“Fotex” First American-Hungarian Holding Fotex First American-Hungarian Holding, a private company limited by shares.

Flash Report for January - December 2007.

The flash report on the Fotex Group’s activities over the period of January - December 2007 has been prepared in compliance with the IFRS regulations. Data contained herein are consolidated, yet not audited.

Compared to the reference period the scope of companies included in the consolidation group have changed to a considerable extent. The scope of consolidation has been expanded by the inclusion of Downington Srl., a Luxembourg-based subsidiary formed in the second quarter of the reference year. As part of restructuring within the Group the AZÚR Ingatlanhasznosító Kft. (= “AZÚR” Real Estate Management llc.) -shown in the reference year’s first quarter as an independent subsidiary - merged into the AZÚR ZRt., and both the KONTÚR Lakásfelszerelési Kft. (= “KONTÚR” Home Decoration llc.) and the KONTÚR Papír Kft. merged into the KONTÚR ZRt., while - in the fourth quarter - the Fotex-2000 Kft. merged into the Keringatlan Kft. (= Commercial Real Estate llc.). On February 28 in this accounting/reporting period the DÁLIA Kft. merged into the KONTÚR Kft., and - as of August 31 - the Azúr Zrt. merged into the Keringatlan Kft.. The reporting period has been expanded by the inclusion of Székhely Kft. (= Domicile llc.) which - as of September 30 this year - separated from Balaton Bútorgyár Zrt. (= “BALATON” Furniture Factory Private Company Limited by Shares). The list of companies included in the scope of consolidation and our respective consolidated shares of ownership held in such companies are shown in a separate table. Due to cross-ownership the voting powers and the consolidated shares in ownership show certain differences in the case of a few subsidiaries.

The restructuring of the Company’s activities - which gradually led to abandoning the sphere of commerce - came during this reporting period to its essential ending. As part of the change in business concepts we gave up our interest in the wholesale of music products (by selling our interest in Gong Expressz Kft., which formerly entertained a large volume of trade), we sold the chain of Telecom agencies, then we closed down business in the wholesale and retail of technical goods (owners’ resolution on terminating the activities of Keravill Rt.) and sold the optical goods branch (by selling our interests in F-O Optika-Fotó Kft.) and stationary retail branch (by selling a significant portion of the Kontúr Papír Kft. retail chain); during the first half of the reference year the Company also sold a segment of its cosmetics and Telecom retail networks (by selling a significant portion of the retail chains of Azúr Rt. and Fotex-2000 Kft.). After completing the stock exchange delisting of the Domus Zrt. we started and by the end of October this year completed a change in the profile of the furniture sales division which resulted in abandoning the trading activities connected to furniture and home decoration business. In January of the reporting period the Company gave up also its photo services and photo goods retail sector. At the end of this year we abandoned the retailing with cosmetic and household goods formerly conducted by Azúr Zrt. which finally merged into the Keringatlan Kft.. The real estate volume vacated by said shrinking of the commerce and trading segments has been leased out to non-Group partners.

The Group’s earnings profile during the accounting period had been crucially influenced by changes in Domus Zrt.’s activities, i.e. by abandoning the furniture trading sector which incurred one-time additional costs of abt. 350 mioFt (resulting from inventory depreciation, contract terminations, etc.). The reorganization of Domus is by now completed, after the company had been transformed into a private company limited by shares, after the subsidiaries had been amalgamated, and after the commercial activities had been abandoned. Accordingly, such one-time costs of restructuring or losses from trading otherwise to be anticipated shall not be accounted for.

Similar non-recurring costs had to be absorbed in connection with downgrading and abandoning the photo business segment which process started in the reference year but ended as late as in the first quarter of the accounting period.

The profits realized during the accounting period had benefited from a time-proportional rise in revenue from sales permitted by completing the final reconstruction phase in the Sugár Shopping Center but had also been affected by one-time costs spent previously on marketing in connection with full-scale opening of the Center. As Azúr Zrt.’s commercial activities (due to this company’s merger with Keringatlan Kft.)

have been terminated as of the accounting year's closing day, this process also involved additional one-time costs.

I. Profit developments

For the year of 2007 the Group realized 579.4 mioFt profits after taxation.

The Group's gross margin fell by 5.0 %, i.e. 473.5 mioFt, against the reference period. This fall in gross margin as against the reference figure is due to reductions in costs of sales and distribution and also in net revenue from sales, as could be observed. While the net revenue from sales fell by 2,470.2 mioFt (13.7 %) as against the previous period, the observed drop in the costs of selling and distribution amounted to 1,996.7 mioFt (23.6 %).

There was a 1,345.5 mioFt reduction in the volume of expenses used up in conducting business, as compared to the reference period.

The combined effect of the above items raised the Group's operating (ordinary business) income for Quarters 1 through 4 of 2007 to 394.6 mioFt, which equals to an income improvement by 872.0 mioFt, as compared to the reference period.

Income from the Group's financial operations amounted to 282.9 mioFt, which means a growth by 74.9 mioFt (36.0 %) over the reference period. The income from financial operations includes both the revenue from and the expenditure on interest. The 12.4 % drop in revenue from interest as against the previous year was caused by a reduction (as against the previous year) in interest income received from banks for a reduced volume of free funds deposited/invested by Group companies. The quite considerable drop of 96.8 % as against the previous period in expenditure on interest is mainly due to the repayment during the reference period by Ajka Kristály Kft. and Keringatlan Kft. of their total bank loan volume. In addition, all loans required to maintain liquidity in all subsidiaries have been created and granted inside and within the Group which practice results in further reductions of expenditure on interest.

In earlier quarters the items shown in the row of miscellaneous financial operations (income from and expenditure on financial transactions - income from and expenditure on interest exempted -, as well as the extraordinary revenue and the extraordinary expenditure) have been shifted at year's end to the row of miscellaneous operating costs (-383.755 mioFt) (in order to make comparisons to the reference figures), as these items - as of December 31, 2006 - amounted to -129.484 mioFt in said row.

Thus, due to these factors, our pre-tax profits reached 677.5 mioFt, which is a 946.8 mioFt improvement over the reference period. In this accounting period the profit portion allotable to minority interest reduces the Group's profit by an amount of 11.8 mioFt . The owners of minority interest receive dividends from the profits of subsidiaries in proportion to their holdings. After adjusting for minority interest the Group's after-tax profit amounts to 579.4 mioFt .

II. Revenue from sales

The Fotex Group's net revenue from sales amounts to 86.3 % of the reference period. Revenue from exports remained at the reference period's level (with 100.6 %), while the consolidated domestic volume of sales dropped and amounted to 83.2 % of the volume realized over the same period in the previous year.

This shown development in the Group's revenue from sales is basically the result of a voluntary withdrawal from the commerce segment, a gradual process in which also the photo and the Telecom sectors - which still were present in previous year's figures - have also been abandoned. Our activities in the cosmetics branch shall be continued with the selective and semi-selective products, while trading with cosmetic and household products not belonging into said category has been abandoned as of the closing day of this reporting period. In the furniture and home decoration branch we finally and completely abandoned trading during this year.

Production, on the Group's level, remained with a 1.0 % growth at the reference level, while - in accordance with plans - revenue from sales in the retail and wholesale segments fell by 25.9 % and 26.1 %, respectively, when compared to the reference figures; at the same time revenue from miscellaneous core activities have increased by 5.7 %.

