

**Fotex First American-Hungarian Holding
Public Limited Company**

Flash Report for the I-IX. Months of the year 2007

The flash report on the Fotex Group's monthly activities for the months I-VI. of the year 2007 has been prepared in compliance with IFRS regulations. Data contained herein is consolidated, but it is un-audited.

The group of the consolidated companies has changed remarkably as compared to the reference period. The consolidation group has been extended with the Downington Srl., a Luxembourg based subsidiary founded in the second quarter of the year. Due to the structural reorganisation within the Group, the Azúr Real Estate Development LLC, which was presented in the first quarter of the reference period as an independent subsidiary, merged with the Azúr Co.Ltd., respectively the Kontúr Paper LLC merged with the Kontúr Co.Ltd., and the Fotex-2000 LLC merged during the IV. quarter of the year with the Keringatlan LLC. On the 28th of February of the report period the Dália LLC merged with the Kontúr Co.Ltd., and on the 31st of August the Azúr Co.Ltd merged with the Keringatlan LLC. In the current period it was extended by the Székhely 2007 LLC withdrawn from the Balaton Furniture Factory on the 30th of September. The companies drawn into the consolidation and our consolidated share proportion in said companies are presented in a separate chart. The ratio of votes and the consolidated ownership stake might differ due to cross-shareholdings throughout the subsidiaries.

The Group's output in the current period was decisively influenced by the reorganisation of the activities of the Domus Co.Ltd., the arising of onetime additional charges due to the cutting down on its traditional trade activities (stock devaluations, notice costs, etc.). The reorganization of the Domus into a closed corporation ended with the merger of its subsidiaries and the termination of its trade activity in October, so these one-time reorganisation cost related to Domus, will not appear in the course of the coming period. Another expenditure on additional charges in this year, which will not arise further on, is the expenditure of the liquidation of the photo division started in the reference year, but which is reaching over to the first quarter of the period under review. The output of the period under review was also influenced by the fact, that while the sales revenues growth after the completion of the final stage of the renovation works of the Sugár Shopping centre appeared pro-rata, the arising one-time expenditures on the additional charges of the marketing costs connected to the full opening, appeared already. The set back trade activity of the Azúr Co.Ltd. which merged with the Keringatlan LLC, will be liquidated by the end of the current year, and as a consequence this implies further onetime additional expenditures.

I. Profit account

The Group closed the I.-III. Quarters of the year 2007 with net earnings reduced by a minority holding.

The gross profit margin of the Group has decreased by 8.4 %, i.e. with 615.1 M Ft, as compared to the reference period. The reason for the decrease of the gross profit margin as compared to the reference lies in the perceptible decline of the sales costs and the net sales revenues.

While the net sales revenues have decreased by 1815.2 M Ft (13.6 %) as compared to the previous period, in the case of the sales costs a decrease amounting to 1201.0 M Ft (20.0 %) could be observed.

The amount of the operating expenses used for the purposes of the activity has decreased by 1138.0 M Ft as compared to the reference period.

Based on the contracted effect of the above the operating income in the I.-III. quarters of the year 2007 amounts to 528.6 M Ft, which means an output improvement of 534.3 M Ft compared to the reference period.

The output of the financial operations of the Group amounts to -116.2 M Ft. Compared to the reference period this was reduced by 33.3 M Ft, which decrease was due to the common effect of the below:

The decrease by 16.5 % of the interest earned compared to the previous year is primarily due to the freezing of incomes of the interests received from the bank for the commitment of the smaller stock free funds of the companies pertaining to the Group, as compared to the reference. The significant decrease of the interest expenditures amounting to 96.4 % is due to the reimbursement of the total bank credit portfolio of the Ajka Kristály LLC and Keringatlan LLC in the course of the reference year. Furthermore, we solve every credit needed for the liquidity of our subsidiaries by offering an internal loan within the Group, which results in a further decrease of the interest expenditures.

The incomes and expenditures of the financial operations (except for the interest incomes and expenditures), as well as the extraordinary incomes and expenditures, were stated at another position of the financial operations. Its value declined with 41.0 %, compared to the reference. The decrease was caused beside the 3.8% decrease of the revenues by a 23.9% increase of the expenditures. The reason for the decrease of the financial incomes, in comparison with the previous year, is that while the incomes of the reference year contained the profit realised on the sale of the participation in companies not pertaining to the Group (Fotex Plc. and the Keringatlan LLC sold its share in the Ráday 11 LLC, moreover Fotex Plc. sold its share in the Lux LLC, too), such sales did not arise during the year under review.

Among the other expenditures of the financial operations a remarkable item of the reference year was the exchange loss realised in connection to the bank credit reimbursements of the Keringatlan LLC and Ajka Kristály LLC. Meanwhile a significant item of the year under review was the exchange loss arisen at Downington Holding Sàrl, calculated at the exchange of USD loans to EUR, when the Group turned from bank credits to internal financing, respectively the item accounted for in connection with the termination of the goodwill arisen from the Domus- consolidation in the year under review. Our pre-tax profit amounts due to the above to the sum of 412.4 M Ft, showing an improvement of 489.6 M Ft compared to the reference period. The profit ratio of the minority participation spoils the group profit by 15.0 M Ft. Minority owners benefit from the profit of the subsidiaries according to their ownership stake.

The Group's taxed profit corrected by the minority participation is 254.5 M Ft.

II. Sales revenue

The net sales revenues of the Fotex Group amount to 86.4% of the values of the reference period. Income on exported goods was on reference level (100.6%) while the domestic consolidated turnover was lower (83.2%) as compared to the previous period.

The above indicated Group revenues are mainly a result of the deliberate withdrawal from the commercial activities, in the course of which the photo and Telecom division, still present

among the data of the reference year, were terminated. Activities of the cosmetics division are still going on, but the trade activity of the furniture and interior design divisions was terminated in this year, and as a result of it, the declining turnover of the closing stores caused the decrease of the domestic turnover.

At Group level with a 1.4% decrease production remained practically on the reference level, the revenues of the retail and wholesale activities dropped as planned with 46.8%, respectively 31.0% in comparison with the reference data. The income from other core activities increased in turn by 11.0%.

