

This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholders of Fotex Nyrt.

1.) We have audited the accompanying 2006 consolidated annual financial statements of Fotex Nyrt. ("the Company"), which comprises the consolidated balance sheet as at 31 December 2006 - showing a balance sheet total of HUF 35,645,917 thousands and a loss for the year of HUF 517,355 thousands -, the related consolidated profit and loss account for the year then ended, changes in shareholder's equity, consolidated cash flows for the year then ended and the summary of significant accounting policies and other explanatory notes.

2.) We issued an unqualified opinion on the Company's consolidated annual financial statements prepared in accordance with the International Financial Reporting Standards as adopted by EU as at 31 December 2005 on 23 March 2006.

Management's Responsibility for the Consolidated Financial Statements

3.) Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

4.) Our responsibility is to express an opinion on these consolidated financial statements based on the audit and to assess whether the consolidated business report is consistent with the consolidated financial statements. We conducted our audit in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

5.) An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our work regarding the consolidated business report is restricted to assessing whether the consolidated business report is consistent with the consolidated financial statements and does not include reviewing other information originated from non-audited financial records.

6.) We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

7.) We have audited the elements of and disclosures in the consolidated annual financial statements, along with underlying records and supporting documentation, of Fotex Nyrt. in accordance with Hungarian National Auditing Standards and have gained sufficient and appropriate evidence that the consolidated annual financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by EU. In our opinion the consolidated annual financial statements give a true and fair view of the equity and financial position of Fotex Nyrt. as at 31 December 2006 and of the results of its operations for the year then ended. The consolidated business report corresponds to the disclosures in the consolidated financial statements.

Budapest, March 23, 2007

Ernst & Young Kft.
Registration No. 001165

Zoltán Tremmel
Registered Auditor
Chamber membership No.: 005210

Fotex Nyrt. and Subsidiaries
Consolidated Balance Sheets

		At December 31,	
	Notes	2006	2005
		THUF	THUF
Assets			
Current Assets:			
Cash and short term deposits	3	8,546,950	14,362,791
Other investments	4	762	163,438
Accounts receivable and prepayments	5	1,683,434	2,104,773
Inventories	6	3,532,074	3,984,866
Total current assets		13,763,220	20,615,868
Non Current Assets:			
Property, plant & equipment	7	6,239,781	16,146,297
Investment properties	8	10,961,859	–
Intangible assets	9	1,451,540	2,231,612
Long term investments	10	68,755	93,950
Goodwill arising on acquisition	11	3,160,762	3,300,134
Total non current assets		21,882,697	21,771,993
Total assets	21	35,645,917	42,387,861
Liabilities and Shareholders' Equity			
Current Liabilities:			
Interest bearing loans and borrowings	12, 21	–	1,699,549
Provision		32,629	–
Accounts payable and accrued expenses	13, 21	3,021,152	3,659,437
Total current liabilities		3,053,781	5,358,986
Non-current Liabilities:			
Deferred tax liability	19, 21	144,230	79,159
Interest bearing loans and borrowings	12, 21	–	2,364,775
Total long term liabilities		144,230	2,443,934
Shareholders' Equity:			
Issued capital	15	7,072,365	7,072,365
Additional paid-in capital		8,710,131	8,710,131
Goodwill write-off reserve	16	(749,827)	(836,195)
Retained earnings	17	17,659,395	18,214,350
Treasury shares, at cost	15	(261,627)	(261,627)
Equity attributable to equity holders of the parent		32,430,437	32,899,024
Minority interest in consolidated subsidiaries	14	17,469	1,685,917
Total shareholders' equity		32,447,906	34,584,941
Total liabilities and shareholders' equity		35,645,917	42,387,861

See accompanying notes to consolidated financial statements.

Fotex Nyrt. and Subsidiaries
Consolidated Statements of Income

	Note	At December 31	At December 31, 2005		
		2006	Continuing	Discontinued	Total
		THUF	operations	operations	THUF
Revenue	21	18,005,026	21,308,456	10,007,894	31,316,350
Cost of sales		(8,469,881)	(10,695,616)	(3,023,467)	(13,719,083)
Gross profit		9,535,145	10,612,840	6,984,427	17,597,267
Selling, general and administration expenses	18	(10,012,475)	(11,145,960)	(6,277,582)	(17,423,542)
Interest income		327,381	118,946	17,446	136,392
Interest expense		(119,345)	(132,708)	(15,186)	(147,894)
Gain on disposal of discontinued operations	20	–	–	7,941,394	7,941,394
(Loss) / Income before income taxes		(269,294)	(546,882)	8,650,499	8,103,617
Income tax expense	19	(248,061)	(246,152)	(134,177)	(380,329)
Net (Loss) / Income		<u>(517,355)</u>	<u>(793,034)</u>	<u>8,516,322</u>	<u>7,723,288</u>
Attributable to:					
Equity holders of the parent		(500,286)	(1,096,171)	8,598,617	7,502,446
Minority interests	14	(17,069)	303,137	(82,295)	220,842
Net (loss) / income		<u>(517,355)</u>	<u>(793,034)</u>	<u>8,516,322</u>	<u>7,723,288</u>
(Loss) / Earnings per share (HUF)	26	<u>(7.23)</u>	<u>(15.84)</u>	<u>124.28</u>	<u>108.44</u>

See accompanying notes to consolidated financial statements.

Fotex Nyrt. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity

	Share Capital	Additional Paid-in Capital	Goodwill Write-off Reserve	Retained Earnings	Treasury Shares	Total	Minority Interest	Total equity
	THUF	THUF	THUF	THUF	THUF	THUF	THUF	THUF
January 1, 2005 (restated)	7,072,365	8,710,131	(922,563)	10,776,964	(229,743)	25,407,154	2,438,507	27,845,661
Net income – 2005	–	–	–	7,502,446	–	7,502,446	220,842	7,723,288
Dividends to minority	–	–	–	–	–	–	(640,492)	(640,492)
Purchase of minority interest	–	–	–	–	–	–	(336,734)	(336,734)
De-recognition of minority interest	–	–	–	–	–	–	2,834	2,834
Amortisation of goodwill write-off reserve	–	–	86,368	(86,368)	–	–	–	–
Acquisition of treasury shares	–	–	–	–	(31,884)	(31,884)	–	(31,884)
Foreign currency translation	–	–	–	21,308	–	21,308	–	21,308
Other	–	–	–	–	–	–	960	960
December 31, 2005	<u>7,072,365</u>	<u>8,710,131</u>	<u>(836,195)</u>	<u>18,214,350</u>	<u>(261,627)</u>	<u>32,899,024</u>	<u>1,685,917</u>	<u>34,584,941</u>
January 1, 2006	7,072,365	8,710,131	(836,195)	18,214,350	(261,627)	32,899,024	1,685,917	34,584,941
Net loss 2006	–	–	–	(500,286)	–	(500,286)	(17,069)	(517,355)
Dividends to minority	–	–	–	–	–	–	(11,100)	(11,100)
Purchase of minority interest	–	–	–	30,434	–	30,434	(1,639,700)	(1,609,266)
Amortisation of goodwill write-off reserve	–	–	86,368	(86,368)	–	–	–	–
Foreign currency translation	–	–	–	1,265	–	1,265	–	1,265
Other	–	–	–	–	–	–	(579)	(579)
December 31, 2006	<u>7,072,365</u>	<u>8,710,131</u>	<u>(749,827)</u>	<u>17,659,395</u>	<u>(261,627)</u>	<u>32,430,437</u>	<u>17,469</u>	<u>32,447,906</u>

See accompanying notes to consolidated financial statements.