The list of Group companies engaged in production activities did not change against the reference basis. In these, the total revenue from sales - at current prices - increased by 1 % over the reference basis. Within our Group two companies conduct production activities, the Ajka Kristály Kft. and our furniture manufacturing subsidiary, the Bebufa Kft. which supplies merchandise to Balaton Bútorgyár Zrt.. In AJKA Kristály Kft. the revenue from sales grew by 5.5 %, compared to the reference period. The consolidated net revenue from sales realized with the production output from the furniture manufacturing segment of our Group fell by 14.8 %, compared to the same period in the previous year. The net revenue from domestic sales in our subsidiaries engaged in production activities is in decline, while revenue from export sales (if compared to domestic sales) shows a more promising development, in spite of detrimental changes in the rate of exchange. Our subsidiary engaged in glassware production - though encountering a slight drop (10.6 %) in domestic sales - managed to increase the volume of export sales by more than 9.7 %, as against the reference level. The value of furniture exports by our furniture division, expressed in HUF, fell by 8.0 %, in spite of non-favorable changes in the rate of exchange. However, the volume of consolidated domestic sales (at production prices) fell by 18.9 %, mainly due to a drop in the volume of publicly procured goods (a consequence of the current austerity policy), and to a decline in consumer demand. Revenue from sales realized in tenders other than public procurement could not make up for the reduction in the volume of trading described above.

Within the Group’s shown turnover the income from retailing activities represent an increasingly small share. As a consequence of change in the business concept the share of such activities within total revenue is 29.0 % (the reference basis was 35.3 %). In line with the Group’s business objectives this trend is likely to continue.

Compared to the previous period, the Group’s **volume of retail trading** fell by 26.0 %. Such changes in retailing turnover are the outcome of voluntary downgrading as had been decided for these types of activities. Units of our companies operating at lower levels of profitability had been closed down during the reference period (in the music and home decoration products segments). Also most of the Telecom and cosmetics shops have been sold. Shops in these two branches which could not be sold together with their operations have been utilized by way of renting out.

The volume in the retail branch of the Group’s furniture division - which was phased out by October this year - decreased due to turnover not realized because several units have been closed down and rented out in connection with changing then business profile of Domus. Retailing volume in the cosmetics and household products divisions has been determined by selling the lease rights and inventories of the major part of Azúr Zrt. shops during the reference year. As of this report’s closing day only 5 retail units operated in the cosmetics and household products divisions of which three are high-standard “saloons” specialized in selling selective and semi-selective cosmetic products (“Fotex Cosmetics”). Thus only two units - a retail shop and a warehouse-type retail unit - are operative in the conventional “Azúr” profile. This latter activity has been discontinued as of this report’s closing day. The 10.0 % drop in garment and apparel segment turnover was the result of operations kept up at maintaining the same level of retailing capacity. During the reference year the Kontúr Lakásfelszerelési Kft. (= “Kontúr” Home Decorations llc.) - which merged with the Kontúr Zrt. - gradually phased out its retailing segment. Only one retail unit remained operative the realized revenue from sales of which is now shown as that of Kontúr Zrt. created by said merger. Shops closed down are utilized by leasing out, the income of such leasing being shown among miscellaneous core activities. Fotex 2000 Kft.’s photo retail and services segment has been discontinued in January of the reference period.

Trading volume within the Group’s **wholesale branch** may be considered as negligible, accounting only for 3.8 % of the total trading volume. In recent years we gave up the wholesale agency activities and the Group is now engaged only in the wholesale of self-produced goods. For this reporting period this wholesale activity covers mainly high-standard men’s apparel and audio recording material related to our music publishing segment. In both wholesale business segments both the domestic and the export/import trading volume decreased. There was a slight rise in revenue in the apparel sector during the reference period, but during this reporting period the export opportunities on the Russian market could not be exploited which halved the volume of realized trading. During the 2nd and 3rd quarters we have seen a growth in the volume of domestic apparel wholesale but on the year’s average the volume was receding. A slight decrease has been suffered in the wholesale trading volume of audio recording material. In this segment - for the reference year - we realized a rather high volume in export revenue due to start-up purchases of newly introduced distributors entering the trade during the reference year. However, this tendency could not be repeated for this accounting period. Said recession in export sales went along with a downturn in domestic wholesale activities.

Invoiced revenue from **miscellaneous core activities** make up for an increasing portion in total revenue from sales, within which in particular the income realized from real estate management. Under this heading we included real estate utilization, leasing and renting, license sales and royalties in connection with music publishing activities, income from advertising activities, revenue from internet warehouse sales, from DVD renting, as well as from the newly activities of selling cinema tickets and cafeteria goods. Compared to the reference basis the Group's revenue from real estate leasing increased dynamically, due to an increase both in space leased out and in leasing fees.

III. Coverage

The Group's gross coverage volume fell by 473.5 mioFt (5.0 %) as compared to the same period in the reference year. This drop in the volume of gross coverage went along with a 13.7 % descent in the volume of business and a rise of 5.4 % in the coverage level. Due to said descent in the volume of business the volume of coverage fell by 1,440.9 mioFt which was partially offset by the amount of 967.4 mioFt corresponding to a growth in coverage level resulting from the fact that the costs of selling have shown a larger decrease than the descent in business turnover.

These changes in the volume and level of coverage are the outcome of restructuring the Group's activities. The gradual abandoning of the sphere of commerce and trade and the downgrading of activities results in a lower net revenue from sales, when compared to reference figures, while increasing the share of transactions carrying a higher level of coverage than the price margins inherent in commerce and trading led to a widening of the coverage level.

During this accounting period the coverage level increased for each type of core activity: in the wholesale segment by 1.7 %, in the production segment by 6.9 %.

The level of coverage in the retailing activities grew by 6.1 % even if the selling of furniture and home decoration products - making up for approximately three quarters of turnover in the retailing sector - has been discontinued which was accompanied by mark-downs and sales actions reducing the average price margin otherwise realizable in trading these goods by 5.7 %. The retail price margins' level in the home decoration, garment and cosmetics sector grew, as import purchases could be accomplished at favourable rate of exchange, while the price margin level in the music products sector remained at abt. the reference level. Also the increments in coverage level in the sector of garment wholesale activities may be attributed to changes in the rate of exchange.

The change in the coverage level of production activities was due to raising the prices (expressed in USD) of glassware and crystalware by an average of 20 % at the end of the reference year. Though this tendency was partially offset by developments in the Dollar's rate of exchange, we managed to obtain a growth of 11.7 %. The coverage for our furniture production receded by -2.4 %, due to a higher portion of the rather low coverage level export sales and due to the superimposed effects of changes in the rates of exchange.

The development of coverage level in this accounting year has been favourably influenced by changes in the ratio of miscellaneous core activities within net revenue from sales, as said level grew by 4.2 % as against the reference period which again was due to downgrading the Group's commercial and trading activities.

IV. Costs development

Compared to the reference period, the Group's operating costs ebbed down by 1,345.5 mioFt (13.4 %).

Within the category of operating costs the largest portion (38.2 %) falls to the **staff-related costs,** which against the reference year fell by 17.1 %. Reorganizing the Group's activities necessarily led to staff reduction and in addition to accounting for the one-time additional costs of staff reduction also the funds used up by the average number of staff had effects on the development of staff-related costs.

On the Group's overall level the number full-time staff decreased by 27.2 % when compared to the previous year, while the average number of staff fell by 21.9 %. On Group level the average of wages and salaries for full-time staff grew by 10.2 %, mainly due to changes that occurred in staff structure but also due to pay rises implemented by several Group companies.