The **manufacturing** companies of the Group have not changed as compared to the reference. The current price total sales revenue was 1.4 % lower than the reference level. Two companies from the Group perform manufacturing activities, the Ajka Kristály LLC, and our furniture company, the Bebufa LLC, which supplies commodity stocks to Balaton Furniture Factory Co.Ltd. The income of the Ajka Kristály LLC rose by 3.2% as compared to the reference period. The net revenue of the furniture division of the Group realised from the manufacture towards a company not pertaining to the Group is 10.3% less than in the same period of the previous year. The net revenue of the domestic sales of our companies performing manufacturing activities shows a decline, while the export sales revenue are in the case of both of our companies in spite of the unfavourable exchange evolutions favourable than the evolution of the domestic turnover. Our glass manufacturing company realised beside a smaller (10.6%) domestic drop, export sales surpassing the reference level by 5.7%. The actual manufacture value of our furniture producing company has dropped by 10.3% compared to the reference level. The furniture export value of the division, reported in Forint, decreased by 2.6%, eliminating somehow the unfavourable exchange rate evolution. However, the domestic manufacture sale declined by 30.0 % due mainly to the turnover decline of public procurements caused by the restrictive measures, respectively to the decline of the demand of the population. The revenues of different other successful, but not public procurement tenders could not come up for the above turnover dropout.

As a result of a concept change the Group gradually moves out from the commercial activities. In the course of this change it liquidated its participation in the music wholesale company having a large turnover up to that moment (sale of the share in the Gong Express Ltd.), it sold its Telecom agency network, and liquidated subsequently its electronic retail and wholesale trade (Owner's decision regarding the termination of the activities of Keravill Ltd.). it sold its optical division (by selling the share owned in the F-O Optika Fotó LLC), as well as its paper retail activity (by selling a significant part of its Kontúr Paper LLC retail trade network). In the first half of the reference year it sold part of its cosmetics and telecom retail stores (sale of a significant part of the Azúr Ltd. and Fotex-2000 LLC retail trade network), and following the delisting of Domus Co.Ltd. it also started, and finished by the end of October of the current year the profile change of its furniture sale division, liquidating the trade of furniture and interior design products. In January of the report period it liquidated the retail trade of its photo services and photo products. By the end of the year it will have terminated the trade activities of cosmetic and household product performed by the Azúr Co.Ltd which merged with the Keringatlan LLC. Real estates liberated by the cut down on the commercial network were leased out to companies outside the Group.

Revenues from the retail activities form a shrinking part of the Group's reported turnover. According to the concept change the ratio of this activity as compared to the total revenue is 20.2% (reference rate 33.3%). This trend will be maintained in the future, according to the Group's resolutions.

The Group's **retail turnover** dropped to 53.2% compared to the previous period. The development of the retail trade turnover is the result of a deliberate set back of this kind of activity. In the reference year it closed the less profitable units of our companies of the music and interior design divisions. Telekom and cosmetics stores were sold for the most part. Those stores of these two divisions, which we could not sell in operating state, were employed profitably by leasing out.

The retail trade turnover of the Group's furniture division decreased due to the turnover deficiency of the closed or further leased out units connected to the profile change of Domus. The retail trade turnover of the cosmetics and household divisions was mainly defined by the fact that the lease right and the stock of a significant part of the stores of Azúr Co.Ltd. were sold in the reference year. On the key date there were only 5 retail trade units operating in the household and cosmetics divisions, three of which are exclusive parlours specialised on the marketing of selective and half-selective cosmetic products (Fotex Cosmetics), and only two stores, one retail unit and another warehouse sale unit, operate with the traditional Azúr profile. The 8.2% decrease of the clothing retail trade turnover occurred while maintaining the same retail trade capacity. The Kontúr Co.Ltd., which merged in the reference year with the Kontúr Household Equipment LLC gradually terminated its retail trade activity. We are operating only one trade unit, whose realised revenue appears in the Kontúr Co.Ltd. come into being by the merger. Closed stores were made profitable by leasing them, and the revenues are reported among the other core activities. The photo retail and service trade activities of the Fotex-2000 LLC were liquidated in January of the reporting period.

The turnover arising from the **wholesale trade** activity of the Group is marginal, amounting to 2.9 % of the total turnover. In recent years the intermediary wholesale trade was liquidated, the Group performing only the wholesale trade of self-manufactured products (clothing, sound carrying devices). The revenues of the clothing wholesale trade increased in the reference rate, but could not maintain the export revenues to the Russian market in the period under review, its export income dropping to half. This was somehow counterbalanced by the domestic wholesale reaching a turnover growth in the I- III. quarter of the year. A smaller decrease was realised in the turnover of the wholesale trade of sound carrying devices. This division realised higher export revenue in the reference year due to the initial purchases of the joining new dealers, which performance could not be repeated in the reported period. Beside the drop in the export sales the domestic wholesale trade decreased too. Our cosmetics wholesale trade was liquidated during the reference period, as the Fotex Cosmetics LLC terminated its wholesale trade activity in January 2006.

A constantly growing part of the total revenues is made up by the revenues of **other core activities**, more precisely the revenues realised in connection with the real estate developments. Real estate developments, leasing, licence sales and royalties connected to the music publishing activity, the revenue of the advertising activities, respectively the Internet department store sales, DVD-rentals and the revenues of the ticket and snack-bar sales of the newly opened cinema were all reported here. The Group's earned premium from rentals augmented significantly as compared to the reference rate, due to the extension of the real estate leasing and the increase of the leasing fees.

III. Margin

The Group's total gross margins decreased by 615.1 M Ft (8.4%) compared to reference period. The decrease of the gross total margin happened by way of the 15.6% set back of the turnover and a 3.3% increase of the margin level. Total margins dropped by 1,057.1 M Ft due

to the occurred turnover recession, but this was counterbalanced with a 442.0 M Ft margin level increase due to the greater decrease of sales costs than those of the turnover figures.

In the period under review the margin levels of all its core activities, except for the retail trade's, augmented: the wholesale trade by 4.8% and the manufacture activity developed by 3.9%. The coverage level of the retail trade decreased by 4.8%. The sale of furniture and interior design products due to the closings caused the price margin level of these product categories to drop by 10.6%. The price margin level of the home equipment and clothing divisions augmented because of the favourable purchases due to the exchange rate evolution, the price margin level of the music division is somewhere near the reference level, and there was a slight decrease in the reserves of the cosmetic division activities.

A favourable effect on the margin level change of the period under review had the modification of the rate of other core activities within the net sales revenues, which increased by 11.4% compared to the reference period, due to the cut back on the commercial activities of the group and the increase of the revenues of this kind of activities.

IV. Expense Tendencies

The Group's operational charges show a decrease of 1 138.0 M Ft (15.5 %) compared to the reference period.

