

## **Fotex First American-Hungarian Holding plc. ("Fotex NyRt.")**

### **Flash Report for January-June 2008**

This flash report covering the period of January - June 2008 in the Fotex Group's business activities has been prepared in compliance with IFRS regulations. Data contained herein are consolidated, but they are not audited. As part of this flash report the Fotex NyRt. discloses the mother company's unaudited balance sheet and profit-and-loss statement which are not consolidated and comply with the Hungarian accounting regulations.

Compared to the reference period the list of companies subject to consolidation has changed as follows: Due to organizational changes within the Group the *Azúr Kft.* - shown for the first half of the reference period as an individual subsidiary - merged into *Keringatlan Kft.* as of August 31 in the reference year, while the *Dália Kft.* - as of February 28 in the reference year - merged into *Kontúr Zrt.* (Kft. = llc; Zrt. = non-public company limited by shares). To the scope of consolidation was added the *Balaton Glas Hotel Kft.* - not yet existing in the reference period - and the *Székhely 2007 Kft.* formed by separation from *Balaton Bútorgyár Zrt.* as of September 30 in the reference year. As of January 1 in the reporting quarter the *Fotex Records Kft.* merged into *Hungarian Records Kft.*, and on February 29, the *Norba Kft.*, the *Fotex III. Kft.* and the *Fotex Kont Kft.* merged into *Kontúr Zrt.* while the *Fotexnet Kft.* merged into *DVDRent Kft.*. The list of companies subject to consolidation and the ratios of our consolidated ownership held in these companies are shown in a separate table. The voting powers and the consolidated ownership ratios may in some cases differ, due to cross-ownership in certain subsidiaries.

In essence the reorganization of the Group's activities arrived at its finish during the reference period. As a result of said reorganization the Group gradually moved away from commerce and changed over to a new core activity, i.e. to real estate management and development. Real estate objects becoming free as a result of downgrading the retail and wholesale segment have been rented out to non-Group partners. By now, the volume of the Group's commercial activities is not significant, if compared the total volume of business or to its profit earning capability. After the reorganization the Group - which previously operated a dominantly trading, mainly retailing network - derives the bulk of its revenue by renting out facilities and by real estate utilization/commercialization. The one-time specific costs of reorganizing, i.e. of phasing out the commercial trading activities and the loss figures lately resulting from said commercial activities shall not recur in the future. From now on the available resources of the Group shall be directed to a larger extent into its core activities (real estate utilization and development) and into the restructuring of its production sector, as well as into an efficient launching of new branches of business; this is the road to go after abandoning the field of commerce and trading, a field that prior to the reorganization was the major source of income.

The Fotex NyRt. intends to expand its current financial investments in the member states of the European Union. To facilitate this, the Company's extraordinary general meeting held on August 4, 2008 resolved to transform the Company into a European Company Limited by Shares. By transformation into a European Company Limited by Shares (hereinafter referred to as "SE") business companies whose activities are not restricted to satisfy local demand may fully expand on the internal market. In recent years experience shows that a physical presence of our management cannot be neglected on markets targeted with our investment. Our Company needs more mobility now than before in order to accomplish an expansion on the European level, to reach the goals set for future growth, and in essence to possess the necessary flexibility on the market.

Transformation into a SE holds the opportunity of changing the firm's registered domicile within the European Union which means that for an optimum future expansion a direct presence becomes feasible and the advantages inherent in such presence may be put to use: more and more accurate information may be obtained more quickly, a more flexible financing

and/or capital redemption may be practiced, taxation may be optimized, a consulting activity - as a new business field - may be launched effectively, a lobbying activity may be conducted on the targeted markets, the currently running holding activities may be expanded on the international level; this way also the marketing efforts and the financing of any export-oriented Holding members may be supported with more success. Keeping the Company's official books in EUROS shall assist in better informing the international small-scale investors which can lead to a substantial improvement of liquidity in these markets. Also institutional investors can have access to the shares of the Mother Company which have so far kept up business policies that rejected share acquisitions on the emerging markets. The above aspects may be of great help in boosting the Company's business but shall be seen also as creating better-than-before opportunities to its shareholders. As the Company's basic scope of business is not changing the risks inherent in the reorganization are considered as negligible and do not add much to the costs of operation that may grow to a still financeable volume. Such risks weigh far less than the bright business outlook indicated by the described expansion in business opportunities. The addition of new business fields inherent in the reorganization and the profits that may be expected from them shall in our view fully compensate the growth in costs.