The most intense reduction of costs in the field of staff-related expenditure occurred at AJKA Kristály Kft., a result following from reducing the number of staff to fit production schedules. Also the Domus Zrt. realized considerable savings in staff-related costs, due to staff reduction necessitated by closing down its commercial and trading activities.

The number of the Group's full-time staff decreased during this one-year-period by 346.

Within the operating costs the second largest portion (32.9 %) falls to the category of **material-type costs.** Their amount fell by 14.2 %, as compared to the reference period.

Among the total of material-type costs we show the raw material costs of non-manufacturing companies (as separated from the Group's material-type costs), as well as the value of services used up by these plus the value of miscellaneous services used up Group companies.

Due to said downgrading of activities the material-type costs in the manufacturing companies fell by 21.8 % as compared to the reference period. Within the category of material-type costs of non-manufacturing companies the largest portion falls to water, gas and energy costs, the total amount of which decreased significantly (by 24.6 %) as compared to the reference period, in spite of increases in utility fees.

On the Group's level the costs of used-up material-type services receded by 11.7 % when compared to the previous year, due to cutbacks in activities and to cost saving measures introduced by Group companies. Due to the closing down of shops and to implemented measures of cost saving - on the Group's level - we witnessed decreases e.g. in rent fees, in telecommunication costs, maintenance and transportation costs, agency fees, contract labor fees, and also in security and property guarding fees. Apart from rent and lease fees, the amount of expert fees and trade name utilization fees - which within the category of services used have a considerable share - grew when compared to the reference figures. On the Group's level also the value of miscellaneous services shows a significant drop (-31.5 %).

On the Group's level the depreciation costs account for 12.3 % of the operating costs. Their total is by 3.5 % less than the reference figure. A considerable drop in depreciation costs may be observed in the case of AJKA Kristály Kft. brought about by two kilns and one glass drops feeder being fully written off to nil value during the 2nd quarter of 2006. Among Group companies the Keringatlan Kft. presents a considerable growth in depreciation costs, due to capitalizations effected in connection with refurbishing the Sugár Shopping Center.

In this accounting period, on the Group's level, the **miscellaneous expenditures** accounted for 16.6 % of the operating costs. As has been hinted at under profit situation analysis, for comparability to reference figures the income from and expenditure on financial activity (with the exemption of interest revenue and expenditure on interest) as well as the extraordinary revenue and extraordinary expenditures have been - as of end of 2007 - moved to this row. Items moved to this row have been subjected to comparison against the reference figures in Chapter I (Profits Development). Among "miscellaneous expenditures" we also have to mention that as of the end of 2007 the FTC (= Ferencváros Sports Club) right held by the Group suffered a further depreciation write-off (19.6 %). The magnitude of miscellaneous expenditures has been significantly influenced by depreciation amounts applied to stocks/inventories which -by the way - were smaller in this accounting period than in the reference period. A further significant (190 mioFt) one-time item - shown in Keringatlan Kft.'s individual book of accounts - had to be accounted for as in May 2007 an off-court agreement was made with Magyar Építők Rt.. After Keringatlan Kft. reduced its claim for damages and used its provisions created in the previous year (shown under "miscellaneous revenue") the amounts owed to Magyar Építők Rt. could be financially settled by applying the funds retained for settling damage claims. The Group's **sales costs** receded significantly by 23.6 % as compared to the reference period, due to a reduction in sales volume and to changes in the assortment of merchandise. The sales costs also include the raw material costs of the manufacturing companies and their material-type expenditures, as well as the purchase value of goods sold and the value of sold (mediated) services and the capitalized value of self-performed production.

As to the material costs in our producing/manufacturing companies, in the case of AJKA Kristály Kft. we witnessed a slight increase of 0.8 %, while with Bebufa Kft. the decrease amounted to 12.4 %. The slight increase in the costs of materials has been caused by the 5.7 % growth in raw and auxiliary materials used by AJKA Kristály Kft., in combination with a 2.7 % decrease in energy costs. In comparison to the reference period the value of material-type services used up by our manufacturing companies shows a decline.

The purchase value of goods sold (ELÁBÉ) - which makes up for a considerable portion of sales costs - shows a 27.6 % drop, as against the previous year. Its significant decrease is due to Domus Zrt. shops being closed down, and a similar situation prevails in the case of Hungaroton Records Kft. and Pirmó Zrt.. In January 2007 the Hungaroton Records gave up its CD Shop in Duna Plaza Shopping Center and in March opened a new one, combined with a bookshop, in Sugár Shopping Center. The decrease in ELÁBÉ may be explained as caused mainly by these two months that went without trading.

V. The Group's assets and liabilities

The Group's balance sheet total receded by 0.6 % as compared to the reference period.

The volume of fixed assets has grown by 449.3 mioFt (2.1 %) as against the previous year.

The 10.5 % drop in **intangible assets** has been caused by the 19.6 % depreciation posted at the end of 2007 for the FTC Commercialization Right carried as a license having property value.

The volume of **tangible assets** grew by 325.1 mioFt (1.9 %) as compared to the previous period. A significant volume increase is seen in Keringatlan Kft., due to capital investment completed in connection with refurbishing the Sugár Shopping Center (items connected with the 3rd construction phase of the refurbishing project have been capitalized in May 2007) and due to other business acquisitions. A major drop in tangible assets volume is seen in the case of AJKA Kristály Kft. caused by intentional restrictions on capital investment.

The growth in the volume of long term investment underwent a 85.8 % growth, as compared to the same period in the previous year, which was due to the Group's acquisitions of additional interest in non-associated business companies and due to the fact that Domus extended loans of considerable amount to newly starting privately-owned furniture trading companies for purchasing Domus inventories.

A decrease of 56.9 mioFt (1.8 %) in the goodwill row follows from the elimination from the accounts of the Domus goodwill in this accounting year.

The current assets, in total, receded by 4.8 % as compared to the reference volume; this covers a decrease of 1.9 % in cash and cash equivalents, an increase of 18.9 % in receivables, a drop of 24.1 % in inventories, and the fact that the value of securities has multiplied. Said growth in the Group's receivables is due to an increase in receivables against purchasers existing at Group companies and in their combined total other receivables.

The 24.1 % drop in **inventories** is mainly due to downgraded inventories that followed from closing down Domus shops and stores and from other intentional stock reduction measures, but also from additional value losses in AJKA Kristály Kft.'s inventories that have been accounted for in this accounting year.

There was a significant rise in the combined value of securities, as compared to the previous year. This is attributable to changes in the value/volume of credit-type securities held by Group companies for trading purposes. The Group's stock of securities consists mainly of instruments maturing within 3 months which accordingly have been moved into the cash & cash equivalent category.

Within the Group's total liabilities 6.1 % are made up by obligation-type liabilities which - against the previous year - decreased by 32.8 %. 32.5 % of all such obligations are long term liabilities and 67.5 % belong into the short term liabilities category.

The value of long term liabilities remained at the reference level.

The value of miscellaneous long term liabilities is close to the reference level. This row includes deferred tax payment obligations of previous years.

For the sake of comparison to reference figures each item carried by Group companies among the long term liabilities has been reposted into the short term liabilities category (as miscellaneous amounts owed). Such items are, without limitation, Bebufa Kft.'s loan taken for purchasing a motor vehicle, a loan taken by Hungaroton Records Kft. for purchasing a Steinway piano, or in the case of Keringatlan Kft. the surety deposits taken from tenants under real estate lease contracts, or in the case of Domus Zrt. a new, major item emerged (as surety deposits received from tenants for real estate that was to let in consequence of changes in the company's business profile.)