Within the operational costs, the *cost of personnel* represent the highest proportion (42.1 %). Expenses associated with personnel decreased by 13.6 % as compared to reference year, while the average number of full time employees dropped by 25.2 %. A significant effect on the evolution of the personnel expenses had beyond the utilisation of the average number of permanent staff, the accounting of one time additional expenses arisen due to downsizing of the staff made necessary by the reorganisation of the Group's activity.

On Group level wages of full time employees increased by 18.3 % mainly due to changes in the mix of employees or rather because of wage developments performed by the Group members. All Group members have rationalised their number of employees proportionate to the turnover deficiency as compared to the reference period. The most significant cost saving on personnel expenses was reached at the Ajka Kristály LLC as a result of its staff downsizing in accord with its productivity. But with the staff downsizings due to the store closings and the setback of the trade activities, both the Azúr Co.Ltd. and the Domus Co.Ltd. managed to have significant staff savings.

The number of the Group's permanent full time staff dropped by 342 employees in one year.

Within operational costs the second largest item (35.6 %) were the *charges for materials*. Their value decreased by 21.9 % compared to reference period.

Among material charges were reported cost items like the material charges of non-manufacturing companies, calculated from the Group's material charges, as well as the value of the employed services, respectively the value of other services of companies pertaining to the Group.

Material charges of non- manufacturing companies show a 37.7 % drop compared to the reference period due to the setback of the activities. Within the category of material charges of non-manufacturing companies the most significant items were costs of water, gas and energy consumption. Their value decreased significantly reaching a drop of 30.6% compared to the reference values, even while having tariff increases.

On Group level the 5.6 % decrease of the employed material service charges as compared to the previous year, were due to the cut back on the activity and the cost reducing measure implemented by the companies. Among the employed material services the highest rate is that

of the leasing fees, whose value dropped by 35.5% compared to the same period of the reference year. Beside the leasing fees another big item are represented by the expert's fees, advertising, publicity and promotion costs, maintenance charges and franchise fees. The value of advertising, publicity and promotion costs, expert's fees and franchise fees increased as compared to the same period of the previous year.

As a consequence of store closings and cost cutting measures, communication fees, , transportation expenses, agency fees, contract work fees, respectively the costs of safeguarding and property protection decreased on Group level. However, as well as expert's and increased as compared to the previous year's same period.

A decline on Group level showed also the value of other services (-38.7 %).

On a Group level the **amortisation expenses** represented 12.9 % of total operating expenses, the value of which decreased by 1.7 % compared to the reference period, which can be accounted for with the decrease of the total value of amortisations accounted in the individual accounts of the Group members as compared to the reference rate. A major amortisation expense reduction was observable in the case of Ajka Kristály LLC, caused by the fact that in the second half of the year 2006 two furnaces and one glass drop dispenser were completely written off. Among the Group member companies noteworthy is the increase of the amortisation expenses of Keringatlan LLC, which can be explained by the capitalization in connection with the reconstruction of the Sugár Shopping centre. An increase could be noticed also at the Balaton Furniture Factory Co.Ltd., because of the inclusion as asset of the new premises.

Other costs in the current period represented 10.3 % of total operating expenses.

Their value decreased by 13.9 % as compared to the I.-III. quarters of the year 2006.

A significant (190M Ft) one time item could be noticed in the books of Keringatlan LLC mainly due to the fact that in May 2007 it had come to an amicable settlement in the trial case with the Magyar Építő Ltd. Keringatlan LLC, by reducing its compensation claim and employment of its reserves constituted in the previous year (which appeared among the other revenues), has financially settled the claim of the Magyar Építő Ltd. from the sum retained for compensation purposes.

The Group's **sales costs** significantly decreased by 19.9 % as compared to the reference period, which can be accounted for with the decrease of its sales volume, as well as with the modification of its composition. Sales expenses include manufacturing companies' material charges and employed material expenditures, as well as the purchase value of sales goods and the value of services sold (intermediated), respectively the value of the private capitalised output.

Material expenses and the value of the employed material services of our manufacturing companies show a decline compared to the reference period. In case of Ajka Kristály LLC one could notice the cut back of the costs of used primary and auxiliary materials, as well as the energy consumption, which decrease arose from the rationalization of the production. The value decrease of its employed services was caused mainly by the drop in hired labour fees.

The purchase value of sales goods (ELÁBÉ) representing a large part of the sales costs shows a 27.2% decrease compared to the previous year, which dropped significantly in the cases of Azúr Co.Ltd., respectively the Domus Plc. due to the store closings. This was true also for the Hungaroton Records LLC and the Primó Co.Ltd. In January 2007 the Hungaroton Records LLC closed its CD store situated in the Duna Pláza shopping centre, and in March it opened a new CD-store and book store in the Sugár Shopping Centre. Its ELÁBÉ drop can be accounted for first of all with the two-month-dropout of the turnover.

V. Group Assets and Resources

The aggregated amount of the Group balance decreased by 3.9% compared to the reference period.

The stock of invested assets shows an increase of 83.7 M Ft (-0.4%) as compared to the previous year.

The 34.5% decrease of the intangible property is mainly due to the approx. 30% value loss of the FTC Trade Right regarded as a right with property value in the books of the Group, a loss accounted at the estimation made at the end of the year 2006.

The stock of **tangible assets** augmented by 986.7 M Ft, i.e. 6.0%, compared to the previous period.

A significant stock increase of the intangible assets occurred in the current period in connection with the completion of the plant construction on the premises in Házgyári Street of the Balaton Furniture Factory Co.Ltd., respectively in connection with the extension of the energy supply system, which were activated in the last quarter of the previous year, but were not reported in the I.-III. quarters reference period. Further stock increase occurred at Keringatlan LLC due to the asset investment in connection with the reconstruction of the Sugár Shopping centre (items related to the III. stage of the reconstruction were capitalized in May 2007), respectively due to other acquisition of businesses. A significant stock decrease is observable in the case of Ajka Kristály LLC. Beside the deliberate setback on the equipment investments the significant decrease was caused by the complete depreciation of two furnaces and one glass drop dispenser in the second half of 2006.

The 65.4 % decrease of the long term investment stock, as compared to the same period of the previous year, arose mainly from the technical reranking of the participation of the Group in the Balaton Glas Hotel LLC to the tangible assets during the audit at the end of 2006.

The 5.1% goodwill position decrease can be accounted for with the value loss accounted in connection with the Primó goodwill at the end of 2006, respectively, by the merger of the Domus Chain LLC and the Domus IBC LLC into the Domus Plc., which terminated the Domus goodwill.