Considering the present situation in which the Fotex Group generates parts of its revenue in Hungarian Forints, parts in foreign exchange or in amounts tied to the EURO rates of exchange, the risks inherent in exchange rate fluctuations to which the Group's - and logically the Mother Company's - revenue is subjected shall not change in relation to the current situation.

The dominating segment in the Company's assets is made up by real estate objects owned by the mother company and the subsidiaries. A significant portion of this real estate possessions is being put to utilization by leasing out within the Group. In the outcome of the strategic reorganization the Group turned into a real estate utilization enterprise. At the year's end, as part of the audited annual financial report, both the investment-bound and the self-used real estate items had been readjusted in value. There were no significant changes during the reporting period in the composition of the Group's real estate assets and in the factors applicable to determining the net present (fair) value. Accordingly, the figures shown in the Annual Report for 2007 shall be considered as the relevant value of the Group's real estate assets, which then shall be readjusted by the Company in the annual audited financial report covering this reporting period.

Category: TFt	Area, sq.m.			Fair value (low estimate),		
	Investment- bound:	Self- used:	Total:	Investment- bound:	Self- used:	Total:
Retail shop 707	144 581	770	145 351	58 822 434	313 273	59 135
Office 161	6 317	841	7 158	1 927 542	256 619	2 184
Warehouse	97 609	8 171	105 780	9 928 042	831 043	
	10 759 085					
Other building 484	58 009	62 538	120 547	4 496 223	4 847 261	9 343

Building land	676 629	183 188	859 817	16 773 985	4 541 326	21 315
311						
Total	983 145	255 508	1 238 653	91 948 226	10 789 522	102 737 748

Within the list of real estate objects offered by the Group for leasing/renting the volume of retailing facilities is overwhelming. Our market position is particularly strong in the so-called city-type retail facilities. The Group's major retailing object with the largest floor area, a set of shop facilities in the Sugár Shopping Center, is fully occupied by tenants, with the exception of the catering and entertainment facilities located on the 2nd floor where for a few units the leasing negotiations are in progress. A reduction in retail business volume and the current economic difficulties have a sensible retarding effect on the leasing-out potential of these facilities. The Group's office space property holds rentable space located overwhelmingly in Category B office buildings. As the volume of completed modern office buildings in Hungary grew quite considerably, there is a definite drawback in leasing out offices not rated as Category A, because entities looking for low-rent offices abundantly have possibilities to choose from objects of this type, while the maximum rent fee that may be achieved under such circumstances steadily keeps on dropping.

In the field of warehouse-type real estate objects we own sizeable volumes both in Budapest and in the countryside. However, since the appearance of modern logistic centers the majority of these real estate objects "moved" into the 2nd or 3rd category. Renting them out poses a more difficult task than in the case of retail objects and the extent of placement efforts is large. Their rate of unoccupiedness - on the Group's level - is worse than the average market tendency. In the coming period an important task lies - in addition to renting out the rentable unoccupied facilities - in the revision and renegotiation of lease and rent contracts made for indefinite duration and which suffer under unfavorable rent/lease fees, as well as in improving the occupancy rate, along with improving the quality/reliability level of tenants. A further task lies in developing and filtering the real estate portfolio as well as in the preparation of planned development projects for potentially promising properties.

## **I. Profit/loss developments**

The Group closed the 1st half of 2008 with an after-tax profit of HUF 628.1 million, after deduction of minority interests.

The Group's gross margins (cover) decreased by 8.0 % (i.e. HUF 359.8 million) against the reference period. This reduction in gross margins against the reference basis is due to a significant drop in selling costs, which drop can also be seen in the net revenue from sales. While the net revenue from sales dropped against the previous period by HUF 1,731.5 million (22.6 %), we could observe a drop of HUF 1,372 million (43.2 %) in the case of selling costs. The total amount of operational costs applied towards the business activities decreased by HUF 814.1 million, as against the reference period.

The combined effect of the above developments led to HUF 628.1 million as the Group's operational (ordinary business) profit for the 1st half of 2008 which means an improvement in profits of HUF 422.2 million, as compared to the reference period.

