LIBOR + 2.2-2.7% and one is at a fixed rate of 4.32%. The interest risk of the variable interest mortgage loans, except for the smaller loan of EUR 3.75m is limited between 3.3 to 3.64%. In order to reduce interest risk, the lending bank charges a 0.7% interest guarantee with respect to mortgage loans I and a fixed fee was paid in respect to mortgage loan II as described in note 15.

### *Foreign currency ("FX") risk*

Financial instruments that potentially represent risk for the Group include debtors in foreign currency, creditors in foreign currency and deposits in foreign currency other than in EUR. The Group's rental contracts are stipulated in EUR or on EUR basis thus mitigating any FX risk associated with non-EUR revenues. Many EUR-based rental contracts are billed in HUF based on the applicable daily spot rate. In order to mitigate the risk of FX losses from any potential unbeneficial EUR/HUF rate fluctuations, the Group normally sets out a minimum EUR/HUF rate in its rental contracts.

The Group also has a FX risk on transactions – which occurs when the Group buys or sells in a currency other than its functional currency.

## **20. Financial risk management objectives and policies (continued)**

According to management, beyond the Group's FX risk, the risk associated with the actual profit or loss position stems from the volume or orders and market demand which depends on global market trends rather than on FX rate fluctuations.

### *Lending risk*

The Group aims to mitigate lending risk by its careful and continuous debtor portfolio monitoring process and by requiring bank guarantees and collateral. In addition, the Group regularly follows up information about the main creditors in the market.

### *Liquidity risk*

Liquidity risk is monitored as follows:

- Monitoring daily available deposited and free cash by entity
- Monitoring weekly cash flows by entity
- As part of the management information system, the Group monitors the operations of each entity on a monthly basis.

### *Capital management*

The Group has significant amounts of cash which is used for intra-group financing as necessary. In 2006, the Group switched from bank loans to intra-group financing and financing costs and risks have significantly diminished as a result across the Group. As described in note 15, the Group has taken mortgage loans in 2009 and in 2010 in connection with its office building purchase transactions in The Netherlands. The managements evaluates the level of indebtedness of the Group as healthy, bearing low risks.

### *Fair value*

At 30 June 2011 and 31 December 2010, the carrying values of liquid assets, short-term investment, receivables, liabilities and accruals approximated their fair values owing to their short-term nature. Receivables are presented in the consolidated statement of financial position at cost less impairment loss on doubtful debts. Certain bonds are fair valued as disclosed in note 5. Bank loans having variable market interest rate approximated their fair values.

## **21. Investments in subsidiaries**

During the period I-VI months 2011 the Group has conducted the following any transactions which affecting the group's structure.

- At 24 June 2011, Fotex Netherlands BV established its subsidiary, called FN 2 BV, in The Netherlands to further develop and manage the property portfolio in The Netherlands.
- In the second quarter 2011 all possessions and activity of Downington S.à.r.l. have been taken over by its sole previous owner, which is Upington S.à.r.l. As an effective date of April 7, 2011 Downington S.à.r.l. has been cancelled from the Luxembourg companies register

## 21. Investments in subsidiaries (continued)

During 2010, Fotex Group entered into the following transactions and mergers:

- At 31 December 2010, the companies court registered the merger of Balaton Glas Hotel Kft, into Keringatlan Kft, effective as of 1 January 2011.

## 22. Operating leases

The Group leases retail sites within “MOM Park” and “Csepel Plaza” shopping centres and at 6 other locations in Győr and 4 other sites situated in Budapest based on non-cancellable operating lease agreements. The Group recalculates its leasing fees by ending of each year and publishes them in its financial statement.