Fotex Nyrt. and Subsidiaries
Consolidated Statements of Cash Flows

	Year ended December 31,	
	2006	2005
	<u>THUF</u>	<u>THUF</u>
Cash flows from operating activities:		
(Loss) / Income before minority interest and income taxes	(269,294)	8,103,617
Depreciation and amortisation	1,100,859	1,514,529
Impairment of goodwill	139,372	154,640
Impairment of intangible fixed assets	573,600	–
Unrealised foreign currency loss	–	32,703
Retirement of tangible and intangible fixed assets	196,757	152,396
Retirement and provision on inventory and receivables	(234,992)	956,712
Gain on disposal of subsidiaries	–	(7,941,394)
Profit on disposal of fixed assets and intangibles	(184,093)	(382,890)
Profit on disposal of state bonds	(87,677)	(24,502)
Interest income	(327,381)	(136,392)
Interest expense	119,345	147,894
Changes in assets and liabilities:		
Accounts receivable and prepayments	451,863	(844,730)
Inventory	738,191	557,363
Accounts payable and accrued expenses	(693,453)	1,863,531
Cash generated from operations	<u>1,523,097</u>	<u>4,153,477</u>
Interest paid	(119,118)	(174,250)
Income tax paid	(166,263)	(263,479)
Net cash flow from operating activities	<u>1,237,716</u>	<u>3,715,748</u>
Cash flows from investing activities:		
Purchase of tangible and intangible assets	(2,281,967)	(2,804,812)
Sale of tangible and intangible assets	290,101	685,610
Net purchase and sales of state bonds	260,488	(22,866)
Interest received	326,226	81,644
Acquisition of subsidiaries net of cash acquired	–	(24,295)
Purchase of shares in subsidiaries from minority shareholders	(1,609,843)	(326,559)
Proceeds from disposal of subsidiaries	–	9,854,624
Net cash flow (used in) / provided from investing activities	<u>(3,014,995)</u>	<u>7,443,346</u>
Cash flows from financing activities:		
Net purchase of treasury shares	–	(31,884)
Dividends paid to minority	–	(640,492)
Increase in debt	582,265	3,802,119
Decrease in debt	(4,620,827)	(3,152,519)
Net cash flow used in financing	<u>(4,038,562)</u>	<u>(22,776)</u>
Change in cash and cash equivalents	(5,815,841)	11,136,318
Cash and cash equivalents at beginning of year	<u>14,362,791</u>	<u>3,226,473</u>
Cash and cash equivalents at end of year	<u><u>8,546,950</u></u>	<u><u>14,362,791</u></u>

See accompanying notes to consolidated financial statements.

Fotex Nyrt. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2006
All amounts in HUF '000 unless otherwise indicated

1. General

Fotex Első Amerikai-Magyar Vagyonkezelő Nyilvánosan Működő Részvénytársaság (“Fotex” or the “Company”) is a public company limited by shares incorporated under the laws of the Republic of Hungary. The Company is primarily the holding company of a Group of subsidiaries incorporated in Hungary, Cyprus and Luxemburg and engaged in a variety of property management, manufacturing, retailing and other activities. The registered office of Fotex Nyrt. is located at Nagy Jenő utca 12, 1126 Budapest, Hungary. All subsidiaries are registered and operate in Hungary except for Upington Investment Ltd. and Downington Holdikg Sarl. which are registered in Cyprus and Luxembourg respectively. The ownership of principal consolidated subsidiaries, after considering indirect shareholdings, is:

<u>Subsidiary:</u>	<u>Principal Activities:</u>	<u>% Holding</u>	
		<u>2006</u>	<u>2005</u>
Ajka Kristály Kft. (Ajka)	Crystal manufacturing and retail	100.0	100.0
Azúr Zrt.	Property management, (2005:Household and cosmetic goods retailing) (Note 23)	99.9	99.0
Azúr Ingatlanhasznosító Kft.	Property management (Note 23)	-	100.0
Balaton Bútorgyár Zrt. (Balaton)	Furniture retailer (Note 14)	99.9	86.6
Bebufa Kft.	Furniture manufacturer (Note 14)	99.9	86.6
Dália Kft.	Property management, (2005: Furniture manufacturer)	100.0	99.9
Domus Nyrt.	Property management and furniture retailer (Note 14)	99.2	56.6
DVD Rent Kft.	DVD rental	100.0	100.0
Europrizma Kft.	Advertising	99.9	99.6
Europtic Kft.	Advertising	100.0	100.0
Fotex 2000 Kft.	Photographic, mobile phone and optical retailer (Note 23)	-	100.0
Fotex Cosmetics Kft.	Cosmetics retailer	100.0	100.0
Fotex Records Kft.	Music retailer	100.0	100.0
Fotexnet Kft.	Internet retail and other services (Note 14)	50.0	97.8
Hungaroton Records Kft.	Music publishing and music retailing	99.4	99.4
Hungaroton Music Zrt.	Music archive	98.2	98.2
Keringatlan Kft.	Property management (Note 23)	100.0	100.0
Kontúr Zrt.	Property management (Note 23)	99.8	99.8
Kontúr Papír Kft.	Stationery retailer (Note 23)	-	99.8
Kontúr Lakásfelsz. Kft.	Home furnishing retailer (Note 23)	-	99.8
Primo Zrt.	Clothing retailing and wholesaling	99.9	99.9
Sigma Kft.	Property services	75.1	75.1
Upington Investments Ltd.	Investment holding	100.0	100.0
Downington Holding S.á.r.l.	Investment holding (Note 23)	100.0	-

Fotex Nyrt. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2006
All amounts in HUF '000 unless otherwise indicated

1. General (continued)

The consolidated financial statements of Fotex Nyrt. and Subsidiaries for the year ended December 31, 2006 were authorised for issue in accordance with a resolution of the directors on March 23, 2007.

2. Significant Accounting Policies

Basis of presentation

The consolidated financial statements have been prepared on a historical cost basis except for the measurement at fair value of available-for-sale financial assets. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year except as explained in the Change in accounting policies section of this note.

Statement of compliance

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

Effective January 1 2005, the change in the Hungarian Accounting Act allows the Group to prepare its consolidated financial statements in accordance with IFRS that have been adopted by the EU. At this particular time, due to the endorsement process of the EU, and the activities of the Group, there is no difference in the policies applied by the Group between IFRS and IFRS that have been adopted by the EU.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Fotex and its subsidiaries (the “Group”) as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognized in assets or liabilities at year end, are eliminated in full.

Subsidiaries acquired during the year are consolidated from the date on which control over the net assets and operations of the acquiree is effectively transferred to the Group. Subsidiaries disposed of are consolidated up to the date of the disposal, the date at which control over the net assets and operations of the subsidiary effectively ceased.

Fotex Nyrt. and Subsidiaries
Notes to Consolidated Financial Statements
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2. Significant Accounting Policies (continued)

Basis of consolidation (continued)

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

Changes in accounting policies

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on January 1, 2006. The changes in accounting policies result from the adoption of the following new or revised Standards:

- IAS 19 Amendment-Employee Benefits
- IAS 21 Amendment-The Effects of Changes in Foreign Exchange Rates
- IAS 39 Amendments-Financial Instruments: Recognition and Measurement
- IFRIC 4 Determining whether an Arrangement contains a Lease
- IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6 Liabilities arising from Participating in a Specific Market Waste Electrical and Electronic Equipment

IAS 19 Employee Benefits

As of 1 January 2006, the Group adopted the amendments to IAS 19. As a result, additional disclosures are required to be made providing information about trends in the assets and liabilities in defined benefit plans and the assumptions underlying the components of defined benefit cost. This change has not resulted in additional disclosures being included for the years ending 31 December 2006 and 31 December 2005 as the change has no significant impact on the entity.

IAS 21 The Effects of Changes in Foreign Exchange Rates

As of 1 January 2006, the Group adopted the amendments to IAS 21. As a result, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are required to be recognised in a separate component of equity in the consolidated financial statements regardless of the currency in which the monetary item is denominated. This change has had no significant impact as at 31 December 2006 or 31 December 2005.

Fotex Nyrt. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2006
All amounts in HUF '000 unless otherwise indicated

2. Significant Accounting Policies (continued)

Changes in accounting policies (continued)

IAS 39 Financial Instruments: Recognition and Measurement

Amendment for financial guarantee contracts (issued August 2005) - amended the scope of IAS 39 to require financial guarantee contracts that are not considered to be insurance contracts to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue. This amendment did not have an effect on the financial statements.

Amendment for hedges of forecast intragroup transactions (issued April 2005) - amended IAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment did not have an effect on the financial statements.

Amendment for the fair value option (issued June 2005) - amended IAS 39 to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option; hence the amendment did not have an effect on the financial statements.

IFRIC 4 Determining Whether an Arrangement contains a Lease

The Group adopted IFRIC Interpretation 4 as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This change in accounting policy has not had a significant impact on the Group as at 31 December 2006 or 31 December 2005.

IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The Group adopted IFRIC Interpretation 5 as of 1 January 2006, which establishes the accounting treatment for funds established to help finance decommissioning for a companies assets. As the entity does not currently operate in a country where such funds exist, this interpretation has had no impact on the financial statements.

IFRIC 6 Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment

The Group adopted IFRIC Interpretation 6 as of 1 January 2006, which established the recognition date for liabilities arising from the EU Directive relating to the disposal of Waste Electrical and Electronic Equipment. This amendment did not have an effect on the financial statements.

Fotex Nyrt. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2006
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2. Significant Accounting Policies (continued)

Significant accounting judgments, estimates and assumptions

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Operating Lease Commitments-Group as Lessor

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

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 is THUF 3,160,762 (2005: THUF 3,300,134). Further details are given in Note 11.

Impairment of Intangibles

The Group determines whether intangible assets with indefinite useful lives such as merchandising and media rights are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the intangible assets is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of such intangible assets as at December 31, 2006 is THUF 1,180,000 (2005: THUF 1,753,600). Further details are given in Note 9.

Deferred Tax Assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognised tax losses at 31 December 2006 was THUF 219,456 (2005: nil) and the unrecognised tax losses at 31 December 2006 was THUF 3,010,574 (2005: THUF 5,534,838). Further details are given in Note 19.

Fotex Nyrt. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2006
All amounts in HUF '000 unless otherwise indicated

2. Significant Accounting Policies (continued)

Significant accounting judgments, estimates and assumptions (continued)

Fair Value of Investment Properties

The Group has determined fair value of investment property as the present value of the estimated future cash flows generated from leasing such assets. Future cash flows were determined separately for the following categories of investment property: commercial outlets, offices, warehouses and other real estate property using average rental fees currently realizable by the Group; present values were calculated using a uniform discount rate that is considered by management as appropriate for the valuation of real estate property on the relevant markets. Further details are given in Note 8.

Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less. Cash and cash equivalents comprise cash in hand, deposits held at call with banks, investments in marketable securities that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash on hand and deposits in banks, net of outstanding bank overdrafts.

Foreign currency translation

The consolidated financial statements are presented in HUF, which is the Company's functional and presentation currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Fotex Nyrt. and Subsidiaries
Notes to Consolidated Financial Statements
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2. Significant Accounting Policies (continued)

Inventory

Inventory is stated at the lower of cost or net realisable value on a weighted average basis after making allowance for any obsolete or slow-moving items. The value of work in progress and finished goods includes an applicable portion of direct materials, labour and overheads in manufacturing subsidiaries, but excluding borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Property, plant and equipment

Property, plant and equipment are stated at purchase price or production cost less accumulated depreciation and any impairment in value. Production costs for self-constructed assets include the cost of materials, direct labour and an appropriate proportion of production overheads.

Replacements and improvements, which prolong the useful life or significantly improve the condition of the asset are capitalised. Maintenance and repairs are recognised as an expense in the period in which they are incurred.

Freehold land is not depreciated.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

	Years
Buildings	50
Plant and equipment	7-12.5
Vehicles	5
Computer equipment	3

The cost of properties retired or otherwise disposed of, together with the accumulated depreciation provided thereon, is eliminated from the accounts. The net gain or loss is recognised as other operating income or expense.

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If such an indication exists and where the carrying value exceeds the recoverable amount, the assets or cash generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs. Impairment losses are recognised in the income statement in the selling, general and administration expenses line item.

Fotex Nyrt. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2006
All amounts in HUF '000 unless otherwise indicated

2. Significant Accounting Policies (continued)

Property, plant and equipment (continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

The asset's residual values, useful lives and methods of depreciation are reviewed and adjusted if appropriate, at each financial year end.

Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, and available for sale financial assets, as appropriate.

All investments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on investments held for trading are recognised in income.

Other short-term and long-term investments, which are intended to be held to maturity, such as bonds, are subsequently measured at amortised cost. Amortised cost is calculated by taking into account over the period to maturity any discount or premium on acquisition. For investments carried at amortised cost, any gain or loss is recognised in income when the investment is derecognised or impaired, as well as through the amortisation process.

For investments actively traded in financial markets fair value is determined by reference to the market price. For investments where there is no market price or the market price is considered to be an unreliable indicator, fair value is estimated on the basis of the market price of comparable investments or by reference to the expected future cash flows. Where fair value cannot be reliably measured for certain investments, such investments are measured at amortised cost.

Trade and other receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when the collection of the full amount is no longer probable. Receivables from related parties are recognized and carried at cost.

2. Significant Accounting Policies (continued)

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Investments and other financial assets (continued)

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above preceding categories. After initial measurement, available for sale financial assets are measured at fair value with unrealised gains or losses being recognised directly in equity in the net unrealised gains reserve. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognised in the income statement. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognised in the income statement as 'Dividends received' when the right of payment has been established.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

Pensions

All pensions are either funded privately by employees or the state via certain social security charges included in the gross cost of the employees wage.

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2. Significant Accounting Policies (continued)

Investment properties

Investment properties are measured initially at cost, including transactions costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that the cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition under the cost model assets are recognized at cost and depreciated systematically over its useful life.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

	Years
Buildings	50

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition accounting method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS 14 Segment Reporting.

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2. Significant Accounting Policies (continued)

Business Combinations and Goodwill (continued)

Where goodwill forms part of a cash-generating unit (group of cash generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and unamortised goodwill is recognised in the income statement.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives such as shop rental rights, archives of recorded music, production know-how and franchise fees are amortised using the straight line method over the useful economic life that range from 5 to 23 years and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives as merchandising and media rights are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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2. Significant Accounting Policies (continued)

Investment in associates

The Group's investment in its associate is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. The reporting dates of the associate and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Income taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from goodwill amortisation or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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2. Significant Accounting Policies (continued)

Income taxes (continued)

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Other taxes

The Companies are paying local business tax, to local municipalities based on the physical location of the operations in Hungary. The base of the local business tax is the revenue as decreased by the cost of goods sold, raw material expenses and certain other expense items. Local business tax is classified into selling general and administration expenses.

Issued capital

Issued share capital is recorded at the nominal value of shares outstanding at the balance sheet date. The excess of proceeds from issuance of share capital over nominal value is recognised as share premium.

Treasury shares

Fotex shares repurchased are included in shareholders' equity and are classified as treasury shares. Gains and losses on sale of treasury shares, and differences on repurchase, are credited or debited to retained earnings. According to current Hungarian regulations, such gains are available for distribution.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Interest income

Revenue is recognised as the interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

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2. Significant Accounting Policies (continued)

Revenue recognition (continued)

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

Rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease term on ongoing leases.

Segment reporting

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of enterprise revenue and expenses that can be allocated on a reasonable basis to a segment, whether from external transactions or from transactions with other segments of the Group. Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by Group policy. Segment results are determined before any adjustments for minority interest.

The Group performs the majority of its activities in Cyprus, Luxembourg and in Hungary. However, the majority of activities are carried out in Hungary, consequently no geographical segment information is disclosed.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets are determined after deducting related allowances that are reported as direct offsets in the Group's balance sheet.

Corporate and other items mainly comprise general and administrative expenses that relate to the group as whole, assets not directly attributable to the operations of the segments such as short and long term investments and liabilities that are incurred for financing rather than operating purposes.

Capital expenditure represents the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (property, plant and equipment).

Earnings per share

Basic earnings per share data is calculated based on the weighted average number of shares outstanding during the period excluding treasury shares held by the Company. Fully diluted earnings per share is calculated based on the weighted average number of shares outstanding as calculated for basic earnings per share and as adjusted for giving effect to the assumed issuance of all potentially dilutive securities. Net income is adjusted in the fully diluted earnings per share calculation for any income or expense associated with the potentially dilutive securities.

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2. Significant Accounting Policies (continued)

Financial instruments and other financial liabilities

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and other liabilities approximate their fair value due to their short term to maturity. The Group has no significant concentrations of credit risk.