The outcome of the Group's financial transactions was a profit of HUF 65.5 million. Against the reference period this figure grew by HUF 101.2 million which growth is the combined result of the following factors:

Against the previous year the revenue from interest grew by 7.3 %, due to a rise in interest (when compared to the reference basis) paid by the banks on higher amounts of locked up

money taken from the free funds of companies that belong to our Group of Companies. Against the previous period the expenditure on interest fell by 78.9 %, due to reduction in interest paid to the banks.

In the row of miscellaneous financial transactions shows an improvement over the reference basis of HUF 89.3 million. In this row we included the revenue from and the expenditure on financial transactions - with the exemption of interest revenue and interest expenditure - as well as the extraordinary revenue and the extraordinary expenditure. An improvement over last year's figure may be attributed to a drop in costs that was stringer in effect than the drop in revenue. This, however, largely is an outcome of accounting for the fluctuating exchange rate differences typically present in USD-EUR conversions.

The developments described above resulted in a pre-taxation profit of HUF 843.9 million which is a HUF 555.5 million improvement over the reference period. A HUF 3.9 million portion in the profit (the appropriation to minority interests) has a reducing effect on the Group's financial results. The holders of minority interests receive dividends from the profits of subsidiaries according to their interest/participation quotas. The Group's after-tax profits after allowing for the minority interests amounts to HUF 628.1 million.

## **II. Income (revenue from sales)**

The Fotex Group's net revenue from sales amounted to 77.4 % of the reference period. Revenue from export sales with 82.6 % remained at the reference level, while the consolidated domestic trading volume was less (76.0 %) than in the comparable period of the previous year. The developments indicated above in the Group's revenue from sales are the result of phasing out the trading/commerce line of business. The figures used as basis includes the retail trading volume in cosmetics and household items, both lines of trading that had been phased out during this reporting period. However, in the actual period the cosmetics line of business is being kept up in the form of a trimmed-down retailing with selective and semi-selective products. Said basis figures also include revenue from sales/trading in the furniture and home decoration lines of business which have been given up during August of the reference year.

On the Group level and compared to the reference period, production output fell by 15.3 %, the revenue from sales in the retailing and wholesale sector went back against the reference period as planned (to reach 39.6 %, and 89.7 %, respectively), while revenue from other core activities remained at the reference level.

The scope of Group companies engaged in **production activities** did not change in relation to the reference basis. Their total revenue from sales at current prices fell by 15.3 % when compared to the reference basis. In our Group two companies are engaged in merchandise manufacturing, the Ajka Kristály Kft. ("Ajka" Crystals llc.) and the Bebufo Kft. which manufactures furniture and supplies merchandise to the Balaton Bútorgyár Zrt. ("Balaton" Furniture Works plc.). Ajka Kristály's revenue from sales fell by 9.2 % against that of the reference period. The net revenue from sales realized on export amounts to 88.8 % of its realized total revenue which is 92.3 % of the basis figure. During this reporting period the revenue from sales expressed in USD grew by 6.6 % (which translates to the amount of HUF 74.3 million), while the volume of sales dropped by 25.6 % and the specific/unit prices of products - expressed in foreign currencies - grew by an average of 43.5 %. A decline in the volume of sales can be observed during the first quarter of this reporting period which logically led to reducing the sales forecast for 2008; accordingly, Ajka Kristály Kft. adjusted its production capacities to the actual demand/acceptance on the market. By the end of the second quarter the glass melting capacity was reduced to one kali glass and one leaded glass melting kiln. During the reporting period the average currency ratio fell to 164.30 HUF/USD, compared to 189.24 HUF/USD during the reference period which led to a HUF 157.0 million deficit in the revenue from sales. Expressed in current prices the domestic sales volume

diminished by 20.2 %, in spite of an implemented average price increase of 30.6 %. In the Group's furniture manufacturing division the consolidated net revenue from production fell by 14.9 % as against the comparable period of the previous year. There was a rise of 30.8 % in domestic sales, compared to the reference figures. This results mainly from a growth of 35.0 % in revenue from centralized public procurement transactions and of 40.0 % realized on miscellaneous tenders. Also their trading volume in the reselling activities grew by 23.0 %, while the volume of sales in their own outlet shop grew only by 1.0 %. Revenue from exports made with furniture manufacturing fell back by 51.2 %. The decline in export trading volume as expressed in HUF was not only due to unfavorable developments in the rates of exchange but largely to the fact that a price increase announced in the last year has been rejected by a client who in the reference period was taking up nearly as much as one third of the exported volume and turned to other manufacturers to satisfy his import demand. So far we were unable to find a new client to make up for this decline in exports, and filling the resulting free production capacity with domestic orders and the acquisition of new foreign buyers/partners imposes a larger than usual and a paramount task for this year.