According to the balance sheet the short-term liabilities fell by 34.3 %. The total of short-term liabilities consists of miscellaneous debts. As mentioned above, in this row we included items moved from the long-term liabilities row to this category, as well as the Group's short-term liabilities and the value of accrued expenses. The decrease in miscellaneous short-term liabilities may be explained by drops in the Group's payables to suppliers and in the other types of miscellaneous short-term liabilities as well as in the advance payments received from purchasers. A considerable decrease in payables to suppliers and in advances received from purchasers may be observed in the case of the Domus Zrt., caused by downgrading the commercial and trading activities. A significant decrease in payables to suppliers may be seen also in the case of Balaton Bútorgyár Zrt., of Keringatlan Kft. and of Hungaroton Records Kft..

Within the Group's liabilities the net worth (owners' equity) amounts to 93.9 %.

During the accounting period there was a 200 mioFt increase in subscribed capital, as our Company performed a share capital increase by issuing priority shares.

The significant change in profit reserves within the net worth follows from moving the 2006 balance sheet profits to profit reserves, from the settlement of differences in the rate of exchange related to converting into HUF the balance sheet and profit-and-loss statement figures of foreign subsidiaries carried and expressed in EURO, and from the settlement of differences in the rate of exchange related to business transactions between said foreign subsidiaries and the Keringatlan Kft., the AJKA Kristály Kft., and the Balaton Bútorgyár Zrt. (the loan taken by the latter has been moved to the Székhely 2007 Kft. after the company's transformation - as of September 30, 2007 - had been registered by the Court). Within net worth the value of miscellaneous reserves (goodwill) fell by 86.3 mioFt (11.5 %), a decrease caused by depreciation settled and posted in the accounting year.

An increase of 8.4 % in the volume of minority interests during the accounting year may be explained by the amount of dividends allotted from the Group's profits to minority interest owners, as well as by settling the transactions connected to them.

VI. Situation reports on Group companies

During the accounting period the net revenue from sales of AJKA Kristály Kft. grew by 5.5 %, as compared to the reference period. In spite of unfavorable changes in rate of exchange, the revenue from export sales - expressed in HUF - reached a level which exceeded the reference level by 9.7 %, while the revenue from domestic sales fell by 10.6 %. Revenue from export accounts for 84.5 % of total net revenue from sales. More than three quarters of the revenue from exports comes from the USA, Ireland, Italy and Great Britain, while the range of purchasers extends from South Africa to Japan. Due to developments observed on the market of glassware the role of the company changed to a considerable extent. As a result of these developments this company - with its superior quality products and dependable business conduct - is now able to act as one of the suppliers to the most famed brands worldwide. During the first quarter one still could observe hesitant situations in contracting which gradually could be put aside in and after the second quarter. Accordingly, month by month the production capacity could be better filled. During the reference year the company completed the rationalization of its production facilities, a measure which turned out to be most justified, considering the volume of orders presently held. In addition to changing the assortment of products, this Kft. - in order to optimize its capabilities - paid due consideration not only to the demand signalized by its existing and potential customers but also to their ability to pay.

Though the number of its customers receded, the company achieved a revenue from exports 218.4 mioFt higher than the reference figure while in the reporting period the average HUF/USD rate of exchange fell to 183.05 HUF/USD, against 210.83 HUF/USD applicable to the reference period. The company restricts the use of its production capacity to satisfying - at an exclusively high quality - market demands articulated by solvent customers and which are promising an appropriate level of coverage. The company within its assortment of products reduced the share of products carrying lower levels of coverage. It gave up the production of lower-priced luxury articles and turned to producing higher-priced premium-level luxury items. Owing to said changes in product assortment and to price increases announced at the end of the reference year and resolutely implemented during this accounting period, as well as to higher prices tagged to newly offered products, the company was also able to increase its revenue from sales, expressed in HUF, in spite of unfavorable changes in the rate of exchange and in spite of slight drop of 0.9 % in the volume of sales realized during the reporting period. The specific price of glassware sold, expressed in foreign exchange, had increased by 24.6 %. Among its customers we find globally prominent firms such as William Yoeward, Fabergé, Waterford, Tiffany, Calvin Klein, etc. which are dominating the market and distribution of glassware in the premium luxury category. In the accounting period the company operated at a loss, while its loss amounted only to one fifth of that shown for the reference period under “result of core activity operations”. The loss shown may be attributed primarily to unfavorable changes in the rate of exchange. During the previous period the Kft. completed the rationalization of its production capacity which went along with a reduction of staff. Thus, the average number of staff was by 92 less than for the reference period. As of the date of closing the Kft. had a statt of 541. The company’s liquidity situation could not be improved much as in relation to its turnover it accumulated a rather large volume of stock. The balance sheet value of its self-produced stock - after adjustment for loss in value at the year’s end - fell by 10 % as compared to the reference period and still remained well above the optimum level. The volume of stock is adversely influenced by a virtually excessive production rate necessary to be on the safe side when it comes to fulfilling small delivery volume offers.

In the sphere of financing, in March in the reference year the Group adopted the policy of internal financing and the Kft. - using a fund facility granted within the Group - has repaid all of its bank loans. It can maintain its liquidity only with the help of considerable loans granted within the Group.

Within the Group the production facilities have been partially liquidated (Dália Kft., in 2004), or have been outsourced, as in the case of Balaton Bútorgyár Zrt.’ profile rationalization. The merchandise required for Balaton Bútorgyár Zrt.’s trading activities are being manufactured (since September 1, 2005) by the Bebufa Kft.. This latter Kft. is not engaged in any type of independent commercial activity and all of its products are being sold - both on the domestic and on the export market - by Balaton Bútorgyár Zrt.. This Zrt. performs not only each phase of the commercial transactions but is also engaged in real estate management. This latter activity has been given up, as of the closing day of this reporting period, due to business profile rationalization, and the Zrt. shall from then on be engaged only in performing commercial transactions. Real estate management shall be entrusted to the Kontúr Zrt. which has specialized for this field, and to the Székhely 2007 Kft. formed by a demerger, after the transformation of the firms involved has been completed. During the reference period the Balaton Bútorgyár Zrt. - on its owned land in a suburban factory area - erected a new 3100 sq.m. floor area production hall to accommodate the production of parts and to provide office space (on the hall’s second level). This capital investment has been financed by funds provided within the Group. By putting this hall to use the entire complexity of furniture manufacturing technology could be concentrated at one location and the costs of production (formerly conducted at two different locations) could be reduced. Accordingly, the prime costs of products could be reduced which led to an improved position on the market. With commissioning this new hall an attractive 20,000 plus sq.m building plot shall become free in downtown Veszprém city, which features a building complex formerly used as office and production facility.