Loans and borrowings are initially recognised at cost. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost. As all loans bear variable rate interest, their fair value approximates the book value. In determining estimates of the fair value of financial instruments, the Group makes assumptions regarding current market interest rates, considering the term of the instrument and its risk. Current market interest rates are generally selected from a range of potentially acceptable rates and, accordingly, other effective rates and/or fair values are possible.

Liabilities for trade and other amounts payable are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not invoiced to the Group. Payables to related parties are recognized and carried at cost.

The de-recognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

Subsequent Events

Events occurring after the year end that provide additional information about the Group's position at the balance sheet date (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosure.

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2. Significant Accounting Policies (continued)

Not effective standards and interpretations for December 2006 year-ends, although they may be applied early

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective for December 2006 year-ends. The Group has not early adopted these standards and interpretations for 2006.

- IFRS 7 Financial Instruments: Disclosures effective for periods beginning on or after 1 January 2007.
- IAS 1 Amendment-Presentation of Financial Statements effective for periods beginning on or after 1 January 2007
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies effective for periods beginning on or after 1 March 2006
- IFRIC 8 Scope of IFRS 2 effective from for periods beginning on or after 1 May 2006
- IFRIC 9 Reassessment of Embedded Derivatives effective from for periods beginning on or after 1 June 2006

The principal effects of these changes are as follows:

IFRS 7 Financial Instruments: Disclosures

The Group has not elected to early adopt IFRS 7, which requires disclosures that enable users to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. As a consequence the old disclosures under IAS 32 are included throughout the financial statements.

IAS 1 Presentation of Financial Statements

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. The Group has not elected to early adopt this amendment to IAS 1.

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies effective for periods beginning on or after 1 March 2006

This Interpretation requires entities to apply IAS 29 Financial Reporting in Hyperinflationary Economies in the reporting period in which an entity first identifies the existence of hyperinflation in the economy of its functional currency as if the economy had always been hyperinflationary.

IFRIC 8 Scope of IFRS 2

IFRIC Interpretation 8 which is effective from for periods beginning on or after 1 May 2006, which requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.

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2. Significant Accounting Policies (continued)

Not effective standards and interpretations for December 2006 year-ends, although they may be applied early (continued)

IFRIC 9 was issued in March 2006, and becomes effective for financial years beginning on or after 1 June 2006. This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

The Group expects that adoption of the pronouncements listed above will have no impact on the Group's financial statements in the period of initial application.

3. Cash and short term deposits

Cash includes fixed deposits of THUF 1,551,958 (December 31, 2005 THUF 11,253,513) at rates ranging from 2% to 7% (2005 2% to 6.2%). The Company has EUR, USD and HUF deposits. The lower rates are on foreign currencies while the higher ones on HUF.

As at 31 December 2006, the Group has HUF 332 million (December 31, 2005 THUF 443 million) restricted cash as security for rental deposits received. Rental deposits are repayable when the rental agreements terminated.

4. Other investments

	<u>2006</u>	<u>2005</u>
	THUF	THUF
Government securities held to maturity	330	160,006
Other short term investments held to maturity	432	3,432
Total other investments	<u>762</u>	<u>163,438</u>

5. Accounts Receivable and Prepayments

	<u>2006</u>	<u>2005</u>
	THUF	THUF
Trade receivables	1,151,737	1,362,144
Taxes recoverable	360,830	258,764
Other receivables and prepayments	339,502	664,574
Provision for doubtful debts	(168,635)	(180,709)
Total accounts receivable and prepayments	<u>1,683,434</u>	<u>2,104,773</u>

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6. Inventory

	<u>2006</u>	<u>2005</u>
	THUF	THUF
Products held for resale and finished goods	3,096,522	4,072,876
Raw materials and consumables	518,525	434,795
Work in progress	670,801	501,576
gross value of total inventory	<u>4,285,848</u>	<u>5,009,247</u>
Provision on products held for resale and finished goods	(577,814)	(925,377)
Provision on raw materials and consumables	(105,960)	(99,004)
Provision on work in progress	(70,000)	–
Provision for inventory	<u>(753,774)</u>	<u>(1,024,381)</u>
Total net inventory	<u><u>3,532,074</u></u>	<u><u>3,984,866</u></u>

Management identified a number of companies within the group in which slow moving inventory has been experienced. Based on a review management concluded that a provision of THUF 753,774 (December 31, 2005 THUF 1,024,381) is appropriate.

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7. Property, plant and equipment

Movements in property, plant and equipment for the year ended December 31, 2006 was as follows:

	Land, Buildings and Improvements	Furniture, Fixtures and Equipment	Construction in Progress	Total
	THUF	THUF	THUF	THUF
Cost:				
January 1, 2006	17,464,943	6,080,753	71,059	23,616,755
Additions	1,108,582	242,919	895,480	2,246,981
Disposals and write downs	(76,269)	(495,502)	–	(571,771)
December 31, 2006	<u>18,497,256</u>	<u>5,828,170</u>	<u>966,539</u>	<u>25,291,965</u>
Investment property transfer (note 8)	(13,134,543)	–	–	(13,134,543)
After reclassification of investment property	<u>5,362,713</u>	<u>5,828,170</u>	<u>966,539</u>	<u>12,157,422</u>
Depreciation:				
January 1, 2006	(2,769,018)	(4,701,440)	–	(7,470,458)
Depreciation expense	(599,192)	(423,707)	–	(1,022,899)
Disposals and write downs	62,042	340,990	–	403,032
December 31, 2006	<u>(3,306,168)</u>	<u>(4,784,157)</u>	<u>–</u>	<u>(8,090,325)</u>
Investment property transfer (note 8)	2,172,684	–	–	2,172,684
After reclassification of investment property	<u>(1,133,484)</u>	<u>(4,784,157)</u>	<u>–</u>	<u>(5,917,641)</u>
Net book value:				
December 31, 2006	<u>15,191,088</u>	<u>1,044,013</u>	<u>966,539</u>	<u>17,201,640</u>
Investment property transfer (note 8)	(10,961,859)	–	–	(10,961,859)
After reclassification of investment property	<u>4,229,229</u>	<u>1,044,013</u>	<u>966,539</u>	<u>6,239,781</u>
December 31, 2005	<u>14,695,925</u>	<u>1,379,313</u>	<u>71,059</u>	<u>16,146,297</u>

As of December 31, 2006 gross value of tangible fixed assets fully depreciated or fully impaired was THUF 2,442,027 (2005: THUF 1,570,817). Carrying amount of temporarily idle tangible assets was THUF 104,582 (2005: THUF 105,564) at year end.

At year end management reassessed its real estate portfolio and determined that in line with the strategy changes described above, it will present such real estate that is leased and is available for lease to third parties as investment property. See details under Note 8.

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7. Property, plant and equipment (continued)

Movements in property, plant and equipment for the year ended December 31, 2005 was as follows:

	Land, Buildings and Improvements	Furniture, Fixtures and Equipment	Construction in Progress	Total
	THUF	THUF	THUF	THUF
Cost:				
January 1, 2005	15,635,063	9,153,595	1,231,994	26,020,652
Additions	3,422,822	376,098	(1,063,369)	2,735,551
Disposal of subsidiaries	(1,370,320)	(2,746,850)	(97,566)	(4,214,736)
Disposals and write downs	(222,622)	(702,090)	–	(924,712)
December 31, 2005	<u>17,464,943</u>	<u>6,080,753</u>	<u>71,059</u>	<u>23,616,755</u>
Depreciation:				
January 1, 2005	(2,658,455)	(6,346,725)	–	(9,005,180)
Depreciation expense	(537,228)	(898,001)	–	(1,435,229)
Disposal of subsidiaries	345,960	1,996,587	–	2,342,547
Disposals and write downs	80,705	546,699	–	627,404
December 31, 2005	<u>(2,769,018)</u>	<u>(4,701,440)</u>	<u>–</u>	<u>(7,470,458)</u>
Net book value:				
December 31, 2005	<u>14,695,925</u>	<u>1,379,313</u>	<u>71,059</u>	<u>16,146,297</u>
December 31, 2004	<u>12,976,608</u>	<u>2,806,870</u>	<u>1,231,994</u>	<u>17,015,472</u>

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8. Investment properties

The Group controls a significant real estate portfolio. In prior years a significant proportion of this portfolio was utilized by the Group companies as retail outlets and for other operating activity purposes. Currently the Group is undergoing a reorganization process whereby it is gradually abandoning its retail activity and becoming an investment property company by leasing an increasing proportion of its real estate portfolio to third parties. At year end management reassessed its real estate portfolio and determined that in line with the strategy changes described above, it will present such real estate that is leased and is available for lease to third parties as investment property. Investment property is measured in the Balance Sheet at historic cost less accumulated depreciation, while its fair value is determined and disclosed in the notes to the Financial Statements.