The working capital decreased by a total 9.5% as compared to the reference stock. The significant 6.9% drop of the financial asset stock can be explained by the continuous acquittal of the investment invoices of Keringatlan LLC connected to the reconstruction of the Sugár Shopping Centre, as well as by the financial fulfilment of the plant of Balaton Furniture Factory Co.Ltd.. built on its premises in the Házgyári street and the extension of its energy supply system.

The decrease of the Group's claims (21.4%) was due to the decline of the clientele of the companies belonging to the Group and to the total value drop of its other claims.

The total value of the Group stock dropped by 6.9 %. A significant stockpile decrease can be noticed at the Domus Co.Ltd. as a result of the store closings and stock sales. The stock of the Domus Co.Ltd. decreased by the accounting date by 242.2 M Ft due to the sums invoiced with a 61.6 M Ft discount, based on the stock sale contracts with its tenants.

The securities stock showed a 98.6% drop, which can be explained by the change of the securities stock owned by the Group members, used for the endorsement purposes and representing a credit relationship. The Securities stock of the group is made up mainly of

securities having a due-date shorter than 3 months, which were reranked to the financial instruments.

The **resource** stock of the Group is made up to 6.5% of the liabilities, which show a 22.4% drop compared to the previous year.

29.5 % of the liabilities have a long term maturity, 70.5% are short term liabilities.

The value of long term liabilities increased with 260 M Ft (63.8%) as compared to the same period of previous year.

Among other long term liabilities were reported the loan for an automobile purchase by bebufa LLC, and the loan for the purchase of a Steinway piano by the Hungaroton Records LLC. The value of other long term liabilities augmented by 60.3%. Hereto were classified among others the security deposits paid by the customers for the leased real estates, respectively the postponed tax liabilities of previous years. In the case of Keringatlan LLC the value of the security deposit received from clients has significantly grown, respectively in the case of Domus Plc. the bail sum received from clients on account of the leased real estates in connection with the profile change, appears as a new, major position.

Our short term liabilities dropped according to the balance by 36.4%.

The position regarding short term bank credits was filled in in the case of the DVDrent LLC and contains a loan received from a non-member of the Group. This loan was reimbursed in 2006. While in the current year the books of the Bebufa LLC contained the loan taken over from Norba LLC in the course of the restructuring.

The decrease of the stock of other short term liabilities can be explained by the drop of the Group's delivery stock, respectively that of other short term liabilities and the drop of the down payments of customers. A significant delivery stock and customer down payment decrease can be noticed in the case of Domus Co.Ltd. as a consequence of the cut down of the trade activity. A further major decrease occurred in the supplier stock of the Balaton Furniture co.Ltd, Keringatlan LLC, respectively Hungaroton Records LLC.

The rate of the equity capital within the resources of the Group is 93.5%.

The significant change of the accumulated profit reserve within the equity capital was due to the reranking of the output according to the balance sheet of the year 2006 to the accumulated profit reserve, the settling of the exchange currency differences arising from the conversion of the balances and output reports of foreign subsidiaries which were conducted and reported in Euro in Forint, respectively the settling of the exchange currency differences arising from the transactions between these foreign subsidiaries and the Keringatlan LLC, Ajka Kristály LLC and the Balaton Furniture Factory Co.Ltd. (This loan was reported in the books of Székhely 2007 LLC, following the registration of the restructuring).

The decrease with 86.3 M ft. (11.2%) of the position referring to the capital and other retained earnings (good-will) is caused by the value loss accounted in the current year.

The significant 71.1 % drop of the minority participation is mainly due to the business acquisitions from external third parties, which represent an ownership stake.

VI. Situation of the Group's companies

The Group's total net revenues of the current period increased by 3.2 % compared to the reference period. Its export revenues calculated in Forint were, in spite of the unfavourable exchange-rate movements, 5.7% above the reference rate. Its domestic sales dropped by 10.6%. More than three quarters of its export revenues are realised in the USA, Ireland, Italy and Great Britain, but its clientele reaches from South-Africa to Japan. Due to the

transformations on the glass product market the company's role changed greatly. As a result of the transformation, due to its exceptional quality products and reliable availability, the company became one of the suppliers of the world's greatest trade marks. The insecurity of the capacity utilization observable in the first quarter of the year gradually disappeared in second quarter and its capacity was used to a major extent. The capacity rationalisation of the company performed in the reference year became justified taking into consideration the present utilizations. Beyond the transformation of its product structure the LLC took into consideration for the sake of the optimisation of its capacity not only the demand of existing and future customers, but also their solvency. With fewer customers it realised export revenues higher by 99.2 m Ft than the reference, despite the fact that the HUF/USD mean exchange rate dropped from the reference period rate of 214.37 HUF/USD to a rate of 186.3 HUF/USD in the current period. The company restricted its capacity to satisfying on an outstanding quality level the market needs of solvent players regarded as sufficiently covered. It decreased the rate of the lower coverage product in its product range. It withdrew from the production of lower priced luxury item and it pushed the manufacture of higher priced, premium category luxury products into the foreground. Due to the transformation of its product structure a 6.8% volume drop occurs in the current period, and despite the unfavourable exchange rate movements the company could increase its revenues reported in HUF, as the unit price of the glass sales reported in specific foreign currencies rose by 29.8%. Among its customers there are some worldwide famous companies present, like William Yeoward, Fabergé, Waterford, Tiffany, Calvin Klein etc., which are playing an outstanding role in the distribution of glass products of a premium luxury category. The company managed again a significant loss in the report period, but its loss on the operating output level dropped to one fifth of its reference period value. Its loss is mainly due to the unfavourable exchange rate evolution. In the previous period the LLC performed a capacity rationalisation and in accordance with this it downsized its staff number, due to which it operated with an average staff number lower by 98 employees that in the reference period. The solvency situation of the company did not improve substantially. Taking into consideration the value loss at the end of the year 2006, the consolidated profit of its own manufactured stocks did not augment in comparison to the reference period value. The stock evolution is unfavourably influenced by the so-called excess production needed for the secure delivery of short run series' orders. In March of the reference period the Group switched to internal financing. In the course of this it reimbursed the LLC's bank credit stock by employing resources from within the Group. Its solvency can be maintained only by employing serious loans from within the Group.