In spite of measures implemented the Balaton Bútorgyár Zrt. went through a recession during the reporting period, the consolidated revenue from sales being by 14. 8 % less than for the same period in the previous year. What is missing from the revenue from sales is due to a decline in domestic sales which affected in the first place the sphere of public procurements. On the domestic market it is the diminishing purchasing power of state budgetary entities and a resulting hesitant atmosphere, but also the doubling in the number of potential suppliers to this market segment, which led to a further decline in the company’s existing market position; the volume (in revenue from sales) of central state-run public procurement projects dropped by 36.0 %. On the domestic market each sales relation suffered a decline in the revenue from sales. As against the reference figure, the sales volume in reselling/wholesale fell by 23 % and also in the five self-operated image-representing shops the volume of sales decreased. In realizing the volume of domestic revenue from sales the company is increasingly successful in tenders run outside the state’s public procurement system (dominantly in refurnishing hotels, in other types of construction projects) and the secured contracts involving individually manufactured products yield an income which is abt. the same value as that in the reference period. Major such projects are the Park Hotel in Parád, Hotel Riviéra in Balatonfüred, Hotel Esztergom, Hotel Benczúr, the Government’s Recreation Center in Balatonöszöd, the “Veszprémvölgy” Recreation Center, furniture for Shengen-type border stations. In the sphere of exports the realized revenue from sales fell by 8.0 % during the accounting period, while this development has been supported by a 3 % (average) rise in the prices of goods sold and adversely affected by a -10 % (in combination) change in the HUF rate of the EURO, the NOK and the SEK. To improve the coverage level in exports the company announced to its export customers that at the end of this accounting period it intends to implement major price corrections; this temporarily led to decline in the volume of trade, the effect of which could be felt in the last weeks of the reporting period. The combined profit after tax in the manufacturing Kft. and the trading Zrt. engaged in selling the manufactured products was less than in the reference period and shows a small amount of loss. The company’s liquidity situation is satisfactory. As of the closing day of the 3rd quarter in this reporting period the Székhely 2007 Kft. - holding the title to and managing the real estate objects - had been demerged and took over the building loan granted for real estate development projects completed during the previous year. As a consequence, the Zrt. responsible for trading and commercial transactions and the Bebufa Kft. specialized for production have been enabled to conduct business without the burden of a loan.

In the reference year the largest trading volume had been realized by the **sale of furniture,** in part by selling merchandise manufactured by Balaton Bútorgyár Zrt.'s own subsidiary, in part via the Domus chain of department stores. The Fotex Group's furniture retail segment had been handled dominantly by Domus Zrt.. Earlier this year a major change occurred to Domus' organization. Effective as of registration by the Court of Companies Registration performed on March 31, 2007 the two still existing subsidiaries of the Domus Zrt., the Domus Lánc Kft. (= Domus Chain llc.) and the Domus Irodabútor Center Kft. (= Domus Office Furniture Center llc.) merged into the mother company. According to an owner's resolution, the Domus has gradually wound up its commercial activities and reorganized its business profile to make the utilization of its owned real estate the main source of revenue generation. This major change in Domus' business profile had been signalized some time before: in the reference year one started to rent out department store space formerly used by Domus Lánc Kft. to outsiders as well as to offer these department stores for operation by non-Group entities. During 2006, step-by-step, the department stores in Debrecen, Miskolc, Szentes, Barcs, Zalaegerszegf, Szeged and Kaposvár had been closed down, followed by closing the store in Mosonmagyaróvár and Pécs during the first half of 2007. Operation in the Budapest area, in the case of the Székesfehérvár and Siófok department stores and of the discount store in Győr has continued as under the management and with the private funds of former commercial managers and senior store staff and with Domus Zrt.'s minority participation new companies have been formed which leased these department stores and have kept up the trading activities. These tenant-operators promised to purchase - in several instalments - the total inventory of Domus Zrt. not later than March 31, 2008, for which stock purchase the Domus Zrt. granted loans. Finally, with closing down the department store in Szombathely at the end of October the trading with furniture and home decoration products came to en end for Domus. In the face of one-time expenditures due to stores closed down and to activities wound up, the profit situation improved by 280 mioFt as compared to the reference period, even if a loss is shown for this accounting period.

The Group's cosmetics line of business went through important changes prior to this accounting period. The AZÚR ZRt., representing the retailing arm in this line of business operated at a loss for many years which led to the owners' decision to close down these commercial activities. To implement this, the lease rights over the facilities of a group of the Company's retailing units and trade inventories had been sold during the reference period to a professional investor. Employees in such transferred shops had been taken over by the purchasing entity without interrupting their legal relationship as employees, accordingly this repositioning of staff involved no additional costs to the Group. Due to income realized by selling these retail units the Azúr Zrt. could achieve a profit-bearing operation during the reference period. In this reporting period the Zrt. operated 2 shops the activities of which had been wound up. One such retailing unit had been transferred during the 3rd quarter to and for operation by a limited liability company in which Fotex holds a minority interest which pays a fee and is entitled to use the trade name. As of the closing day of this reporting period also the shop operating in MOM Park Shopping Center has been closed down to signalize that in our Group the traditional retailing with cosmetics has come to its end.

A resolution has been passed in the company's annual general meeting to cut the additional costs resulting from running in parallel similar businesses, i.e. to merge into the Keringatlan Kft. which is engaged in real estate management. This merger has been effected as of August 31, 2007. The company now owns 9 real estate objects which are being put to use by renting out. As of the closing day only one retailing unit is in operation, the operation itself being kept up by the legal successor. However, at the end of this year also this retail unit shall be closed down.

By now, the Group's cosmetics line of business has been, in effect, reduced to selling/distributing selective and semi-selective cosmetic products in the frame of Fotex Cosmetics Kft.'s retailing activities. During January of the reference year the Kft. had wound up its wholesale branch. Its retailing activities (which continue to handle superior brand cosmetic products and to render luxury cosmetic services) have been concentrated into three shops. Its volume of trading remained at the reference level, even if the turnover in retailing grew by 4.1 %. A decreasing effect came from the absence of income from wholesaling which had been abandoned during January in the previous year and which was still included in the reference data. The business activities of Fotex Cosmetics Kft. during this accounting period produced a loss, as also during the reference period. After the financing for the Kft.'s wholesale inventory has been phased out, its liquidity started to improve and its business activities could be carried on without bank loans, supported by inter-Group loans.

In accordance with a resolution of Fotex Nyrt.'s (= Fotex plc.) management the Group - three years ago - abandoned the conventional wholesaling in audio and video recording material. Also the retailing capacities in this line of business have been downgraded. In appropriate response to market demands it however carries on with its publishing activities in the field of dominantly classical music (via the Hungaroton Records Kft.) and with caring for the audio archive (by operating the Hungaroton Music Zrt.).

The trading activities of **Fotex Records Kft.**, in recent years responsible for operating most of the Group's music retailing, have been liquidated. At present the activities of Fotex Records Kft. are limited to mediated services which include the management and commercialization of leased objects in MOM Park shopping center, and the renting-out of leased real estate objects.Based on the owners' decision, as of January 1, 2008 the Fotex Records Kft. merged with Hungaroton Records Kft..

In effect, the publishing and distributing/trading activities in the music sector are handled by Hungaroton Records Kft.. This Kft.'s earned income dropped by 17.3 %, the decline in trading volume was strongest (-.32,3 %) in the retailing branch. On January 15 in the reporting period the Kft. closed down its shop in Duna Plaza shopping center, which during the reference period realized the largest, though in its tendency falling trading volume. The trading volume lost by closing down this shop could not be compensated by those two shops which operate in other shopping centers and by the new shop opened on March 23 in the Sugár shopping center to make up for the closed-down shop. In this Kft. the volume of wholesale activities dropped by 6.2 %. The volume of domestic reselling activities grew by 2.0 %, while the exports volume dropped by 24.4 %. Its revenue from selling licenses and from royalties fell by 26.6 %. The retailing unit recently opened in the Sugár Shopping Center with its larger than usual floor size on the company's level does not contribute much to the development of retailing capacity, as being a mere relocation of operations; technological progress in this field, the spreading of downloading music from the Internet does not call for such expansion. The company's retail sector during this reporting period had been widened by a new line, a bookshop established on the 2nd level in the Sugár Shopping Center. In this accounting period the company's operating losses grew by 76.6 % which loss may be attributed in parts to the absence of one-time revenue from sales due to closing down the shop, and in parts to additional costs arising in connection with such closing down, but also to the regression in sales in the publishing, the reselling and license trading branch.