The fair value of real estate which has been reclassified to Investment property as at 31 December 2006 as is analysed as follows:

Category	Area m ²	Carrying value THUF	Fair value		
			Low THUF	Medium THUF	High THUF
Retail outlets	111,924	8,511,687	41,614,428	47,440,448	55,163,312
Office	8,255	218,013	2,762,467	3,149,212	3,661,874
Warehouse	91,584	1,168,915	10,215,564	11,645,743	13,541,562
Other buildings	57,695	1,010,045	3,813,369	4,347,241	5,054,931
Land	95,000	53,199	2,102,501	2,396,851	2,787,036
Total investment property	<u>364,458</u>	<u>10,961,859</u>	<u>60,508,329</u>	<u>68,979,495</u>	<u>80,208,715</u>

The fair value of investment properties was determined by management based on the present values of the future cash flows, determined separately for the presented categories of real estate, based on the currently realized rental rates. Present values were calculated using a uniform discount rate that is considered appropriate for the valuation of real estate property on the relevant markets and incorporates the following significant assumptions: demand for property to be leased will be continuous on the relevant markets, the level of rental fees will be maintained at current rates, the effects of inflation and fluctuations in the rates of Hungarian Forint to the Euro (the Group leases its property at rates determined generally in Euro) will be negligible and there will be full utilization rate for properties

Fair values are presented as a range of low, medium and high values. Medium values were calculated by discounting expected cash flows at a rate of 7.1% which is considered the appropriate weighted discount rate for valuing real estate property on the relevant markets. The discount rate for the low and high range was determined as +/- 1% to the average, respectively against the base discount rate. This range is commonly used for sensitivity analyses on the valuation of real estate property. Consideration should also be given to the uncertainty that exists in other assumptions made, such as inflation rates, currency rate of HUF to EUR, rental fees realizable on the market and the actual utilization of property. These factors have a linear effect on the fair values calculated and consequently, no sensitivity analysis on these factors is presented.

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8. Investment properties (continued)

The fair value of real estate which remains categorized as land, buildings and improvements, not as investment property is analyzed in the table below. It is calculated based on the present value of the estimated future cash flows that would be generated if these assets were leased to third parties at rental rates consistent with those currently realized by the Group for the presented categories and based on the same assumptions and calculation methodology as described above for investment properties.

Category	Area	Carrying value	Low	Fair value	High
	m ²	THUF	THUF	Medium THUF	THUF
Retail outlets	28,810	563,947	10,711,869	12,211,530	14,199,454
Office	275	13,961	92,023	104,906	121,984
Warehouse	21,869	167,818	2,439,337	2,780,845	3,233,540
Other buildings	58,156	559,195	4,324,140	4,929,383	5,731,841
Land	765,000	2,924,308	16,930,538	19,300,950	22,442,965
Total land, buildings and improvements	874,110	4,229,229	34,497,907	39,327,614	45,729,784

9. Intangible Assets

Movements in intangible assets for the year ended December 31, 2006 was as follows:

	Media and merchandising rights	Other	Total
	THUF	THUF	THUF
Cost:			
January 1, 2006	1,834,520	679,046	2,513,566
Additions	–	70,072	70,072
Disposals and write downs	–	(352,012)	(352,012)
December 31, 2006	1,834,520	397,106	2,231,626
Amortisation:			
January 1, 2006	(80,920)	(201,034)	(281,954)
Amortisation expense	–	(77,960)	(77,960)
Impairment	(573,600)	–	(573,600)
Disposals and write downs	–	153,428	153,428
December 31, 2006	(654,520)	(125,566)	(780,086)
Net book value:			
December 31, 2006	1,180,000	271,540	1,451,540
December 31, 2005	1,753,600	478,012	2,231,612

“Other” primarily consists of rental rights for retail operations.

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9. Intangible Assets (continued)

Media and merchandising rights' useful life was re-assessed at January 1, 2005 by the management. As it was decided that it has an indefinite useful life, the amortization was discontinued. Management annually assesses the carrying value of media and merchandising rights' in the Group's books and makes appropriate adjustments for any impairment of these assets.

As at December 31, 2006 management reviewed the value of the asset based on the discounted cash-flow method and based on the results determined to record impairment.

Movements in intangible assets for the year ended December 31, 2005 was as follows:

	Media and merchandising rights	Other	Total
	THUF	THUF	THUF
Cost:			
January 1, 2005	1,834,520	2,072,457	3,906,977
Additions	–	69,261	69,261
Disposal of subsidiaries	–	(1,245,320)	(1,245,320)
Disposals and write downs	–	(217,352)	(217,352)
December 31, 2005	<u>1,834,520</u>	<u>679,046</u>	<u>2,513,566</u>
Amortisation:			
January 1, 2005	(80,920)	(1,186,158)	(1,267,078)
Amortisation expense	–	(79,300)	(79,300)
Disposal of subsidiaries	–	1,113,909	1,113,909
Disposals and write downs	–	(49,485)	(49,485)
December 31, 2005	<u>(80,920)</u>	<u>(201,034)</u>	<u>(281,954)</u>
Net book value:			
December 31, 2005	<u>1,753,600</u>	<u>478,012</u>	<u>2,231,612</u>
December 31, 2004	<u>1,753,600</u>	<u>886,299</u>	<u>2,639,899</u>

10. Long Term Investments

	2006	2005
	THUF	THUF
Long term securities held to maturity	6,938	6,938
Other long term investments	61,817	87,012
Total long term investments	<u>68,755</u>	<u>93,950</u>

Long term investments are held to maturity based on the intention of the Group.

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11. Goodwill arising on Acquisition

Movements in goodwill (purchased as part of prior business combinations) were as follows for the years ended December 31:

	<u>2006</u>	<u>2005</u>
	THUF	THUF
At January 1		
Net book value	<u>3,300,134</u>	<u>3,883,581</u>
Additions	–	35,708
Disposals	–	(464,515)
Impairment charge for the year	(139,372)	(154,640)
At December 31		
Net book value	<u>3,160,762</u>	<u>3,300,134</u>

At year end management reviewed goodwill carried in the books for impairment and has determined impairment for the goodwill which is not supported by real estate property.

12. Interest bearing loans and borrowings

	<u>2006</u>	<u>2005</u>
	THUF	THUF
Short term interest bearing loans and borrowings		
Ajka USD, EUR revolving loans with monthly interest of LIBOR plus 1.25%	–	915,757
Balaton EUR current assets loan with interest of 0.6%	–	21,529
DVDRent – Plaza Park HUF loan with interest of 13.5%-os	–	40,000
Current portion of long term interest bearing loans and borrowings	–	703,367
Others (Keringatlan)	–	18,896
Total short term interest bearing loans and borrowings	<u>–</u>	<u>1,699,549</u>

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12. Interest bearing loans and borrowings (continued)

	2006 <u>THUF</u>	2005 <u>THUF</u>
Long term interest bearing loans and borrowings		
Keringatlan EUR investment loan secured by mortgage on certain properties at 4,19-4.63%, due date September 29, 2008; Sugár project loan with monthly interest at EURIBOR plus 1%, secured by income from rental fee and mortgage on Sugár, due date June 30, 2011	–	3,014,936
Ajka EUR investment loan secured by tangible assets with interest at LIBOR plus 1% due in 1-3 years	–	53,206
Total	<u>–</u>	<u>3,068,142</u>
less: Portion due within one year	–	(703,367)
Total long term interest bearing loans and borrowings	<u>–</u>	<u>2,364,775</u>
Bank borrowings analysis by currency		
	2006 <u>THUF</u>	2005 <u>THUF</u>
Hungarian Forint	–	58,896
US Dollar	–	451,094
Euro	–	3,554,334
Swiss Franc	–	–
Total borrowings	<u>–</u>	<u>4,064,324</u>

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12. Interest bearing loans and borrowings (continued)

As at December 31, 2005, the Group had THUF 80,000 overdraft facilities, USD 4,350,000 revolving loan facilities and EUR 13,441,600 available loan facilities. As security for the overdraft facilities and other investment and working capital loans, the Group provided a total of THUF 4,567,308 of mortgages and pledges and totally THUF 536,797 in different currencies lien in favour of the lending banks as at December 31, 2005. In addition, there was THUF 240,000 mortgage as coverage for a EUR 221,277 bank guarantee and the Group had cash guarantees of THUF 120,000 and EUR 304,381, in respect of Group companies at December 31, 2005.