Revenue derived from retailing activities forms an increasingly small portion within the Group's calculated volume of business. In accordance with the change in business concept revenue from this line of business makes up only for 9.1 % of the total revenue (the basis figure being 19.3 %).

*As against the previous period the Group's **retail trading volume** fell back to 39.6 %. This development in retailing is a result of an intended phasing-out process decided earlier for this line of business. During this reporting period the Group's retail line of business included 11 shop units selling the manufacturing firms' own products as reference retail units, 3 cosmetics saloons operated by Fotex Cosmetics, 3 retail units trading in video and audio recordings plus 1 retail unit selling books operated by Hungaroton Records Kft., and 3 retail units selling apparel and operated by Primo ZRt.. The trading volume realized by furniture and home decoration retailing activities, which added dominant amounts to the figures of the reference period, has been phased out during the reference year, due to changing the business profile of Domus, the firm which represented the Group's furniture division. During this reporting period the revenue of Domus could be increased by issuing invoices - in accounting posted as retail trading volume - covering the remaining uninvoiced part of inventories handed over in 2007 as an optional purchase offer to companies formed during 2007 with a minimum level of Domus interest to operate the department stores in Budapest, Székesfehérvár and Siófok and the Discount Store in Győr. The developments in retail trading volume in the cosmetics and household items division have been shaped by the fact that the retailing activities of Azúr ZRt. - which merged into Keringatlan - have been terminated, as of the balance sheet date in the reference year. During this reporting period there are three high-standard units (Fotex Cosmetics saloons) in operation, specialized in the distribution of selective and semi-selective cosmetic products. In the apparel sector the retail volume of trade fell back by 34.9 %, mainly due to a loss in sales volume caused by closing down the retailing unit in the MOM Shopping Center at the end of the reference year. But also the other continued retail operations had encountered a decline in trading volume in the magnitude of 9.0 % when compared to the reference period. The Kontúr ZRt. had one trading unit in operation which had been given up as of April in this reporting period. In the retailing units operated by Hungaroton Records Kft. the combined rate of trading volume decline was 4.0 %, as compared to the reference basis. This development may be attributed to changing the location of units within the chain (which included moving the activities from Duna Plaza to the Sugár Shopping Center). The facilities of closed-down retailing units are being utilized by renting out, the revenue derived from this being accounted for among "miscellaneous core activities".*

The Group's **turnover in wholesale activities** has a marginally small volume, accounting only for 4.1 % of the total volume of trading. In recent years the wholesale trading agency activities had been abandoned and at present only self-manufactured products are sold wholesale by the Group. During this reporting period this line of business became restricted to the wholesale of branded men's apparel and of audio recordings connected to the music

publishing activities. In both of these wholesale lines the volume of trading declined. In apparel wholesale the volume of trading fell back by 6.4 % (in combination), while revenue from domestic wholesale activities grew by 3.8 % and the revenue from wholesale export fell by 61.2 %. The wholesale volume of trading in audio recordings fell by 12.1 %. However, in this line the revenue from exports could be increased by 3.4 %, in spite of unfavorable currency rate developments, while its domestic wholesale volume went back by 18.6 %.