The Group partly wound up its own production capacity, liquidating Dália LLC in 2004, respectively outsourcing them from the Balaton Furniture Co.Ltd., due to a profile cleaning. The commodity stock production needed for the trade activities of **Balaton Furniture Factory** Co.Ltd.. is performed by Bebufa LLC since the 1st of September 2005. The LLC has no independent trading activity, the domestic and international sales are handled entirely by the Balaton Furniture Factory directly. Besides its full scale trading activity the Ltd. performs property management tasks too. This latter activity was terminated on the accounting date due to the profile cleaning, and the Co.Ltd. performs from that moment on only activities related to trading. After the completion of the changes, property management will be performed by the Kontúr Co.Ltd., and the Székhely 2007 LLC founded by withdrawal, specialised in this domain. During the reference period Balaton Furniture Factory build a new, 3,100 sqm. surface plant hall on its free hold peripheral property, which incorporates the space needed for the manufacture of spare parts and the offices on the upper storey. The investment was completed by securing resources from within the Group. By the inauguration of the new plant it was rendered possible to have the entire furniture manufacturing technology on one single site, which resulted in the decrease of the production costs of the two premises existing until at that moment, as well as in the increase of its marketability due to the drop in the per unit costs of products. By the take over of the plant hall, a real estate situated in a central place of the

town of Veszprém, which was used until then as an office and plant asset having several superstructures and a more than 20,000 sqm. well exploitable surface was liberated. The consolidated revenues of Balaton Furniture Factory Co.Ltd.. in the current period dropped by 23.1 %, while the pre-taxation revenues decreased by 22.0 % as compared to the same period of the previous year. The revenue deficiency occurred mainly in the public procurement area. Due to the budget situation the home market, the constant uncertainty factors related to this, as well as of the doubling of the suppliers of this market, the position of the company in this market sector continues to decline. Its domestic retail sales decreased by 10 % compared to the reference rate. The sales of its five self-operated stores also declined by 57.1 %. Within the realization of its domestic revenues an ever greater role is given to the projects requiring unique manufacturing, which were won on non public procurement tenders, mainly connected to hotel renovations and constructions. On the hotel market it realized a 14.3 % increase compared to the same period of the previous year. Its main projects were the Park Hotel in Parád, the Hotel Riviéra in Balatonföldvár, Hotel Esztergom, Hotel Benczúr or the equipments of the Shengen frontier units. Regarding the exports its realised revenues decreased by 2.6% in the current period, their evolution being positively influenced by the average 3% price increase of marketed products, and being negatively influenced by total -10 % EUR, NOK, SEK / HUF exchange rate movements. In order to improve the level of export margins the company presented significant price correction demands toward its partners, at the end of the current period, which caused a temporary volume decline. On the domestic market the company is planning a strong fourth quarter of the year. It is expected to have a pro-rata higher turnover due to the attendance of the demand arising from the liberated budget sources which were blocked during the year, respectively due to the ongoing cooperation agreements with construction companies. Both the manufacturing LLC and the Co.Ltd.. transacting the sales had accounted losses in the current period. Their joint after-tax output declined in the current period by nearly 132 M Ft as compared to the reference period.

The highest trade turnover was realised in the **furniture sales**, partly by the sale of the commodity stocks manufactured by Balaton Furniture Factory Co.Ltd..'s own subsidiary, partly realising sales through the Domus department store chain. The furniture retail trade of the Fotex Group was mainly transacted by the **Domus Co.Ltd.** In the completed part of the year there were some significant changes in the structure of the Domus Group. Together with the registration on 31st of March 2007 at the Registry Court the two existing subsidiaries of the Domus Plc., the Domus Chain LLC and the Domus Office Furniture Center LLC have merged with the mother company. Based on an ownership decision Domus gradually withdraws from the commercial activities, and reorganising its area of business, the main source of its income production will be the real estate development. The big profile change within the Domus Group was forecasted by the start of leasing the department store surfaces used by the Domus Chain LLC towards foreign parties in the reference year, respectively the putting up the department stores for sale outside the Group. During 2006 the department stores in Debrecen, Miskolc, Szentes, Barcs, Zalaegerszeg, Szeged and Kaposvár were closed, in the first half of 2007 there followed the department stores in Mosonmagyaróvár and Pécs. In order to operate the areas in Budapest, the department stores in Fehérvár and Siófok, and the warehouse in Győr, companies led by the former trade and department store managers, and founded with private capital financing a Domus Co.Ltd. minority participation, leased these stores out with the purpose of continuing the trade activity. Tenants committed themselves to purchase in several instalments the entire stock of Domus Co.Ltd by the 31st of March 2008. Together with the close down of the department store in Szombathely at the end of October, Domus liquidated its furniture and interior design trade. In spite of the onetime expenses arising due to the store closings and the termination of the activity, even if still in the red in the current period, the output improved with 144.3 M Ft compares to the reference period.

The Group's **cosmetics** division was greatly restructured before the current period. The Azúr Co.Ltd., representing the retail trade activity of the division, provided a performance in the

red, therefore the owner decided to terminate its trade activities. While carrying this decision out, the company sold in the reference period the lease right of part of its retail trade units and its stock to professional investors. The employees of the stores passed on, were taken over by the customers with legal continuity of their employment. For this reason this passing on of staff did not cause any additional charges. The reduction of the network and the setback of the trade activities was accompanied beside the above by a significant staff reduction. The number of employees dropped from 80 to 12 persons between the reference and current periods. The management output of the Azúr Co.Ltd. became lucrative in the reference period due to the revenues arising from the sale of department stores. On the accounting date of the current period the Co.Ltd. operated 2 stores, whose activity would be terminated. In the third quarter of the year it passed one of the retail trade units to an LLC with minority Fotex participation in order to operate it, against payment and with a franchise right.

On the ordinary meeting of the company a decision was made concerning the merger with the Keringatlan LLC dealing with real estate employments, because of the liquidation of the additional charges arising from the performance of parallel activities. The merger was effected on s 31. August 2007. The company possessed 9 private real estates, which can be further on exploited by leasing. On the accounting date the company operated only one retail trade unit, whose operation was taken over by the legal successor, but the activity of this retail trade unit shall be terminated at the end of the year.

The Group's cosmetics division was practically set back to the retail trade activity of the **Fotex Cosmetics LLC**. The LLC liquidated its wholesale trade in January of the reference period. It focused its retail trade activities on three department stores dealing further on with sale of cosmetic products and supplying luxury cosmetic services. Its retail turnover dropped by 1.3 %, while its consolidated turnover increased by 3.9 %, compared to the reference period. Just like in the reference period, the current period activity of Fotex Cosmetics LLC is operating at a loss, but its rate is on operating output level by 10.1 %, and due to the improvement of the financial output on company level by 16.0 % lower than the reference period values. By terminating the financings of the LLC's wholesale stocks, its solvency turned positive, it continues its activity without external credits, by employing loans from within the Group.