The PRIMO ZRt. deals with the domestic and foreign trade of brand garment, mainly men's fashion apparel. The net revenue from sales fell by 13.9 %, compared to the corresponding period in the previous year. Within this, the retail trading volume fell by 10.0 %, the domestic wholesale volume by 8.4 %, and revenue from export sales by 52.2 %, when compared to the same period in the previous year. Export sales are effected dominantly on the Russian and Ukrainian markets and the decline in volume is mainly due to a strong fall in exports to Russia.

As of the closing day this company had 4 retailing units at well frequented locations which accounted for abt. one third of its total revenue from sales. On the closing day of this reporting period the retailing unit operating in MOM Park shopping center was closed down. In operations and trading in the accounting period the company did not reach the profit level of the reference period, while the effects of trading volume decline was to a great extent offset by a cheap dollar which kept the purchase price of products favorably low. Its after-tax profits for the current period were slightly below that of the reference period. In relation to its trading volume this ZRt. maintains a rather high level of inventory, the rotation cycle being 371 days.

The decline on the photo market, from 2001 on the rapid spreading of digital photo technology, the shrinking volume of analogous photo processing and a drop in the volume of photo prints lead to a process of regression that cannot be stopped and affects both manufacturers and service providers. The Group finally, in January of the reporting period, liquidated the **photo services** line of business. After it sold its interest in F-O Optika Fotó Kft. in 2005, also the Fotex-2000 Kft.'s **photo services activities** had been wound up. In the third quarter of the reference year, after the exclusive contract with the T-Mobile branch of Magyar Telecom NyRt. has expired, on the basis of an owners' resolution, the retailing activities in telecommunication services and equipment have been given up. The Kft. discontinued wholesale trading in photo material and equipment as early as in the 4th quarter of 2004. To an external third party entity the owner(s) granted license to use the trade name on two retail units engaged in photo services. Based on an owners' resolution the company merged - as of November 30 in the reference year - into the

Keringatlan Kft. engaged in real estate commercialization, in order to manage and to put to use the real estate and investments owned by the company.

With its core activities the **Fotexnet Kft.** realizes 35.5 % of its total revenue from sales which comes from selling Internet space and from operating an Internet store (with shopping center functions but without logistics). Internet space may be leased against a monthly lump sum fee or a combination of lease fee and provision for business conducted. Demand is high for said Internet services, as of the closing day there were 60 Internet stores and 21 smaller “express” service Internet shops within the Fotexnet Department Store complex. This “department store” is being stocked by the company mainly with products of outside partners, the delivery of goods sold is an obligation of the selling partner. The company is supplying only the space for trading, the reliability of that space, and the goodwill inherent in the site. The company’s revenue is made up by income from operating the Internet store and from market research and advertising activities, as well as from selling information technology products and services. The company’s business operations yielded a slight positive result, if one considers the significant loss that went together with the revenue from sales realized during the reference period.

In the case of **DVDrent Kft.** the bulk of revenue comes from operating a cinema in the Sugár Shopping Center, which went into trial operation on March 22, 2007 and started business on April 22, 2007. Said revenue includes the admission ticket prices and the income generated by the cafeteria operated by the company itself. This Kft. carries on with renting DVD films which includes also the polishing of DVD material as well as the advertising activities connected to this line of business and to operating the cinema. This widening the scope of activities led to a more than seven times higher volume of trade. In the reference period the company operated at a loss, in this accounting period it was able to realize a small amount of profit. According to an owner’s decision the DVDrent Kft. shall merge into the Fotexnet Kft., the date planned for effecting the merger is Feb. 29, 2008.

In the course of reorganizing the Group’s activities that portion of real estate assets which formerly had been put to use via the trading activities of subsidiaries or via other business destinations pursued by the Group has been - after the commercial and trading activities had been gradually phased out - dominantly rededicated to leasing out to non-Group entities. In the outcome of this change in strategy the Group turned into a real estate management undertaking. At the end of the year - as part of the audited annual financial report - both the investment-bound real estate objects and the objects remaining in the Group’s own use have been revaluated.

The composition of the Group’s real estate assets and the factors considered upon determining their real market value did not change significantly during the accounting period. Accordingly, the figures shown in the audited annual report for 2006 shall be considered as the relevant values subjected to revaluation by the company in the audited financial report for this accounting period.

Category:	Area: sqm.			Real market value (low estimate): thousand Forints		
	investment-bound:	self-used:	total:	investment-bound:	self-used:	total:
shops (retail)	111 924	28 810	140 734	41 614 428	10 711 869	52 326 297
offices	8 255	275	8 530	2 762 467	92 023	2 854 490
warehouses	91 584	21 869	113 453	10 215 564	2 439 337	12 654 901
other buildgs.	57 695	58 156	115 851	3 813 369	4 324 140	8 137 509
building land	95 000	765 000	860 000	2 102 501	16 930 538	19 033 039
Total:	364 458	874 110	1 238 568	60 508 329	34 497 907	95 006 236

As investment-bound real estate we rated those objects which are rented/leased out to third parties or are on the market for rent. The real value has been fixed as the present value of future cash flows, based on lease and rent fees that may be realized at present. In the annual financial report the real value has been fixed with a low, a medium and a high estimate. The medium value has been determined by discounting at 7.1 % the expected cash flows, while the low and high values have been calculated with rates that were ± 1 percentage point at variation against the base discount rate. The value of real estate objects not rated

as investment-bound has been determined as the present value of estimated cash flows which could be realized if such real estate objects would be rented to third parties, while said value is based on the same method of calculation as was used for investment-bound objects.
As the real value is being reviewed by the Group upon the compilation of the finalized annual financial report, we prudently selected the low value for the Group's real estate assets which value thus is in excess of HUF 90 billion.

Within the real estate objects offered for rent by the Group the share of commercial objects is overwhelming. Our market position is particularly strong in the segment of the so-called downtown shop facilities. These facilities usually have favorable features and are at attractive locations, and are easy to let. Shop facilities not situated on or close to major/busy streets are, however, difficult to rent out. Letting of downtown shop facilities is made strenuous by the reluctance of condominium managements to accept changes in use and in particular by making the setting-up of catering sector businesses close to impossible. The Group's largest floor area retailing facility, i.e. the shop spaces in the Sugár Shopping Center are now fully rented out, with the exception of the catering and entertainment units located on the 2nd level where a few units are still being under rent negotiations; the type and scope of tenants also needs further effort to have a more satisfactory situation. In the ground floor and the 1st level of Sugár Shopping Center the types of tenants could be improved and the existing rent contracts prolonged, while in the case of the festivity hall/conference room on the 1st level negotiations with potential tenants with the purpose of changing this facility's profile are pending.

The Group's office space property consists in effect of a set of rentable real estate objects situated in Category B office buildings. As the volume of up-to-date offices has greatly increased, offices not belonging to Category A are becoming hard to let as those looking for lower-priced office facilities are now in a position to pick from a wide selection of low-budget type real estate objects. Consequently, the upper limit of rent fees that can be achieved slides down to lower levels in daily practice.
As for warehouse-type real estate facilities, the Group owns a considerable volume both in Budapest and in the country. However, since in the meantime many modern logistics centers entered the market, these facilities fell back into the second or third category. They are more difficult to let than the shops, the letting process taking more efforts. Their utilization rate, however, falls on the Group's level below the average market tendency.
In addition to find tenants for free objects, another important impending task on the field of renting out real estate facilities is to reconsider and renegotiate all rent agreements made for indefinite durations or with unfavorable rent fees, as well as to improve the occupancy rates and the quality structure of tenants. A further task lies in the preparation of developments/improvements planned for real estate objects having a promising commercial potential.