The portion of revenue from the **other/miscellaneous core activities** within overall total revenue is steadily growing and reached 60.2 %, which applies in particular to revenue realized in connection with real estate utilization. Revenue from real estate management, from real estate leasing and renting, from selling licenses in connection with music publishing and from royalties, and from trade promotion activities are shown here, as well as the revenue from sales transacted via the Internet store, from the renting-out of DVDs to the public, and from ticket and cafeteria sales in the newly opened movie theater. The Group's revenue in the form of rent and leasing fees comes mainly from Keringatlan Kft., the firm specifically set up for real estate utilization/management, and from Domus ZRt. - which recently changed its business profile - and from Kontúr ZRt.. Additional rent fee revenue is being generated by the Mother Company herself (rent/lease objects in Duna Plaza Shopping Center) and by Hungaroton Records Kft. (objects in MOM Park Shopping Center). Leasing out the real estate objects becoming free/available within the Group's real estate portfolio is being accomplished by Sigma Kft.. During the first half this year a total of 18 new rent contracts have been entered into in the three segments of this market (retail objects, offices, warehouses), and Sigma Kft. was successful in prolonging 10 rent contracts and modifying 17 others. Compared to the same period in the previous year the number of new contracts for retail units fell back to one fifth.

The member company realizing the highest revenue from renting/leasing is the Keringatlan Kft. which could increase its consolidated revenue by 23.4 %. This increase in revenue is due to higher rent fees realized by renting out new space created by reconstructing/rearranging formerly empty facilities in the Sugár Shopping Center (which space was not yet available for inclusion in the reference period's figures), and to renting out real estate objects taken over into the ownership of Keringatlan Kft. upon the merger with Azúr ZRt. on August 31, 2007, as well as to renting out miscellaneous real estate being unoccupied during the reference period. The significant changes in currency rates that took place during the first half of the year contributed to increasing our revenue by 3.0 %, while in most cases the rent fee invoices were issued on a quarterly basis. After changing its business profile, Domus ZRt. was able to increase its revenue from renting/leasing during the first half-year by 63.2 %, as against the reference figure. This in spite the fact that some of its objects could not be rented out. Among our companies engaged in real estate renting/leasing only the Kontúr ZRt. encountered a decline (by 5.5 %) in revenue from renting/leasing out as the number of its unoccupied retail objects has grown. The volume of rent business revenue in Kontúr ZRt. amounts only to one tenth of the total revenue realized by our three companies managing large and premium quality investment-bound real estate portfolios. As a whole, against the reference basis the Group's revenue from rent/lease activities shows a dynamic growth, due to an expansion in rented-out space and to a rise in rent and lease fees.

### **III.Coverage/Margins**

The Group's total gross volume in coverage/margin decreased by HUF 359.8 million (8.0 %) as compared to the reference year's corresponding period. The decrease in gross margins volume was the result of a 22.6 % drop in trading volume and of an 11.0 % rise in the coverage level. The volume of margins grew by HUF 652.6 million, due to a decline in the level of sales costs, but dropped by HUF 1,012.4 million due to a decline in the volume of trading.

These changes in coverage volume and level stem from the reorganization of the Group's activities. Gradually phasing out or holding back the commercial and trading lines of business means diminishing net revenue from sales - as against the reference basis -, while the impact of growth in activities bearing higher rates of margins than the price margins customary in commercial/trading transactions resulted in widening the scope and level of coverage.

In the accounting period the coverage level of the core activity shows a differing development: it grew by 5.8 % in the wholesale segment and, in contrast, fell back by 4.1 % in the field of production activities. The coverage level of retailing activities diminished by 9.4 %, mainly due to invoicing at purchase (cost) price the then not yet invoiced portion of inventories handed over in 2007 under optional purchase offers in an action necessitated by giving up the selling of furniture and home decoration articles. There was also a rise in the retail price margins in the cosmetics line and the level of price margins in the apparel line went up by 5.0 %, a result of margin improvements derived from imports realized at favourable currency rates. In the music line of business the level of price margins had grown, too, due to wide price margins prevailing in selling books (the line of bookselling had been adopted during the reference year and the volume realized during the year's fraction is included in accounting).

The decline in the coverage level of production activities is a consequence of changes in the proportion of the different production activities, each having rather different levels of coverage, as both in glass production and in furniture production the level of coverage went up. In the case of glass and crystal products the rising price of energy, the changes in HUF conversion rates, and the type of product assortment (smaller series requiring more manual handling and incurring higher specific production costs) had an adverse effect which, however, could be offset by the end of the reference year by imposing an average price increase of 43.5 % (expressed in USD) for glass and crystal products. The coverage for our furniture production could improve due to a decline in the ratio of export sales carrying lower margin levels and to an increase in export prices introduced in the fourth quarter of the previous year. In spite of unfavourable changes in currency rates we could realize in furniture manufacturing a growth of 7.7 % in coverage level.