Based on a decision of the management of the Fotex Plc. the Group withdrew three years ago from the traditional wholesale trade of **sound- and image carrying devices**, it reduced its retail capacities in this division; however, it invariably continues its publishing activity through the Hungaroton Records LLC, and takes care of the record archive by operating the Hungaroton Music Co.Ltd..

In recent years the trade activity of the **Fotex Records LLC**, dealing mainly with the music retail trade activities of the Group, was terminated. The operation of the Fotex Records LLC is restricted only to the intermediated services, which refers to the management and exploitation of the leasing in the MOM Park, as well as to the subsequent lease of an own asset purchased from the local authority.

The actual publishing and trading tasks of the music division are performed by the **Hungaroton Records LLC**. The revenue of the LLC dropped by 20.4 %. The turnover of every of its activities declined. The turnover deficiency was the most sensible in (-31.3 %) in the retail trade. On 15th of January the LLC closed its store situated in the Duna Pláza. The store was showing the highest turnover, but was still realising a turnover with negative tendency. The turnover deficit arising from this closing down could not be counterbalanced by the other two stores functioning in different shopping centres, and the new store opened on the 23rd of March in the Sugár Shopping Centre instead of the closed one. The wholesale activity of the LLC dropped by 11.4%. Its domestic retailer activity was less with 7.1 %, its export with 30.1%. Its licence sales and royalty revenues decreased by 28.3 %. The retail

trade unit of a larger surface opened in the Sugár shopping centre does not mean a development on company level of the retail trade surfaces; it is only a restructuring, because the technical development, the spreading of the download of musical pieces from the Internet and the widening of the black market does not justify it. In the current period the company realised operating losses more than three times higher than in the reference period. This deficiency is partly due to the one-time revenue deficit caused by the store closings, and the employment of the additional charges in connection with this, as well as the turnover deficit of the publishing, retailer and licence sales.

The core activity of the **Primo Co.Ltd.** is the domestic and export trade of branded, mainly men's fashion. Its net revenues decreased by 15.5 % as compared to the same period of the previous year. Within this, the decrease of its retail trade turnover was of 8.2 %, that of the domestic wholesale of 18.4 %, and the export revenues were 51.6 % less than in the same period of the previous year. Its export turnover is mainly realised on the Russian and Ukrainian markets. On the accounting date the company possesses 4 retail trade units to be found in very popular places, which supply one quarter of its total revenues. The company's operational-business output is in the current period lucrative, as compared to the reference period, even despite the turnover deficit, because the cheap dollar positively influenced the market price of the products. Its taxed output evolved on the same scale as the reference level. The Co.Ltd. possesses a high stock as compared to its turnover, the stock turnover period being of 390 days.

The Group has terminated its **photo supply** activity. After the sale of the shares in the F- O Photo LLC, it has terminated also the **photo service activity of the Fotex-2000 LLC**. In the third quarter of the reference year, at the expiry of its exclusive contract with the T-Mobile division of the Magyar Telekom Plc., the company has terminated, based on an owner's decision, its telecommunication service supply and device retail trade activities. Due to the shrinking of the photography market and the spreading of the digital photography technique since 2001, as well as the decrease of analogue prints and of the quantity of processed pictures, gave rise to an unstoppable process both among the producers and service suppliers. The LLC ceased its photography product wholesale during the 4th quarter of 2004, and its retail trade activity in January of the current year. The owner has supplied a franchise right to two external third parties regarding retail trade units performing photography service activities. In order to exploit and manage the real estates and investments owned by the company, based on an owner's decision, it merged on the 30th of November of the reference year with the Keringatlan LLC dealing with real estate exploitations.

The core business of the **Fotexnet LLC** is the sale of Internet surfaces through its Internet store functioning without logistics as „Shopping centre”, which was opened and restructured on 29th of July 2005. Internet surfaces can be employed against payment of a fixed monthly rental fee, or a leasing fee and a trade commission. There is a very big interest in services supplied on the Internet, on the accounting date there were 60 department stores and 23 smaller, so-called express stores within the Fotexnet Department Store. The department store is mainly filled up by the company with the products of external partners, the delivery of the sold products being the responsibility of the selling partner. The company supplies the marketing area, its reliability and notoriety. This activity supplied 35.7 % of its total revenues. Its revenues were realized beyond the incomes of the operation of the Internet department store, through market survey and advertising activities, as well as the supply of information technology devices and services. The costs and expenses of the company rose to a less rate than the turnover evolution, so the company management could close with a slight positive output as compared to the red figures of the reference period.

The main revenue of the **DVDrent LLC** comes from the operation of the cinema opened on 22. March 2007 in the Sugár Shopping centre, but it continues renting DVDs too, in connection with which it carries out the activity of DVD-polishing and other advertising tasks related to these activities. Due to the extension of its scope of activities its turnover rose to more than its sixfold. In the reference period it managed in the red, but it closed its current period with a significant output improvement.

By transforming the Group's activities that part of the assets, which were employed through the trade activities of the subsidiaries, or were employed for other private operation ends, by driving back the trade activity, an ever larger rate of the real estates is employed by leasing outside the Group. As a result of the strategy switch the Group became a real estate developing company. At the end of the year, as part of the audited annual report, both the investment and the privately used real estates have been reassessed.

The composition of the Group's real estate assets and in the case of the factors employed in the course of establishing the real value, there was no meaningful change in the current period. Therefore we regard the audited data published in the Group's annual report for the year 2006 as the relevant values when establishing the immovable property of the Group.

Category	For investment purposes	Surface	Total	Real value (lox estimation)		
		sqm. Privately employed		For investment purposes	thd Ft Privately employed	Total
Dep. Store	111 924	28 810	140 734	41 614 428	10 711 869	52 326 297
Office	8 255	275	8 530	2 762 467	92 023	2 854 490
Warehouse	91 584	21 869	113 453	10 215 564	2 439 337	12 654 901
Other building	57 695	58 156	115 851	3 813 369	4 324 140	8 137 509
Plot	95 000	765 000	860 000	2 102 501	16 930 538	19 033 039
Total:	364 458	874 110	1 238 568	60 508 329	34 497 907	95 006 236

Real estates for investment purposes were the assets leased or to be leased to third parties. The real value was established as the present value of future cash flows on the basis of the presently realisable leasing fees. In the annual report the real value was determined with a low, middle and upper estimation. The middle value was calculated at a discount rate of 7.1 % of the probable cash flows, while the lower and upper values were determined with rate deflected by +/- 1 percentage point as compared to the basic discount rate. The value of assets for non-investment purposes was determined as the present value of those cash flows, which would come to being if the real estates were leased to third parties, and it is based on the same type of calculation, as in the case of assets for investment purposes.