	Book value of assets as at December 31, 2005 <hr/> THUF	Mortgages and pledges as at December 31, 2005 <hr/> THUF
Inventories	2,074,650	1,400,000
Technical equipments	523,500	50,000
Properties	4,422,097	3,117,308
Total	<hr/> <u>7,020,247</u>	<hr/> <u>4,567,308</u>

In the course of the year the Group replaced its external financial sources with internal financing from the gain made on the sale of Fotex Optika Kft. at the end of 2005. As external financing was repaid the above mentioned securities for overdraft facilities and other investment and working capital loans were reversed in 2006.

13. Accounts Payable and Accrued Expenses

	<hr/> 2006 THUF	<hr/> 2005 THUF
Trade payables	1,383,428	1,717,918
Taxes payable	226,920	255,050
Advances from customers	122,118	140,283
Accrued expenses	284,705	360,208
Payable to employees	128,401	123,692
Deposit received for rental	451,577	266,247
Other miscellaneous payables	424,003	796,039
Total accounts payable and accrued expenses	<hr/> <u>3,021,152</u>	<hr/> <u>3,659,437</u>

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14. Minority Interest

	2006 THUF	2005 THUF
Balance at beginning of year	1,685,917	2,329,957
Dividends of subsidiaries	(11,100)	(640,492)
Purchase of minority shareholder interests	(1,639,700)	(336,734)
Other	(579)	109,510
Minority interest relating to subsidiaries disposed of during the year	-	2,834
(Loss) / Income attributable to minorities	(17,069)	220,842
Balance at end of year	17,469	1,685,917

Minority Interest in Domus Nyrt.

During the first quarter of 2006, the Group acquired an additional 42.6% ownership in Domus Nyrt. on the Hungarian Stock Exchange at fair value increasing its ownership from 56.6% to 99.2%. Cash consideration of THUF 471,372 and EUR 4,060,899 was paid. No goodwill arose on this transaction.

Minority Interest in Balaton Bútor Zrt. and Bebufa Kft.

In the course of the year, the Group acquired additional 13.3% ownership in Balaton Bútor Zrt. from employees and other private individuals at fair value increasing its ownership from 86.6% to 99.9%. Cash consideration of THUF 51,440 was paid. No goodwill arose on this transaction. Bebufa Kft. is a 99.7% subsidiary of Balaton Bútor Zrt.; hence minority interest was also acquired in that subsidiary.

Minority Interest in Fotexnet Kft.

The Minority shareholder of Fotexnet Kft. increased its capital in the company, which resulted in an increase in minority interest in Fotexnet Kft. However, the Group has retained virtual control over the subsidiary as the minority interest is held by Blackburn International Inc., a related party to the Group.

15. Share Capital

The authorised and issued share capital is THUF 7,072,365. The par value of the shares is HUF 100. At December 31, 2006 the Company's issued share capital consists of 70,723,650 shares (December 31, 2005 70,723,650 shares). Of the issued shares, 1,536,960 shares costing THUF 261,627 (December 31, 2005, 1,536,959 shares costing THUF 261,627) are held in treasury.

16. Goodwill Write-off Reserve

In 1990, in connection with the transformation of the Company to an Rt. and associated increase in share capital, certain intangible assets of Fotex (principally the "Fotex" name) were valued by an independent appraisal at approximately HUF 2,2 billion. This amount is shown as an intangible asset in the Company's Hungarian statutory financial statements and is amortised over 25 years. This amount is not shown as an asset, rather as a deduction from shareholders' equity in these financial statements.

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17. Retained Earnings

Retained earnings available for distribution are based on the financial statements of the Company prepared in accordance with Hungarian Accounting Standards, as opposed to these financial statements that are prepared under International Financial Reporting Standards. The distributable reserves according to Hungarian Accounting Standards of Fotex at December 31, 2006 amount to THUF 2,363,512 (December 31, 2005 THUF 3,263,893).

18. Selling, General and Administration Expenses

	2006	2005		
		Continuing operations	Discontinued operations	Total
	THUF	THUF	THUF	THUF
Personnel expense	3,999,412	4,588,689	2,666,180	7,254,869
Material type costs	3,320,351	4,361,352	2,364,706	6,726,058
Other expenses	1,591,853	1,139,188	788,898	1,928,086
Depreciation and amortisation	1,100,859	1,056,731	457,798	1,514,529
Total selling, general and administration expenses	10,012,475	11,145,960	6,277,582	17,423,542

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19. Income Taxes

	<u>2006</u>	<u>2005</u>
	THUF	THUF
Current income tax expense	(182,990)	(227,891)
Deferred income tax	<u>(65,071)</u>	<u>(18,261)</u>
Income tax expense	<u><u>(248,061)</u></u>	<u><u>(246,152)</u></u>

The effective income tax rate varied from the statutory income tax rate due to the following items:

	<u>2006</u>	<u>2005</u>
	THUF	THUF
(Loss) / Income before minority interest and income taxes	<u>(269,294)</u>	<u>7,723,288</u>
Tax at statutory rate of 16%	43,087	(1,235,726)
Effect of tax losses for which no corresponding deferred tax asset recognised	(432,833)	(159,882)
Effect of tax losses from previous periods for which corresponding deferred tax asset recognized for the first time in the current period.	35,113	–
Differences arising from Cyprus and Luxemburg tax rates	(51,477)	1,181,563
Effect of change in the tax rate from 16% to 20% from 2007	(25,915)	–
Effect of permanent differences	203,312	(32,107)
Solidarity tax at statutory rate of 4% from September 1, 2006 on statutory results – see explanation below.	(19,348)	–
Income tax expense	<u><u>(248,061)</u></u>	<u><u>(246,152)</u></u>

Fotex and its subsidiaries are subject to periodic audit by the Hungarian Tax Authority (“APEH”). Because the application of tax laws and regulations too many types of transactions is susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date upon final determination by APEH.

Corporate income tax rate is 16%, however, effective from September 1, 2006 the government introduced an additional, so called solidarity tax of 4% payable on profits made in the period from September 1, 2006.

As the above mentioned solidarity tax is presumed also be valid in future years, an effective tax rate of 20% was taken into consideration when calculating deferred tax assets and liabilities.

As further, described in Note 20, the group disposed of its shareholding in Fotex Optika Kft at the end of 2005. This was executed via Upington, a Cyprus Holding company which had an effective tax rate of 0% on capital gain for 2005. In 2006 Upington made a loss. In addition, Downington, a financial holding company was established in Luxemburg where the effective tax rate for financial holding income is 0%.

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19. Income Taxes (continued)

Deferred tax assets and deferred tax liabilities at December 31, 2006 and 2005 are attributable to the items detailed in the tables below:

	Consolidated balance sheet		Consolidated income statement	
	2006 THUF	2005 THUF	2006 THUF	2005 THUF
Deferred income tax liabilities				
Accelerated depreciation for tax purposes	(120,561)	(17,697)	(102,864)	50,227
Eliminated intercompany transactions	(35,739)	(4,109)	(31,630)	(8,909)
Capitalisations of small value assets	(18,828)	(20,628)	1,800	17,596
Fair value adjustments on acquisition	(42,375)	(36,725)	(5,650)	2,825
Gross deferred income tax liabilities	(217,503)	(79,159)	(138,344)	61,739
Deferred income tax assets				
Provision on receivables	–	–	–	(80,000)
Provisions	38,160	–	38,160	–
Tax losses carried forward	35,113	–	35,113	–
Gross deferred income tax assets	73,273	–	73,273	(80,000)
Deferred income tax			(65,071)	(18,261)
Net deferred income tax liability	(144,230)	(79,159)		

Certain Group companies have tax losses that are available to be carried forward and offset against taxable income of the companies in future years as shown below:

Expiry	THUF
Indefinite	2,156,948
2007	769,972
2008	303,110
Total	<u>3,230,030</u>

Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group and they have arisen in subsidiaries that have been loss-making for some time, except for THUF 181,309 of Dália Kft. and THUF 38,146 of Kontúr Zrt. In those cases due to the merger of these entities into to profit making companies within the group it is probable that the tax losses carried forward will be realised.