SIGMA Kft.'s main task is to assist in renting out real estate objects made available or becoming free in the Group's real estate portfolio and in putting them to best economic use under the existing real estate market conditions. To non-Group partners this company did not realize many jobs or a considerable volume of trade in the advisory services sector or in real estate business mediation and its revenue thus generated was rather low.

Yet, in line with its main duties, its revenue from sales had been derived from services rendered to Group companies. Its unconsolidated trading volume during the first three quarters was in an appropriate proportion to the planned annual income figure which anyway was by 15.2 % higher than for the reference period. In accordance with the tendencies of earlier years this Kft. was most successful in renting out real estate objects for retailing use, which logically follows from the assortment of objects offered for letting. During this accounting period a total of some 97 transactions could be completed in this segment of the market. During this period a total floor area of 30,588 sq.m in retailing space could be placed under new of prolonged rent contracts. Revenue from renting out offices and warehouses account for 10 % of total income. During 2007 the Kft. established rent contracts for 6,480 sq.m in wharehouse floor area and 1,385 sq.m. in office floor area. Revenue from advisory services and other activities account for 3.0 % of total income. The company's pre-tax profits are by 34.9 % higher than for the reference period, which is due to higher than timely anticipated earnings derived mainly from transactions completed with Group member firms. Accordingly, this figure has no direct effects on the magnitude of the consolidated profit or loss.

After the **KONTÚR ZRt.** - as of July 31, 2006 - had absorbed its subsidiaries, the Kontúr Papír Kft. and the Kontúr Lakberendezési Kft., its business activities became limited to real estate commercialization, though

it still operates one retailing unit, a home decoration shop, a leftover business after the merger with Kontúr Lakberendezési Kft..
As of February 28, 2007 this Kft. also absorbed the Dália Kft., accordingly the revenue from this Kft.'s renting out the self-owned real estate has been - starting with said date - included in the Zrt.'s total income. The income of Kontúr Zrt. comes mainly from renting out self-owned real estate objects. To such directly earned revenue is to be added the rent fee income generated with subletting objects leased from local self-governments, which also includes the relevant reinvoiced costs; some more revenue is earned with business administration services.
The Zrt.'s consolidated income grew by 42.1 %, mainly due to said mergers, which added the absorbed firms' revenue as surplus to the figures of the Zrt.. The Zrt.'s core activity continues to be the commercialization of self-owned real estate objects, the portfolio of which is gradually increasing by the acquisition of new real estate objects. In the second quarter of the reference year it purchased full ownership of the Glas Hotel Kft., formerly owned by Ajka Kristály Kft., which is indirectly a high-value new addition to its owned real estate portfolio (the hotel is in Balatonalmádi on Lake Balaton). During this reporting period it also acquired partial ownership in Norba Kft., from wich company - in accordance with the onwers' decision - the manufacturing activities have been outsourced on September 30 (said activities have been absorbed by Bebufa Kft.). Accordingly, Norba Kft. is mainly engaged only in managing its own real estate property. The Zrt. itself operated at a profit, while the growth in after-tax profits (17.8 %) could not cope with growth in the volume of trade. At present the company is in the process of transformation. According to an owner's decision the Kontúr Zrt. shall be merged with the Norba Kft., the Fotex III Kft. and the Fotex Kont Kft. as at present all three companies are engaged in the real estate lcommercialization/management trade (the first managing its own object, while the other two Kft.-s task is to earn income by re-renting the leased objects.) The anticipated date of the merger is February 29, 2008.

The Group's most profitable company is the **Keringatlan Kft.,** being the direct owner and manager of 40 % of the Group's real estate wealth and of 30 % of its warehousing space. Its revenue comes mainly from renting out real estate objects. Within the Group **Keringatlan Kft.** is the company operating with a clear-cut real estate commercialization profile. The Kft. had been subject to several restructuring processes. As of July 27, 2005, the Keringatlan Kft. absorbed its two subsidiaries which were also engaged in the real estate business, the Alfa-Őrs Kft. and the Szivárvány Rt.. As of December 1, 2006, also the Fotex-2000 Kft. went up in this Kft., the retail branch of which was discontinued early January 2007, while its revenue earned by leasing out real estate objects is now shown in the books of Keringatlan Kft.. As of August 31 this year also the Azúr Zrt. merged with this Kft.. The revenue of Azúr Zrt. earned by the utilization of its real estate objects and by operating its two trading units, starting with that for the month of September, is being shown in the books of Keringatlan Kft.. The Kft.'s cosmetics and chemical products retail line brought into its business profile by the merger with Azúr Zrt. has been finally abandoned by closing down the shop - on December 31, 2007 - that operated in MOM Park Shopping Center.

92.0 % of its total revenue come from external third parties. Its consolidated revenue shows a significant rise, even after the technical effects of mergers completed in the reference year had been eliminated. The growth in revenue is largely due to an increase in leasing/renting fees, as several formerly vacant objects could be leased out (in Kistarcsa township, in Budapest's Szervita Square and Kossuth Lajos Street, 2nd floor in Sugár shopping center), and to the fact that newly aquired tenants could be contracted at higher rent fees, as well as to an increase in revenue made possible by real estate objects purchased during the reporting period or brought into the Kft. by the absorbed companies and then rented out by the Kft.. Leasing/renting fees fixed in EURO were subjected to adverse developments due to deterioration in the EURO-HUF exchange rate which could not be offset by some rise in the rent fees as the same were being indexed to the rate of inflation in the rent agreements. This Kft. operates at a profit, both its operating and pre-taxation profits are considerably high, while its after-tax profit dropped by 34.6 %. Compared to the reference period, the tangible assets of the Kft. grew in volume due to completed capital investments and to the purchase of real estate. The Kft. obtained a bank loan for financing the purchase of investments held by its two subsidiaries absorbed during 2005 and for the reconstruction of the the Sugár shopping center. Based on a Group decision, during the reference period the Kft. made arrangements to use inter-Group financing in the future. It has repaid (in the first quarter of 2006) its foreign exchange-based bank loans by using funds provided by a Group member firm. This Kft., using its own funds, and without resorting to using external funding, successfully provided the financing for the third phase in reconstructing the Sugár Üzletház shopping center. The first phase in the full-scale reconstruction of this shopping center had been completed in 2004, the second phase was completed by November 2005, and the third phase of reconstruction was finished in effect at the end of the 1st quarter of the reporting period. This renovation project has been capitalized during the 2nd quarter and also the cinema went into operation, the operator being a Group member. During said reconstruction works the shopping center's business could be kept up uninterrupted. The company was able to increase its pre-tax profit by 9.0 %, its after-tax profit by 16.2 % (the latter being realized by taxation base reductions due to losses taken over in the course of said performed mergers).

The consolidated trading volume of Europrizma Kft., engaged in the publicity business and of Europtic Kft., both included in the scope of consolidation, remained at a rather low and negligible level. Their revenue from sales originates mainly in mediating advertisements for the companies making up this consolidation group.