Taking into consideration that the Group revises the real value when preparing the annual report, and considering the due diligence, we regard the lower value of the Group's immovable assets as a benchmark, which value goes beyond 90 billion Ft.

Among the real estate stock offered for leasing by the Group the retail trade properties prevail. Our market position is especially strong in the segment of the so-called town department stores. The mainly well situated Budapest stores with good potentials can be leased out quickly. Only two of our department stores, owned by the Domus Co.Ltd. (Nagykanizsa and Veszprém) are waiting to be leased.

In the largest surface retail trade unit of the Group, the Sugár Shopping Centre, stores are completely leased out, except for the II. catering and entertainment storey, where the lease of some stores is underway. On the ground and first floors of the shopping centre there were some quality changes in the tenants.

The office stock of the Group consists mainly of a leasable asset stock in B category office buildings. As a consequence of the major expansion of the modern office stock, the non-A category offices have been pushed into the background considering the leasability, as those looking for lower leasing fee offices have many such assets to choose from, and the upper level of the leasing fees can be realised only on ever decreasing levels.

In the case of the warehouses the stock both in Budapest and in the countryside is of a significant size, but the majority of the immovable assets belong to the second or third categories ever since the appearance of the modern logistic centres. Their leasing out requires longer and more intense work than those of the stores.

An important task of the coming period on the leasing area is beside the lease of still untenanted real estates, the revision and renegotiation of the unfavourable leasing fee contracts closed for indefinite periods, and the improvement of the quality mix of the tenants by retaining the letting index numbers, for the sake of which tenant changes have to be implemented. As well as the preparation of the planned investments into the potentially developable assets.

The core business of the **Sigma LLC** is the cooperation in the lease and the economical development according to the real estate market conditions, of the real estates liberated in the real estate portfolio of the Group. The counselling and real estate intermediation towards external partners make out only a small part of the total revenues. Its revenues arise due to its main activity from the services supplied to companies within the Group.

Its unconsolidated turnover has fulfilled its annual revenue plan in the first three quarters of the year, which is 22.0% higher than in the reference period. According to the trend of the previous years, the lease of the retail trade assets was the most fruitful as a consequence of the mix of immovable assets offered for renting. In this sub market there were 77 business transactions in the current period. In this period the company signed new lease contracts or extended older contracts for stores with a total surface area of 29.611 sqm. Its income from the lease of office and warehouse assets amounts to 11.0 % of its total revenues. In the first three quarters of 2007 the LLC signed leasing contracts for 6,480 sqm. warehouse and 1 385 sqm. office surfaces. 2.4 % of its total revenues come from counselling and other activities. The pre-tax output of the company surpassed by 34.9 % that of the reference period, due to the realisation of revenues higher than the pro-rata.

The business area of the **Kontúr Co.Ltd.** is after the fusion of its subsidiaries, the Kontúr Paper LLC and the Kontúr Home Equipment LLC on the 31st of July 2006, restrained to the real estate development. However, due to the merger of the subsidiary of the Kontúr Home Equipment LLC it still operates one interior design retail trade unit. On the accounting day dated 28th of February 2007, the Dália LLC merged with the Co.Ltd., so from that moment on the revenues arising from the own assets' lease of the LLC are reported among the revenues of the Co.Ltd.. The Kontúr Co.Ltd. realises its revenues mainly from the leasing of its own real estate assets. Its immediate revenues are increased by the leasing fees arising from the sublease of a leasehold form the local authority and the forward invoiced costs connected to this, as well as by the revenues arising from the supply of business management services. Its consolidated revenue rose with a significant 98.2 % due to the additional revenues reported in the Co.Ltd. arising from mentioned merger operations. The core business of the Co.Ltd. is further on the development of its private property assets, which is constantly extended by the purchase of new real estates. In the second quarter of the reference year it bought the entire business participation of the Glas Hotel LLC belonging until then to Ajka Kristály LLC, by

which it could indirectly increase its real estate property by another high value real estate asset (a hotel in Balatonalmádi). In the current period it became joint owner of the Norba LLC, out of which, based on a decision of the owners, the manufacture was separated on the 30th of September (it was merged into the Bebufa LLC), and the LLC practically manages its privately owned assets. The Co.Ltd.'s management was lucrative, the after-tax output increase could not keep pace with the extent of the turnover extension, but it grew by 37.8 %.

The Keringatlan LLC is its direct property and is handling 40 % of the real estate stock of the Group and 30 % of the Group's warehouse surfaces. Its revenues come mainly from the real estate leasing. The Keringatlan LLC is our major company dealing only with real estate developments. The LLC underwent several transformations. On the accounting day dated the 27th of July 2005, two subsidiaries of the Keringatlan LLC dealing also with real estate developments, the Alfa-Örs LLC, and the Szivárvány Ltd., merged with the mother company. On the 1st of December 2006 the Fotex-2000 LLC merged with the company, and its retail trade activity was terminated at the beginning of January of the current year, but its revenues arising from the real estate leasing are reported in the books of the Keringatlan LLC. On the 31st of August of this year the Azúr Co.Ltd merged in the LLC. The incomes for September from the assets of Azúr Co.Ltd., and of its two operated trade units, were reported in the books of the Keringatlan LLC.

More than 91.6 % of its revenues are made from transactions with external third parties. Its consolidated revenue augments significantly, eliminating the technical effects of the mergers in the reference year. The revenue increase arose mainly from the increase of the leasing fees, which is due to the additional income caused by the leasing out of formerly untenanted real estates (Kistarcsa, Szervita square, Kossuth Lajos street, II. floor of the Sugár Shopping Centre) and the higher fees imposed on new tenants. The leasing fees determined in Euro were negatively influenced by the Euro exchange rate, which could not be compensated for with the leasing fees increase proportional to the inflation incorporated in the contract. The LLC manages effectively, both its business and its pre-tax output are of a significant size, its taxed output decreased by 34.6 %. Its investments and tangible assets rose in comparison with the reference period due to the real estate purchases. The LLC contracted a bank credit for the purchase of the investments of its two subsidiaries which were incorporated by merger in 2005, respectively for the financing of the reconstruction of the Sugár shopping centre. Based on the decision of the Group it switched in the reference period to financing means from within the Group. Its foreign currency bank credits were reimbursed by loan granted by a member of the Group. The third stage of the reconstruction works of the Sugár shopping centre were financed from existing own financial assets without employing more important external sources. The first stage of the full renovation of the Sugár shopping centre ended in 2004, the second in November 2005. And the third stage of the renovation was practically completed at the end of the first quarter of the current year and it was activated in May; furthermore the cinema was opened too, operating within the Group. During the renovation and reconstruction works the shopping centre functioned uninterruptedly.