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20. Discontinued operations

On 15st December, 2005 the Company disposed of its consolidated subsidiary Fotex Optika Kft., operating in the optical and the photographic segments. The subsidiary had a majority share in two foreign subsidiaries, Fotex Ceska and Fotex Polska that also operate in the optical segment which formed part of the overall disposal.

Furthermore, the voluntary liquidation that commenced in 2004 transferred to a mandatory liquidation in March 2005 for Keravill Rt., operating in the electrical segment. Keravill Rt. has therefore been deconsolidated from the group at 31 December, 2005.

	<u>2005</u>
	THUF
Net cashflow of disposed subsidiaries	
Operating	1,023,921
Investing	(210,458)
Financing	<u>(1,266,066)</u>
Net cash outflow	<u>(412,603)</u>
Net assets disposed of:	
Cash	325,846
Accounts receivable and prepayments	1,801,171
Inventory	1,732,487
Fixed assets	2,016,623
Accounts payable and accrued expenses	(4,105,970)
Goodwill	464,515
	<u>2,234,672</u>
Minority interest of net assets	4,404
Consideration received:	
Cash	10,180,470
Profit on disposal	<u>7,941,394</u>
Net cash inflow on disposal:	
Cash received	10,180,470
Net cash disposed of with subsidiary	<u>(325,846)</u>
Net cash outflow	<u>9,854,624</u>

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21. Segment Information

	2006	2006	2006	2005	2005	2005
Revenue (a):	Net Sales external THUF	Net Sales inter- segment THUF	Net Sales THUF	Net Sales external THUF	Net Sales inter- segment THUF	Net Sales THUF
Furniture	6,835,493	12,361	6,847,854	7,407,510	3,250	7,410,760
Property	3,490,632	404,444	3,895,076	2,125,613	1,244,064	3,369,677
Electrical, household goods and cosmetics	1,524,211	13,978	1,538,189	4,164,198	49,480	4,213,678
Crystal and glass	2,846,865	19,305	2,866,170	3,073,479	13,657	3,087,136
Music	1,167,887	1,285	1,169,172	1,216,022	71,658	1,287,680
Photographic products and services	692,878	9,799	702,677	856,360	5,012	861,372
Clothing	554,065	569	554,634	532,513	–	532,513
Advertising	22,652	43,286	65,938	127,808	150,367	278,175
Corporate and other	870,343	542,539	1,412,882	1,804,954	711,998	2,516,952
Inter-segment elimination	–	(1,047,566)	(1,047,566)	–	(2,249,486)	(2,249,486)
Revenue from continuing operations	<u>18,005,026</u>	–	<u>18,005,026</u>	<u>21,308,457</u>	–	<u>21,308,457</u>
Revenue from discontinued operations	–	–	–	10,007,893	–	10,007,893
Revenue from operations	<u><u>18,005,026</u></u>	<u><u>–</u></u>	<u><u>18,005,026</u></u>	<u><u>31,316,350</u></u>	<u><u>–</u></u>	<u><u>31,316,350</u></u>

a) Revenue relating to crystal and glass products are principally foreign currency sales, Other sales are generally Hungarian Forint sales.

Net profit / (loss) before tax:	2006	2005
	THUF	THUF
Furniture	(293,305)	(46,603)
Property	1,594,013	918,810
Electrical, household goods and cosmetics	42,129	(183,682)
Crystal and glass	(125,270)	(736,981)
Music	(69,763)	(138,406)
Photographic products and services	(160,177)	24,509
Clothing	(61,235)	5,128
Advertising	(129,908)	(99,092)
Corporate and other	(1,065,778)	(290,565)
Net (loss) before tax from continuing operations	<u>(269,294)</u>	<u>(546,882)</u>
Net gain from discontinued operations	–	8,650,499
(Loss) / net profit relating from operations	<u><u>(269,294)</u></u>	<u><u>8,103,617</u></u>

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21. Segment Information (continued)

Total Assets:	2006	2006	2006	2005	2005	2005
	Assets external THUF	Assets inter-segment THUF	Assets THUF	Assets external THUF	Assets inter-segment THUF	Assets THUF
Furniture	4,698,222	6,700	4,704,922	5,361,197	2,186	5,363,383
Property	13,235,348	22,345	13,257,693	12,836,970	169,714	13,006,684
Electrical, household goods and cosmetics	1,608,740	81,644	1,690,384	1,824,550	10,928	1,835,478
Optical products and services	–	–	–	11,020	8	11,028
Crystal and glass	2,641,096	13,211	2,654,307	2,769,788	1,690	2,771,478
Music	883,078	5,629	888,707	893,056	6,399	899,455
Photographic products and services	17,230	63	17,293	165,379	903	166,282
Clothing	531,088	90,000	621,088	725,390	40	725,430
Advertising	70,941	2,716	73,657	248,695	8,566	257,261
Corporate and other	11,960,174	1,162,469	13,122,643	17,551,816	263,482	17,815,298
Inter-segment elimination	–	(1,384,777)	(1,384,777)	–	(463,916)	(463,916)
Total assets	<u>35,645,917</u>	<u>–</u>	<u>35,645,917</u>	<u>42,387,861</u>	<u>–</u>	<u>42,387,861</u>

Liabilities:	2006	2006	2006	2005	2005	2005
	Liabilities external THUF	Liabilities inter-segment THUF	Liabilities THUF	Liabilities external THUF	Liabilities inter-segment THUF	Liabilities THUF
Furniture	949,301	(39,000)	910,301	1,056,742	17,685	1,074,427
Property	669,828	855,273	1,525,101	3,980,466	14,853	3,995,319
Electrical, household goods and cosmetics	234,061	(18,002)	216,059	523,266	227,833	751,099
Optical products and services	–	–	–	696	50	746
Crystal and glass	389,027	863,218	1,252,245	1,360,178	11,741	1,371,919
Music	239,211	186,128	425,339	189,952	82,516	272,468
Photographic products and services	3,436	1,840	5,276	74,479	5,319	79,798
Clothing	47,666	2,075	49,741	79,027	7,271	86,298
Advertising	5,593	(105)	5,488	37,269	13,690	50,959
Corporate and other	659,888	161,809	821,697	500,845	82,528	583,373
Inter-segment elimination	–	(2,013,236)	(2,013,236)	–	(463,486)	(463,486)
Liabilities	<u>3,198,011</u>	<u>–</u>	<u>3,198,011</u>	<u>7,802,920</u>	<u>–</u>	<u>7,802,920</u>

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21. Segment Information (continued)

Capital expenditure:	2006	2005
	THUF	THUF
Furniture	471,958	82,057
Property	1,184,534	2,042,034
Electrical, household goods and cosmetics	184,203	56,029
Optical products and services	–	256,787
Crystal and glass	8,612	183,622
Music	149,533	6,585
Photographic products and services	19,181	13,799
Clothing	4,747	1,835
Advertising	1,631	2,624
Corporate and other	222,582	90,179
Capital expenditure	<u>2,246,981</u>	<u>2,735,551</u>
Depreciation and amortisation:	2006	2005
	THUF	THUF
Furniture	116,481	155,027
Property	519,288	375,925
Electrical, household goods and cosmetics	56,830	142,759
Optical products and services	–	391,797
Crystal and glass	216,303	238,860
Music	46,312	23,412
Photographic products and services	33,461	31,613
Clothing	5,984	4,716
Advertising	649	2,608
Corporate and other	105,551	147,812
Depreciation and amortisation	<u><u>1,100,859</u></u>	<u><u>1,514,529</u></u>

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22. Financial risk management objectives and policies

Currency management

The financial instruments that potentially subject the Company to currency risk consist principally of foreign currency trade receivables, payables and loans in foreign currency.