## 23. Earnings per share

Basic earnings per share is calculated based on the weighted average number of ordinary shares in issue during the year less treasury shares held by the Company, Similarly, totally diluted earnings per share is also calculated based on the weighted average number of ordinary shares in issue during the year as adjusted by the estimated value of an issue of potentially convertible securities, For the calculation of totally diluted earnings per share, net earnings are adjusted with any gains and expenses that relate to potentially convertible securities,

Basic earnings per share is calculated by dividing the net income attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Company and held as treasury shares:

	30. June 2011	31. March 2011	30. June 2010
	EUR	EUR	EUR
Net profit attributable to equity holders from continuing operations	3,074,971	1,277,882	3,215,667
Net profit / (loss) attributable to shareholders			
Weighted average number of shares in issue during the year	60,091,101	60,091,101	60,113,259
Basic earnings/(deficit) per share (EUR)	<u>0.05</u>	<u>0.02</u>	<u>0.05</u>

The diluted earnings per share agree with basic earnings per share in 2011 and 2010 as there is no dilution effect in these years



## **24. Related party transactions**

### Principal related parties

Gábor Várszegi, Chairman of the Board of Fotex, directly or indirectly controls a part of the voting shares of Blackburn International Inc. (“Blackburn”), a Panama company and Blackburn International Sarl. (“Blackburn Luxembourg”), a Luxembourg company and Zurich Investments Inc. (“Zurich”), a British Virgin Islands company. Blackburn Luxembourg has a controlling interest in Fotex Ingatlan Kft. (“Fotex Ingatlan”) and Plaza Park Kft. (“Plaza Park”). At 30 June 2011, Blackburn controls 16.9% of the Company’s share capital (31 December 2010: 16.9%), Zurich controls 14.1% (31 December 2010: 14.1%), Fotex Ingatlan controls 17.6% (31 December 2010: 17.6%), Blackburn Luxembourg controls 1.6% (31 December 2010: 0%) and Plaza Park 0 % (31 December 2010: 1.6%). These companies are considered to be related parties.

### Related party transactions

In case of Plaza Park office lease agreements were modified in December, 2000, and were extended until 31 December 2006. Based on their options, Fotex Nyrt. and its subsidiaries renegotiated rental contracts and extended them until 31 December 2016. The rental agreements are for an indefinite period and rental fees are adjusted with the harmonized customer price index (EU27) reported by the European Union’s Statistical Office (Eurostat).

Rental and other related fees paid to Fotex Ingatlan for 2011 I-VI month were EUR 191,808 (2010 I-VI month: 181,688 EUR) and to Plaza Park EUR 320,829 for 2011 I-VI months (2010 I-VI months: 313,741 EUR).

Further to a helicopter rental agreement between Plaza Park and Keringatlan Kft., the total amount of rent plus related services invoiced by Plaza Park for 2011 I-VI months was EUR 2,706 (2010 I-VI: EUR 3,358).

Further to an airplane rental agreement between Blackburn Inc. and Fotex Holding SE, the total amount of rent plus related services invoiced by Blackburn Inc. for 2011 I-VI months was EUR 43,666 (2010 I-VI months: EUR 63,140).

During 2010, Fotex Ingatlan Kft. granted a loan to Fotex Cosmetics Kft. and charged interest totalling EUR 664 for 2011 I-VI months (2010 I-VI months: EUR 1,605).

Fotex granted arm’s length loans to senior officers to purchase dividend preference shares: The balance of officers’ loan amounts to EUR 0 at 30 June 2011 (31 December 2010: EUR 92,393) because the loans were totally redeemed in second quarter 2011.

### Transactions with other related parties

There were no significant related party transactions in either 2011 or in 2010.

## **25. Personnel and structural changes**

### *Structural changes:*

During the period I-VI months 2011 there hasn't happened any structural changes.

### *Personnel changes*

There were no personnel changes in the Group's management in the reporting period.

## **26. Other matters**

According to the resolution of the shareholders meeting No, 23/2000, on 2 May 2001, Fotex Nyrt. converted all its shares with the involvement of Keler Rt.

At that date, 70,388,664 shares were replaced and 334,986 old shares were not converted by their holders. In accordance with prevailing legal regulations, the Company made the unconverted shares void. The new shares that replaced the void ones were sold by the Company in the most optimal way that best served the interest of the shareholders. The consideration received less incurred costs are forwarded to the holders of the void shares after the 30th day, 15 November 2001, following the sale of all the shares that replaced the void shares as compensation for the void shares. Of the void shares, consideration relating to 165,462 shares has been paid up to this date and the holders of 169,524 void shares has not come forward so far.