The development in coverage level during the accounting year benefited from a change in the ratio of other/miscellaneous core business activities within the net revenue from sales, as in comparison to the reference period said ratio grew by 10.0 %, due to narrowing-down the trading and commercial activities of the Group.

#### **IV. Costs developments**

Against the reference period the Group's operational costs show a decrease by HUF 814.1 million (19.6 %).

Within the operational costs the **staff-related costs** have the largest share (39.9 %), the value of which fell by 23.7 % when compared to the reference year. Typically, the companies belonging to our Group of Companies realized savings in the field of staff-related costs. The largest rate of costs reduction is to be found at Domus ZRt. where -due to changing the business profile - the furniture department store had been closed down and the number of staff could be significantly reduced. Significant staff reduction took place at AJKA Kristály Kft., too, due to an accomplished reorganization. On the Group's level the average number of staff fell by 21.15 %, while the level of wages and salaries grew by 6.51 %.

During one year the number of staff employed full-time shrank by 335 persons.

Within the operational costs the **material-related costs** have the second largest share (35.4 %). As against the reference period their amount decreased by 14.1 %.

Among the material-related costs we included from the Group's material costs the material costs incurred and the value of services consumed by the non-manufacturing companies, as well as the value of miscellaneous services consumed by companies belonging to our Group. Material costs in non-manufacturing companies decreased by 2.6 % as against the reference period, due to the intended narrowing of their activities. Within the material costs of non-manufacturing companies the share of water, fuel gas, and energy costs is largest (81.4 %), their value being 3.9 % higher, due to price increases in utility supplies.

On the Group's level the costs of material-type services used fell by 11 %, as compared to the previous year, due to the downscaling of activities and to cost-saving measures introduced in member companies. Due to shops recently closed down and to the effects of cost-saving measures introduced, among others, the rent costs, the communication costs, the costs of transportation, the maintenance costs, the commissions of agents, the fees of experts, the costs of advertisements, trade promotion and marketing, as well as the costs of security and safeguarding services could be reduced on the Group's level. On the other hand, the costs of contract work and the costs of instructing and training and of advanced training increased, if compared to the reference figures. On the Group's level the value of miscellaneous services shows a 19.7 % drop. Among such miscellaneous services we list the banking costs, the duties paid on deeds, the duties paid to authorities, as well as the insurance premium amounts. Apart from the duties paid to authorities - which grew as much as over fourfold - the miscellaneous costs belonging to this category show a decrease if compared to the same period of the previous year.

On the Group's level the **depreciation costs** amount to 16.7 % of the operational costs, the amount of which increased by 1.2 %, as against the reference figure. A significant growth in depreciation costs may be observed in Keringatlan Kft. which is due to assets activation/capitalization performed during 2007, mainly for building conversion jobs in the Sugár Shopping Center.

During this reporting period the category of **other/miscellaneous expenditure** amounts to 8.0 % of the operational costs, and their value dropped - as against the reference level - close to half, which drop stems mainly from paying - by Keringatlan Kft. - HUF 190 million in damages to Magyar Építők Rt. which was a singular expenditure item for 2007.

Against the reference period there was a significant drop of 43.1% in the Group's **distribution and selling costs**, which development is due to a reduction in the volume of sales and to changes in the structure/assortment of sales. The distribution and selling sales costs include the costs of materials and of material-type services used by the producing/manufacturing companies, the value when purchased of goods sold and the value of services sold (mediated, as well as the capitalized value of own performance/production.

In the case of our producing/manufacturing companies the amount of material costs has decreased by 3.4 % when compared to the reference figure, which development stems from a growth of 11.1 % material costs in the case of Ajka Kristály Kft., and a decrease of 31.7 % in the costs of materials in the case of Bebufa Kft.. Such significant reduction is mainly the result of a lower production volume, of a shift in production towards products requiring a lower material ratio, but also of using more materials with a lower grade of completeness after the Norba Kft. has been affiliated and started its production activities. Within the material costs of our producing/manufacturing companies 48.8 % are taken up by the costs of basic and auxiliary materials, 49.3 % by the costs of water, fuel gas and other types of energy. The value of basic and auxiliary materials fell by 12.4 % as against the reference figure, while the costs of the water, fuel gas and other energy used went up by 8.4 %, mainly due to the effects of price increases in the sphere of public utility services. The value of material-type services consumed by our producing/manufacturing companies decreased, as against the reference period.