Credit risk

Financial instruments, which potentially subject the Company to significant concentrations of credit risk, consist principally of cash, short term investments and the related accounts receivable. The Company's cash is primarily held with major banks located in Hungary. Accounts receivable are presented net of allowances for doubtful receivables. Credit risk is limited due to the dispersion across geographical areas and customers. Accordingly, the Company has no significant concentrations of credit risk.

22. Financial risk management objectives and policies (continued)

Fair values

At December 31, 2006 and 2005 the carrying amounts of cash, short-term investments, accounts receivable, short term borrowings, accounts payable and accrued expenses approximated their fair values due to the short term maturities of these assets and liabilities. Receivables are stated after making allowance for doubtful debts.

23. Investments in subsidiaries

During the year Fotex entered into certain transactions and mergers as further described below:

- Downington Holding S.á.r.l. was established to finance other subsidiaries internally.
- Kontúr Lakásfelszerelés Kft. and Kontúr Papír Kft. merged into Kontúr Zrt. as at July 31st, 2006.
- Azúr Ingatlanhasznosító Kft. merged into Azúr Zrt. as at September 6th, 2006.
- Fotex 2000 Kft. merged into Keringatlan Kft. as at December 1st, 2006.
- Domus Nyrt. was delisted by June 14th, 2006.

24. Operating Leases

The Group leases retail sites within shopping centers "Duna Plaza", "MOM Park" and "Csepel Plaza" located in Budapest as well as within shopping centers in Pécs and at two other locations in Budapest based on non-cancellable operating lease agreements.

The "Duna Plaza" agreement, extended in 1999, allowed and committed the Group to rent the retail outlets until September 2009. In 2007 the size of the rented area from 7 221 m² will be decreased by 5 336 m² to 1 885 m² based on mutual agreement.

From September 2001 the Group leases retail sites within "MOM Park", the relating contract has a term of 7 years. In March, 2007 the Group announced its intention to use their option on the outlets rented in "MOM Park", whereby the rental contracts extended with a further five years.

Rental contract on retail outlets in shopping center "Csepel Plaza" was extended until October,

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2010. The contract on the outlet in the shopping center in Pécs is valid till October, 2007. The contracts on the two retail outlets classified as other centers and shops expire in August, 2008 and in February, 2011.

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24. Operating Leases (continued)

The rental fees are denominated in Euros and are increased by the customer price index reported by the European Union's Statistical Office commencing from January 1, 2000 in case of "Duna Plaza", from January 1, 2002 in case of "MOM Park" and from January 1, 2000 or 2001 in the case of other centres. The Group also leases office space in Fotex Plaza as described in note 27. At present the Group is committed to pay the following minimum rentals:

2006	Fotex Plaza	Duna Plaza	MOM Park	Other centers and shops	Total
Operating lease commitment	THUF	THUF	THUF	THUF	THUF
2007	165,934	105,777	243,760	72,968	588,439
2008	–	70,420	249,123	59,507	379,050
2009	–	53,865	254,604	44,215	352,684
2010	–	–	260,205	43,518	303,723
After	–	–	815,469	5,329	820,798
Total	<u>165,934</u>	<u>230,062</u>	<u>1,823,161</u>	<u>225,537</u>	<u>2,444,694</u>

Operating lease payments for the year ended December 31, 2006 amounted to THUF 318,406 (December 31, 2005 THUF 311,897) for Duna Plaza, THUF 242,426 (December 31, 2005 THUF 236,908) for "MOM Park" and THUF 19,228 for the other centers and shops (December 31, 2005 THUF 77,878).

A portion of retail shop premises are still rented from local municipalities. These rentals may be cancelled by the lessor with a notice period of at least one year.

Under certain circumstances the Group has the right to acquire the premises at a value mutually agreed with the municipality. During 2006 the Group exercised certain of these rights acquiring certain premises at a total purchase price of THUF 152,311 (December 31, 2005: THUF 568,630) and plans expenditure of THUF 107,018 for 2007.

25. Contingency

Euler Hermes Magyar Hitelbiztosító Zrt. has taken legal action against Fotex Nyrt. to take unlimited responsibility for the debts of Keravill Rt., formerly under the control of the Company and currently under liquidation, and to settle their claim of THUF 52,771 plus interest and costs. The case is in progress; the Company believes that the claim is unfounded and considers that no liability needs to be recognized in the balance sheet.

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26. Earnings Per Share

Basic earnings per share

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

	2006 THUF	2005 THUF
Net (loss) / profit attributable to equity holders from continuing operations (THUF)	(500,286)	7,502,446
Loss attributable to equity holders from discontinued operations (THUF)	—	—
Net (loss) / profit attributable to shareholders (THUF)	(500,286)	7,502,446
Weighted average number of shares in issue during the year	69,186,690	69,186,690
Basic (loss) / earnings per share (HUF)	(7.23)	108.44

The diluted earnings per share agree with basic earnings per share in 2006 and 2005 as there is no dilution effect in these years.

27. Related Party Transactions

Principal related parties

Gábor Várszegi, Chairman of the Board of Fotex, directly or indirectly controls a part of the voting shares of Blackburn International Inc. (“Blackburn”), a Panama company and Zurich Investments Inc., (“Zurich”) a British Virgin Islands company, Blackburn has a controlling interest in Fotex Ingatlan Kft. (“Fotex Ingatlan”) and Plaza Park Kft. (“Plaza Park”). At December 31, 2006, Blackburn controls 16.9% of the Company’s share capital (December 31, 2005, 17.1%), Zurich controls 14.1% (December 31, 2005, 14.1%), Fotex Ingatlan controls 17.6% (December 31, 2005, 17.6%), and Plaza Park 1.6% (December 31, 2005, 1.4%). These companies are considered to be related parties.

Related party rental transactions

In case of Plaza Park office accommodation agreements were modified in January, 2000, and were extended until 31 December, 2006. Based on their options, Fotex and its subsidiaries renegotiated rental contracts and extended them until December 31, 2011. The rental fees are adjusted with the harmonized customer price index (EU25) reported by the European Union’s Statistical Office (Eurostat) Rental agreements with Fotex Ingatlan were modified to an indefinite term renting period. Rental fees are increased annually by the average of the general rates of inflation in the EU, the United States and Switzerland. Rental and other related fees paid to Fotex Ingatlan for 2006 were THUF 88,293 (2005: THUF 115,306) and to Plaza Park THUF 242,339 (2005: THUF 301,571).

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27. Related Party Transactions (continued)

Compensation of key management personnel of the Group

Management, directors and members of the supervisory board received short term employee benefits of THUF 101,162 for 2006 (2005: THUF 30,000).

2006 transactions

The unsecured short term loan of THUF 40,000 provided earlier by Plaza Park to DVD Rent was repaid in the course of 2006. Interest expense paid on the amount was THUF 4,941.

In March, 2006 Fotex Ingatlan purchased a shop From Fotex 2000 Kft. on Margit Körút for a consideration of THUF 20,790 + VAT.

2005 transactions

An unsecured short term loan of THUF 220,000 was provided by Plaza Park to the Company that was repaid in the course of the year. An unsecured short term loan of THUF 40,000 was granted to DVD-Rent that is in the balance sheet of DVD-Rent as at 31 December 2005. Interest expense of THUF 5,212 was paid on the amount. Plaza Park Kft. sold its interest in DVD Rent to Fotex Rt. for THUF 40,000, which was paid after the balance sheet date.

Domus Rt. paid Fotex Ingatlan THUF 46,250 as commission after the sale of an office building; Fotex Rt. purchased shares in the consolidated Group company Ajka Kristály for THUF 146,000 and in the consolidated Group company Fotex 2000 for THUF 32,196 from Blackburn International.

28. Post Balance Sheet Events

As at February 28, 2007, Dália Kft. merged into Kontúr Zrt. The merger of Domus Lánc Kft. into Domus Nyrt. is in progress and is expected to take place as at March 31, 2007. Activities of both merging companies are continued after the mergers.

29. Statement of responsibility

Annual report of Fotex Nyrt. on the year 2006 contains true data and statements and it does not conceal any facts that are important for the assessment of the Company's position. The issuer is liable for damages as per Article 55. section (1) of the law on capital markets.

Budapest, March 23, 2007

Gábor Várszegi
Chief Executive Officer