Fotex Nyrt's ordinary shareholders' meeting held on 28 April 2004 decided to convert Fotex Nyrt's printed shares into dematerialised shares. The conversion to dematerialised shares took place on 11 November 2004. The conversion does not affect the rights related to the shares. The printed shares could be presented for conversion between 10 September 2004 and 10 November 2004. On 11 November 2004, all printed shares were made void by Fotex Nyrt. Consideration for 1,210 shares made void due to dematerialization has been paid up to this day, the holders of 140, void shares have not come forward so far.

At Fotex Holding SE Nyrt's ordinary shareholders meeting held on 28 April 2009, the shareholders decided to move the Company's registered office to Luxembourg. At this general meeting, the shareholders made a decision about the determination of the share of equity to be allotted to shareholders that voted against moving the registered seat to Luxembourg as well as about the way and timing of redemption. The share of equity to be allotted to shareholders that voted against moving the registered seat to Luxembourg was determined by the shareholders' meeting as 0.89 EUR/share based on the equity/issued capital ratio as at 31 December 2008. The meeting authorized the Board of Directors to redeem such shares. Settlements were done with the two shareholders that voted against moving the registered office with 52,870 shares.

According to resolution No. 5 at their ordinary annual meeting held on 26 April 2011, upon approving the financial statements for 2010. Fotex Holding SE's shareholders decided to distribute dividends to the holders of dividend preference shares equalling the face values of the shares.

On 26 October 2009, Ajka Kristály Üvegipari Kft, signed a solvency agreement with its creditors. As a result of the agreement, the debtor wishes to pay off its debts that are included in the scope of the solvency agreement without late payment penalty and other charges from sales revenues to be collected up to 30 April 2012 from selling own manufactured inventories at September 1, 2009. In the meantime, interim instalments would be paid on 15 January 2011 and on 15 January 2012. The debtor assumed an obligation to pay all its creditors up to HUF 200,000 by 14 November 2009, which was

## **26. Other matters (continued)**

duly done. The sole owner of the company, the creditor, Fotex Holding, and two entities under direct majority control of the owner, Upington Ltd. and Downington Holding LLC. and all subsidiaries within group asserted that they did not demand settlement of the debts towards them until Ajka Kristály Kft. met its obligation towards its other creditors under the solvency agreement. The creditors that attended the agreement negotiation meeting engaged Piroska Gazda, a statutory auditor who also attended the meeting as representative of one of the creditors, Meritum Kft., to check compliance with the terms of the agreement.

In the period I-VI months 2011, Ajka Kristály Kft, has managed to book its entire production capacity, which had been reduced to meet market demand, with a positive lookout to the future of the market.

The securities with ISIN-code T0008806916, (so-called “certificates”), which were previously traded on the Vienna Stock Exchange, have been withdrawn from Stock Exchange’s trading for the request of Company as of June 30, 2010. Fotex ordinary share with ISIN-code HU0000096409 have been automatically credited on the accounts of the owners of the certificates kept at their custodian bank in 1:1 proportion. The credit has been taken place automatically 3 workdays after the withdrawal of the certificates. Our company has entrusted the Erste Group Bank AG with the technical transaction of the SWAP of securities.

Since 1 October 2010 Keringatlan Ltd. has outsourced its facility management activity to the group’s member Székhely 2007 Ltd.

As an effective date of April 7, 2011 Downington S.à.r.l. has been cancelled from the Luxembourg companies register. All possessions and activity of Downington S.à.r.l. have been taken over by its sole previous owner, which is Upington S.à.r.l..

In July 2011 FN2 B.V. purchases an office building having 7,122 m<sup>2</sup> with 129 parking places in Utrecht which is leased for long term to the Government Building Agency which is the part of Ministry of the Interior and Kingdom Relations.

Also in July 2011 UPINGTON INVESTMENTS Ltd. purchases the ownership of 100 % share of PLAZA-PARK Kft. seated in Hungary. By this purchase the real estate property of Fotex’s consolidated companies extends by 95,274 m<sup>2</sup> plot and gross 7,045 m<sup>2</sup> superstructure.