

Management Report

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 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.

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.

As a result of its transformation into a European public limited company, the Company's books have been carried in EUR since 1 January 2009. Accordingly, Fotex Group's consolidated financial statements for the first 3 months of 2011 are expressed in EUR.

In the first 3 months of 2011 no important events occurred, which would have significant impacts on the interim financial statements.

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

List of Shareholdings

Subsidiaries	Principal Activities	Issued capital EUR		Ownership (%)		Voting rights %	
		31/03/2011	31/03/2010	31/03/2011	31/03/2010	31/03/2011	31/03/2010
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	2,050,000	100.0	100.0	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
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

The Group operates in Luxembourg, in the Netherlands and in Hungary. Mostly the Group's operations are carried out in Hungary, geographical segments are not presented in the consolidated financial statements.

The Group management categorizes the Group's business activities along the following 8 segments. In the prior year the advertising activity was taken into account as a separate segment but now this has been reported among the administration and holding activities because of its low importance.

- 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 separately evaluates the performance of its operating segments in order to make decisions regarding resource allocation and other decisions related to operations management. The performance of each segment is based primarily on the pre-tax profit or loss of each segment. Decisions regarding financing (including financial revenues and expenses) and taxation are made at Group level and not at segment level.

Net sales per segment

Net sales:	31 March 2011			31 March 2010		
	Net Sales external EUR	Net Sales inter- segment EUR	Net sales EUR	Net Sales external EUR	Net Sales inter- segment EUR	Net sales EUR
Furniture	607,011	24,226	631,237	468,339	21,088	489,427
Investment property	5,739,115	187,450	5,926,565	5,510,899	415,054	5,925,953
Cosmetics retailing	149,834	114	149,948	195,143	112	195,255
Crystal and glass production and sales	1,813,533	103	1,813,636	1,395,893	-	1,395,893
Music records release and distribution	242,569	10,436	253,005	379,995	12,905	392,900
Clothing retailing and wholesaling	159,665	2,396	162,061	174,118	-	174,118
Advertising*	7,030	22,070	29,100	31,870	3,141	35,011
Other	665,418	433,736	1,099,154	609,362	257,139	866,501
Inter-segment elimination	0	(680,531)	(680,531)	0	(709,439)	(709,439)
Net sales	<u>9,384,175</u>	<u>0</u>	<u>9,384,175</u>	<u>8,765,619</u>	<u>0</u>	<u>8,765,619</u>

Profit before tax per segment

Profit before tax	31 March 2011	31 March 2010
	EUR	EUR
Furniture	(28,853)	(75,988)
Investment property	1,592,224	2,164,704
Cosmetics retailing	(16,366)	(23,843)
Crystal and glass production and sales	240,816	(11,751)
Music records release and distribution	(61,423)	(27,095)
Clothing retailing and wholesaling	(14,672)	4,444
Advertising*	(11,190)	10,796
Other	(8,047)	(193,930)
Profit before tax:	<u>1,692,489</u>	<u>1,847,337</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

Consolidated Cash Flow Statement of Fotex Group

	31 March 2011	31 March 2010
	EUR	EUR
Cash flows from operating activities	2,667,012	3,080,002
Income taxes paid	(411,777)	(545,605)
Net cash from operating activities:	2,255,235	2,534,397
Cash flows from investing activities:		
Purchase of tangible and intangible assets:	(152,492)	(501,381)
Sale of tangible and intangible assets:	958	4,885
Change in investments	(7,546)	(219,569)
Interest received	275,543	362,268
Net cash used in investing activities:	116,463	(353,797)
Cash flows from financing activities:	(176,749)	(112,999)
Repayments of Loans granted	38,961	30,211
Repaymentsts of Loans received		0
Interest paid	(444,406)	(266,540)
Purchase of treasury shares		(46,965)
Change other long term liabilities	(275,875)	34,652
Net cash used in financing activities:	(858,069)	(361,641)
Net increase/decrease in cash and cash equivalents:	1,513,629	1,818,959
Cash and cash equivalents at beginning of year	17,245,883	12,997,087
Effect of foreign currency translation	159,611	357,166
Cash and cash equivalents at 31 March:	<u>18,919,123</u>	<u>15,173,212</u>

Shareholders' equity

Shareholder's equity:	31 March 2011	31 December 2010
Issued capital	30,543,933	30,543,933
Additional paid in capital	32,895,729	32,895,729
Goodwill write off reserve	(1,453,451)	(1,534,125)
Retained earnings	76,503,594	71,637,487
Treasury shares, at cost	(19,266,955)	(19,266,955)
Equity attributable to equity holders of the parent company	119,222,850	114,276,069
Minority interests in consolidated subsidiaries	99,075	91,699
Total shareholder's equity	119,321,925	114,367,768

Registered 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 31 March 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).

Treasury Shares

The 2,000,000 dividend preference shares issued by the Company which are shown as part of "Issued Capital" (31 March 2011: EUR 840,000; 31 December 2010: EUR 840,000) are also shown in "Treasury Shares". As of 31 March 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 of 31 March 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 2011, the company hasn't purchased own shares (during 2010 the company purchased 52,770 shares on arm's length basis). In 2011, no dividend preference shares from senior officers were redeemed (2010: 0 pcs; 0 EUR).

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 31 March 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%), and Plaza Park 1.6% (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 2011. 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-III month were EUR 100,512 (2010 I-III month: 93,776 EUR) and to Plaza Park EU 157,657 for 2011 I-III month (2010 I-III month: 177,730 EUR).

Further to a helicopter rental agreement between Plaza Park and Keringatlan Kft., no rent plus related services invoiced by Plaza Park for 2011 I-III months (2010 I-III: EUR 0).

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-III months was EUR 26,500 (2010 I-III months: EUR 23,380).

During 2010, Fotex Ingatlan Kft. granted a loan to Fotex Cosmetics Kft. and charged interest totalling EUR 656 for 2011 I-III months (2010 I-III months: EUR 934).

Fotex granted arm's length loans to senior officers to purchase dividend preference shares: The balance of officers' loan amounts to EUR 54,037 at 31 March 2011 (31 December 2010: EUR 92,393).

Appointment and Replacement of Board Members

The members of the Board of Directors were appointed at the extraordinary general meeting of the Company held on 1 October 2009 for a period of 3 years until the 2012 Annual General Meeting of the Company. There was no personnel change in the members of Board of Directors and Audit Committee since the reporting of the last annual financial statement.

Significant events after the Reporting date

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.

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..

Other Disclosures

There are no agreements with shareholders which are known to the Company and may result in restrictions on the transfer of securities or voting rights within the meaning of the 2004/109/EC (transparency directive).

There are no restrictions on the transfer of securities in the articles of incorporation of the Company.

There are no securities granting special control right to their holders.

There are no significant agreements to which the Company is party and which would take effect, alter or terminate upon change of control following a public offering or takeover bid.

Future prospects

The financial position of the Company is stable; it will continue seeking for favorable investment opportunities taking into account the market conditions given and the stable cash flow of the Group. In the forthcoming 9 months the management does not expect any principal risks and uncertainties, which would have significant impact on the financial statements.

Capellen, 27 May 2011

Gábor Várszegi
Chairman of the Board