The value when purchased of goods sold, which make up for a large portion of the

selling/distributing costs, has decreased by 44.2 % as against the previous year which is largely due to the completed winding up of the retailing line of business of Domus ZRt., while said decrease is in fair proportion also to the loss in volume of trading suffered by Balaton Bútorgyár ZRt..

## **V. The Group's assets and liabilities**

The balance sheet grand total of our Group of companies fell by 4.6 % against the reference period.

There is a HUF 136.5 million decrease (0.6 %) in the category of invested assets, compared to the previous year.

The drop of 20.8 % in **immaterial goods** was mainly due to the value loss determined by revaluation and accounted for at the end of 2007 that relates to the "FTC Commercialization Rights", carried as a "right possessing property value" in the Group's books.

The mass of **tangible assets** grew by HUF 60.5 million (0.3 %), compared to the previous period. Major additions to the mass of tangible assets were made by AJKA Kristály Kft., due to acquisition of equipment accomplished during the first half of 2008, while Fotex Cosmetics Kft. performed a significant asset divestment by removing the works and supplies from its books that had been executed in retail facilities rented in Sugár Shopping Center. Additional divestment occurred at Fotex NyRt. by removing in 2007 the lease rights applicable to the SKÁLA Shopping Centers.

A significant growth in the mass of **long-term investments** - as against the reference figure - is in one part due to loans granted by Fotex NyRt. for the purchase of shares within the management incentive scheme applicable to the accounting year, and in the other part to high-amount loans extended by Domus to furniture trading companies set up with a minimum of Domus share interest for purchasing Domus inventories.

Compared to the same period of the previous year the value of Goodwill fell by HUF 297.6 million (9.6 %). This decrease largely stems from accounting for the value loss determined at the end of 2007. The Management assessed the necessity of value loss in the case of Goodwill shown in the books and decided to apply value reduction to Goodwill portions allotted to companies in which the future discounted cash-flow is expected to be insufficient to support the relevant Goodwill value.

In total, the mass of current assets shrank by 11.7 %, as against the reference mass, which is a combined result of a 9.6 % reduction in cash at hand, a 4.9 % growth in accounts receivable, a 28.2 % drop in inventories, and a multiplication in the volume of securities.

The 28.2 % shrinkage in **inventories** stems from Domus ZRt. where due to winding up the former business profile department stores had been closed down, with the inventory being sold out, and from Hungaroton Records Kft. and AJKA Kristály Kft. where at the end of 2007 the scrapping of assets and value losses had been accounted for.

Compared to the previous year the volume of the securities portfolio grew significantly. This may be explained by changes in the portfolios of member companies held in credit-type negotiable securities to be used for trading. The securities held by the Group consist mainly of instruments maturing within 3 months and which had been reposted to the category of liquid assets.

Within the **liabilities** of the Group 6.9 % are obligations the value of which decreased by 5.4 %, compared to the previous year. Of the total of said obligations 27.4 % fall into the category of long-term liabilities and 72.6 % into short-term liabilities.

The volume of long-term liabilities grew by 1.4 % as against the previous year. All long-term

liabilities fall into the category of miscellaneous long-term liabilities. Here we recorded the deferred tax obligations of earlier years, among others the loan taken by Bebufa Kft. for purchasing motor vehicles, or by Hungaroton Records Kft. for purchasing a Steinway piano, as well as the security amounts received from tenants by member companies engaged in real estate renting for the facilities they have rented out.

According to the balance sheet our short-term liabilities fell by 7.8 %. All short-term liabilities fall into the category of miscellaneous debts. In this row we included the Group's short-term liabilities, the specific reserves, and the value of accrued and deferred liabilities. The decrease in the volume of miscellaneous short-term liabilities may be explained by an 8.1 % growth in advance amounts received from buying clients and by a decrease in the Group's accounts payable as well as by a shrinking volume of miscellaneous short-term liabilities. A substantial drop in accounts payable may be observed in the case of Domus ZRt., but also in the case of Keringatlan Kft., of Hungaroton Records Kft., and of Primó ZRt., while in the case of AJKA Kristály Kft. a significant increase in accounts payable may be observed.