For managing its investments, in November 2005 the Fotex Nyrt. formed the fully-owned Upington Investments Ltd. with domicile in Cyprus. From selling investments the company has access to quite considerable funds which may be used for providing inter-Group financing to some of the subsidiaries. For managing its financial instruments the Upington Ltd. formed during the reference period a subsidiary domiciled in Luxembourg, the Downington Srl., which plays a significant role in financing the Group's activities. The fact that the Group turned to internal financing resulted, as of the closing day in the accounting period, in averting the need for HUF 3,225 mioFt in external loans.

Staff and organizational changes

The general meeting of DOMUS Nyrt. held on 28 June, 2007, decided on transforming the company into a private company limited by shares, which change in the company's legal form had been duly registered by issuing the Trade Registry Court's order on August 8, 2007. The Board of Directors of DOMUS Zrt., in its application filed with the Hungarian Financial Institutions Supervisory Authority ("PSZÁF"), requested exemption from the requirement to disclose information to the public as otherwise required by §57 Section (1) of the Act of Parliament on the Capital Market ("Tpt."), , which request was accepted by PSZÁF Decision dated October 4, 2007, to take effect as of October 10, 2007, the date of the exempting Decision's public announcement.

Fotex Nyrt. and its subsidiaries are holding 99.24% of the shares in the Domus Zrt.. The Zrt. company holds 0.15% of its own shares. The minority interest had decreased to 0.6% as of the accounting year's closing day. In the extraordinary general meeting of Domus held on December 4, 2007, it was decided to increase by one person the number of the board of directors' members to 4, and dr. Judit CSEHÁK has been elected member of the board of directors.

Miscellaneous

According to General Meeting Resolution No. 23/2000 the company - with effect of May 2, 2001 and in cooperation with Keler Rt. – performed a full conversion of shares of the Fotex Nyrt.. As of the accounting year's closing day a total of 70,388,664 shares have been converted while in total 334,986 old shares were not converted by their owners. The unconverted shares had been declared invalid by the company according to applicable law. The new shares, which replaced the invalidated shares, were sold by the company at most optimum conditions as believed to be in the best interest of the shareholders. The proceeds of such sale shall, after deduction of costs incurred, be given to the owners of invalidated shares as compensation for old unconverted, and thus declared invalid, shares and shall be given not before the lapse of 30 days after selling the full amount of shares issued to replace the invalidated securities. Till date the proceeds from a total of 157,885 invalidated shares have been thus disbursed, while the owners of 177,101 invalidated shares have not turned up yet.

The annual general meeting of Fotex Nyrt. held on April 28, 2004 decided on the conversion of printed paper format shares issued by Fotex Nyrt. into dematerialized securities. The effective date of converting the shares into dematerialized format was November 11, 2004. The conversion of shares does not affect the rights attached to the shares. The time for submitting paper format shares extended form September 10 to November 10, 2004.

Fotex Nyrt. invalidated the printed paper format shares as of November 11, 2004.

From the volume of shares invalidated due to dematerialization, the proceeds for 1210 invalidated shares have been disbursed till date, while the owners of 140 invalidated shares have not turned up yet.

On September 20, 2001 the Fotex Group opened retail units in MOM PARK shopping center which occupy a floor area of about 7000 sq.m. In this shopping center almost each of our member companies engaged in retailing activities were exclusively represented. December 2001 the Fotex Nyrt. filed a lawsuit with the Budapest Municipal Court against the firm of MOM-Park Bt. to obtain a ruling concerning the lessor's defaults and deficiencies. The lawsuit resulted in a Court's ruling that reduced the rent fee to be paid by Fotex Nyrt. from the opening of the shopping center till the opening of the cinema therein, which requirement had been financially settled by the respondent. In the court action to pay compensation brought against MOM-Park by Fotex Nyrt. the parties settled their dispute out of the court, and the court case was terminated on January 8, 2008. The Fotex Group made a mutual agreement with the Lessor – with the final day of 2003 as the effective day – which reduced its rented space in MOM-PARK shopping center by abt. 1500 sq.m, and as of January 15, 2008 by a further amount of some 2000 sq.m, which was necessitated by changes in the structure of its business activities. Currently the Group is renting an area in excess of 3300 sq.m.

With a resolution passed in the extraordinary general meeting of Keravill Rt. held on December 9, 2004, the shareholders settled on the voluntary dissolution without a legal successor of Keravill Rt., after considering its business figures and prospects on the market. In the course of such dissolution the company had wound up its commercial and other business activities. During the process of winding-up the business/commercial activities the sizable stock of merchandise and the other assets on hand could not be sold at the planned price level, and, as a result of this, the property of the company was not sufficient to cover the known creditors' claims. On March 11, 2005 the liquidator requested to start the liquidation process by filing application with the Budapest Municipal Court. The procedure of voluntary dissolution without a legal successor was at the end of April 2005 converted into compulsory liquidation due to the company's insolvency, by a legally binding ruling of the Budapest Municipal Court. This liquidation process is still in progress, and according to its present state the Group has lost all assets invested in the company; the genuine business activity of the Company has already ceased, therefore it was removed from the consolidation group as of the closing day at the end of 2005.

The Euler Hermes Magyar Hitelbiztosító Zrt. filed a case against Fotex Nyrt. requiring to bear unlimited and full liability for the debts amounting to 52,771,000 HUF of Keravill Rt., now under liquidation, and to pay the amounts claimed, including interest and litigation costs. Fotex Nyrt. rejected these claims as unwarranted. The court case was terminated as the plaintiff withdrew its action.

With the accession to the European Union completed (May 1, 2004), the Group asserts that the imposition of the local business tax runs contrary to EC law as the same is deemed as an illegal turnover tax, and as a consequence of this, starting with the date of accession the Group's obligation to pay local business tax has ceased. As in this matter the local selfgovernments view differs, those warrants for payments of local selfgovernments that involve larger amounts of local business tax had been protested against by the members of the Group. After such protests had been rejected by the authorities' second instance, we put up the case for decision by the Court, the Court procedure being close to its ending. According to a ruling of the European Court of Justice announced in October 2007 the local business tax does not feature all the characteristics of a value added tax; therefore it is in compliance with the provisions of Ordinance No. 77/388/ECC, i.e. with EC law. On the basis of said ruling our member companies withdrew their submitted claims. The members of the Group settled the imposed local business tax amounts, fulfilled their paying obligations by reserving all rights, therefore the withdrawal of the claim is actually can not be followed by prescribing and paying obligations, apart from paying a fairly small court fee and a procedural duty amount.

With the authorization of the general meeting of August 31, 2007 the Fotex Nyrt. on November 26, 2007 decided to increase the share capital of the company, by way of a private issue of preference shares.

Based on Gt.313.§(4) (the Hungarian business associations act), Resolution No. 32/2007 passed in the General Meeting on August 31, 2007 cancelled the subscription preference right – considering the purposed private issue of shares – as the issue of preference shares shall form a basis for a management incentive system.

The Board of Directors assigned the Keringatlan Kereskedelmi Ingatlanfejlesztő és Kezelő Kft (domiciled at 1126 Budapest, Nagy Jenő utca 12) to take in possession the 2,000,000 preference share certificates - put on market to effect said increase in share capital - each with a face value of 100 HUF and each with 100 HUF coming-out price. Keringatlan Kft. transferred the amount equivalent to said share capital increase to the bank account of Fotex Nyrt. within 3 days after the date of the Board of Directors' resolution.

The share capital of the company after said share capital increase amounts to HUF 7,272,365,000, which with effect from December 17, 2007 has been duly registered by the Trade Registry Court.

This flash report contains true and valid data and statements and does not withhold any facts which may bear importance in assessing the company's business position.

Budapest, February 21, 2008

Gábor VÁRSZEGI
General Director