The consolidated turnover of the Europrizma LLC engaged in the advertising business and the Europtic LLC, included into the consolidated group, is further on insignificant. Both LLCs realise their revenues mainly by the advertisement intermediation activities for the companies within the consolidation circle.

For the management of investments Fotex Plc. founded in November 2005 the Upington Investments Ltd., with a 100 % ownership and headquarters in Cyprus. The company owns significant financial assets arising from the sale of investments, rendering possible the financing of some subsidiaries within the Group. In the reference period the Upington Ltd. founded for the management of financial instruments a subsidiary in Luxembourg under the name of Downington Srl., which plays a major role in the Group's financings. The fact that

the group switched to internal financing, gave rise on the final accounting day of the current period to an external loan demand of 3,660 M Ft.

Personnel and organisational changes

The General Meeting of Domus Plc. Held on the 28th of June 2008 decided on the transformation of the company into a close corporation, the change of the company form was registered at the Registry Court by a rule on the 08.08.2007. The Board of Directors of the Domus Co.Ltd. filed a petition with the PSZÁF (Hungarian Financial Supervisory Authority) requesting its exemption from its data supply liabilities to the public, based on the Tpt. 57§ paragraph (1) (Capital Market Act). This exemption was granted from the date of publishing of the decision of PSZÁF (dated 4th of October 2007) regarding the exemption on the 10th of October 2007.

At the ordinary annual meeting the Balaton Furniture Factory Co.Ltd. came to a decision concerning the corporate transformation, in the course of which the ownership right and management of the real estates forming the property of the corporation will be separated and removed from the core business of the Co.Ltd. by founding a new corporation. The separation was registered at the Registry Court on the 30th of September. So from this date on the assets of the Balaton Furniture Factory were transferred to the property and management of the Székhely 2007 LLC. Manager of the Székhely 2007 LLC is Ney Ferencné.

Owners decided on the separation of only the production activity of the Norba LLC, which in the reference period was not drawn into the consolidation, and where they own participation, and the merger of it in the Bebufa LLC. The Registry Court registered this transformation on the 30th September 2007.

Miscellaneous

According to the General Meeting's decision no. 23/2000, with Keler Ltd's assistance a full share swap was effected on the 2nd of May 2001.

On the closing date 70.388.664 shares were swapped, 334.986 old shares were not converted by their owners, hence due to the rules of the exchange in force, these shares became null and void. For the sake of shareholders' interests the shares were substituted by new shares which were sold at the best possible price 30 days after sale, from the 15th of November 2001, the purchase price –minus charges- was due to share owners upon presentation of void shares. Until now 156.765 void shares have been compensated, while 178.221 shares were not yet claimed by their owners.

At the Annual Ordinary General Meeting of shareholders for Fotex Plc. –held on the 28th of April 2004 - a decision was made to dematerialise the printed shares. The 11th of November 2004 was fixed as the day of the dematerialisation. The conversion of shares does not affect the right connected to the shares. The submission period of previously printed shares lasted from the 10th of September 2004 until the 10th of November 2004.

Printed shares were pronounced void from the 11th of November 2004 by the Fotex Plc.

Out of the invalidated shares due to the dematerialisation, the counter value of 860 shares has been paid, while 490 void shares have not yet been presented by their owners.

On the 20th of September 2001 the Fotex Group opened several retail outlets in MOM Park Shopping Mall on a 7000 square meter total floor area. Most of our retail companies were exclusively represented in this shopping centre. In December 2001 Fotex Plc. initiated a claim to the Budapest Court against MOM Park Bt. about defaults and inadequacy of the leaser. The

suit is still in court. Fotex Group concluded a contract with the Leaser that from the 31st of December 2003. onwards the leased area in MOM Park is to be decreased by approximately 1.500 square meters, and is presently carrying on negotiations about the transformation of its tenancies.

At the extraordinary General Meeting held on the 9th of December 2004 shareholders decided, based on the corporate management results and its market opportunities, to liquidate Keravill Ltd. without a legal successor by final settlement. In the course of the final settlement all commercial and other business activities were closed. As income derived from the final property sales could not cover the companies existing commitments, due to a sale on a lower price level than planned, the liquidator initiated a mandatory bankruptcy liquidation process on the 11th of March 2005 at the Budapest Court. Due to the company's insolvency the termination process without a legal successor was transformed into a winding-up proceedings as per the Budapest Court's mandatory writ of April 2005. The liquidation is currently in process, according to which the Company lost all its property, all of its activities were closed, and it was removed from the consolidation at the reference period's year end turnover date.

The Euler Hermes Magyar Hitelbiztosító Co.Ltd. sued the Fotex Plc. claiming that we should assume full responsibility for the 52,771,000 Ft. debt of the Keravill Ltd. being under liquidation, and that we should pay for the claim together with its interest and trial costs. Fotex Plc. considered the claim unfounded, the trial is underway.

Following Hungary's admittance into the European Union on the 1st of May 2004 the Group felt that the local trading tax is contrary to the laws of the community, as such a tax is an illegal turnover tax, thus from this date on our trading tax payment obligation ended. Taking into consideration that the local authorities have a contradictory standpoint on the subject, the warrants for their payments representing a significant tax payment obligation, were appealed by the Group members. Against the Court's decision in the second instance the Group has filed an appeal and is awaiting the results of the judicial process. According to the European Court decision ruled in October 2007, the local trade tax does not have all characteristics of the added value tax, therefore it does not stand in contradiction with the relevant regulations of the 77/388/EC, i.e. it is reconcilable with the community laws. Based on this rule our companies waive their petition. The Group members have accounted for their local trading tax obligations and fulfilled their payment by reservation of a right. Thus, the waiver of the claim actually does not imply the prescription and payment of liabilities, except for the settlement of the discounted legal charges and the procedural duties.

The quick report squares with the facts and statements, no data relevant to judge the company's position was withheld.

Budapest, 13th November 2007.

Gábor Várszegi
Managing Director