Within the Group's total liabilities the shareholders' equity amounts to 93.1 %.

As against the reference period the subscribed capital grew during this accounting period by HUF 200 million (2.8 %), as in the 4th quarter of the basis year our Group raised its registered capital by issuing preference shares. Due to buying own shares in the accounting year the shareholders' own equity fell by HUF 2,100.0 million. The significant change in profit reserves within the shareholders' own equity has been caused by reposting the 2007 balance sheet profits to profit reserves, by settling the currency exchange rates differences resulting from converting the EURO-based balance sheets and profit-and-loss statements of foreign subsidiaries into HUF, and by settling the currency exchange rates differences incurred by transactions between said foreign subsidiaries and the Keringatlan Kft., the AJKA Kristály Kft. and the Székhely 2007 Kft.. Within the shareholders' own equity the value of other reserves (goodwill) fell by HUF 86.3 million (12.2 %), as against the basis figure, which decrease stems from accounting for the annual depreciation.

The 87.0 % drop in minority interests during this accounting period is the result of accounting for dividends allotted from the Group's profit to the owners of minority interests, and for other transactions relating to them.

### **Staff-related and organizational developments**

Apart from disclosures made in the first quarter flash report no changes occurred within the Group's operations that would fall under obligation of publication. A change in person occurred in the Supervisory Board of Keringatlan Kft. where Mr. Dávid Várszegi, previously the Chairman of the supervisory board retired as he is now responsible for the direct coordination of capital investment projects in that Kft.. The shareowners' meeting held on June 19, 2008 elected Mrs. dr. Zsuzsanna Gyülvérszi to be the new member in the supervisory board.

### **Miscellaneous**

According to Resolution No. 23/2000 of the Company's general meeting, as of May 2, 2001 the Fotex NyRt. - under cooperation with Keler Rt. - exchanged all of its shares. As of said closing date a total of 70,388,664 shares had been exchanged, while 334,986 old shares have not been exchanged by their holders. Such unexchanged shares have been declared by the Company as invalid, in accordance with applicable law. The new shares issued to replace such invalid shares have been sold by the Company in the most optimum way to best satisfy the interests of the shareholders. The proceeds realized thereon - after deducting the costs incurred - have been paid - starting with November 15, 2001, i.e. not earlier than 30 days after

selling all the shares that were created to replace the invalidated securities - to the holders of such invalidated shares as compensation for such old and unexchanged shares that had been declared invalid. Within the mass of invalidated shares the proceeds from 159,311 shares have been disbursed till date, while the holders of 175,675 invalidated shares did not turn up until now.

The annual general meeting of Fotex NyRt. held on April 28, 2004 decided that the shares issued by Fotex NyRt. in printed paper format shall be converted into dematerialized securities. The date on which such conversion into the dematerialized format shall take place was November 11, 2004. Said conversion has no effects whatsoever on any rights attached to the shares. The time interval specified for submitting the printed paper format shares lasted from September 10, 2004 to November 10, 2004. As of November 11, 2004 the printed paper format shares had been declared invalid by Fotex NyRt. From the shares declared invalid due to dematerialization the value of a total of 1,210 has been paid out so far, while the holders of 140 invalidated shares did not turn up yet.

The extraordinary general meeting of Fotex NyRt. held on August 04, 2008 resolved that the Company shall be transformed into a European Public Limited Company (SE). The general meeting has set the date of June 30, 2008 as the closing date for a draft of the transformation balance sheet. According to the general meeting's resolution shareholders not wishing to participate in the SE to be established by way of such transformation are required to communicate such intention in writing to the Board of Directors within 15 days after the general meeting's date, along with submitting proof that the shares held by them have been blocked till the date of January 31, 2008. (???). As of the date of finalizing this flash report no shareholder of the Company submitted such written communication to the Board of Directors.

This flash report contains data and assertions that reflect the reality and does not conceal facts that may be of impact on assessing the Company's situation.

Budapest, August 14, 2008

Gábor Várszegi

General Director