

This is a translation of the Hungarian Report

Independent Auditors' Report

on the annual financial statements presented to the shareholders' meeting for approval

To the Shareholders of Fotex Nyrt.

1.) We have audited the accompanying 2007 consolidated annual financial statements of Fotex Nyrt. ("the Company"), which comprises the consolidated balance sheet as at 31 December 2007 - showing a balance sheet total of HUF 35,085,357 thousands and a income for the year of HUF 580,649 thousands -, the related consolidated income 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 2006 on 23 March 2007.

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 2007 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.

8.) Without qualifying our opinion, we draw attention to the fact that this independent auditor's report has been issued for consideration by the forthcoming shareholders' meeting for decision making purposes and, as such, does not reflect the impact, if any, of resolutions regarding the dividend payable for dividend preference shares (Refer note 15) which may be adopted at that meeting. Should any such preference dividends be declared it will be recorded under IFRS technical standards in the 2007 financial statements and the accompanying financial statements will require adjustment for this matter. Accordingly, the accompanying annual financial statements and this independent auditor's report are not suitable, nor should be used, for statutory reporting and disclosure purposes.

Budapest, April 9, 2008

Ernst & Young Kft.
Registration No. 001165

Zoltán Tremmel
Registered Auditor
Chamber membership No.: 005210

Fotex Nyrt. and Subsidiaries
Consolidated Balance Sheets

	Notes	At December 31,	
		2007 THUF	2006 THUF
Assets			
Current Assets:			
Cash and short term deposits	3	8,361,373	8,546,950
Other investments	4	33,602	762
Accounts receivable and prepayments	5	1,871,417	1,576,705
Income tax receivable		188,075	106,729
Inventories	6	2,639,687	3,532,074
Total current assets		<u>13,094,154</u>	<u>13,763,220</u>
Non Current Assets:			
Property, plant & equipment	7	2,491,522	6,239,781
Investment properties	8	15,105,072	10,961,859
Intangible assets	9	1,235,681	1,451,540
Long term investments	10	352,614	68,755
Goodwill arising on acquisition	11	2,806,314	3,160,762
Total non current assets		<u>21,991,203</u>	<u>21,882,697</u>
Total assets	21	<u><u>35,085,357</u></u>	<u><u>35,645,917</u></u>
Liabilities and Shareholders' Equity			
Current Liabilities:			
Provision	21	19,374	32,629
Accounts payable and accrued expenses	12, 21	1,980,202	3,021,152
Total current liabilities		<u>1,999,576</u>	<u>3,053,781</u>
Non-current Liabilities:			
Deferred tax liability	19, 21	<u>39,230</u>	<u>144,230</u>
Total long term liabilities		<u>39,230</u>	<u>144,230</u>
Shareholders' Equity:			
Issued capital	14	7,272,365	7,072,365
Additional paid-in capital		8,710,131	8,710,131
Goodwill write-off reserve	16	(663,459)	(749,827)
Retained earnings	17	18,174,521	17,659,395
Treasury shares, at cost	14	(461,627)	(261,627)
Equity attributable to equity holders of the parent		<u>33,031,931</u>	<u>32,430,437</u>
Minority interest in consolidated subsidiaries	13	14,620	17,469
Total shareholders' equity		<u>33,046,551</u>	<u>32,447,906</u>
Total liabilities and shareholders' equity		<u><u>35,085,357</u></u>	<u><u>35,645,917</u></u>

See accompanying notes to consolidated financial statements.

Fotex Nyrt. and Subsidiaries
Consolidated Statements of Income

	Comment	At December 31, 2007			At December 31, 2006		
		Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
		THUF	THUF	THUF	THUF	THUF	THUF
Revenue	21	12,586,765	3,074,684	15,661,449	12,826,023	5,179,003	18,005,026
Cost of sales		(4,008,039)	(2,475,195)	(6,483,234)	(4,762,630)	(3,707,251)	(8,469,881)
Gross income		8,578,726	599,489	9,178,215	8,063,393	1,471,752	9,535,145
Selling, general and administration expenses	18	(7,645,140)	(1,064,778)	(8,709,918)	(7,815,233)	(2,040,149)	(9,855,382)
Interest income		284,535	1,053	285,588	318,457	8,924	327,381
Interest expense		(4,599)	–	(4,599)	(119,345)	–	(119,345)
Income / (Loss) before income taxes		1,213,522	(464,236)	749,286	447,272	(559,473)	(112,201)
Income tax expense	19	(168,637)	–	(168,637)	(405,154)	–	(405,154)
Net Income / (Loss)		1,044,885	(464,236)	580,649	42,118	(559,473)	(517,355)
Attributable to:							
Equity holders of the parent		1,033,628	(464,236)	569,392	57,095	(557,381)	(500,286)
Minority interests	13	11,257	–	11,257	(14,977)	(2,092)	(17,069)
Net income / (loss)		1,044,885	(464,236)	580,649	42,118	(559,473)	(517,355)
Earnings / (Loss) per share (HUF)	26	14.94	(6.71)	8.23	0.82	(8.06)	(7.23)

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, 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)
Acquisition 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>
January 1, 2007	7,072,365	8,710,131	(749,827)	17,659,395	(261,627)	32,430,437	17,469	32,447,906
Net income 2007	–	–	–	569,392	–	569,392	11,257	580,649
Capital increase (Note 14)	200,000	–	–	–	(200,000)	–	–	–
Dividends to minority (Note 13)	–	–	–	–	–	–	(8,825)	(8,825)
Acquisition of minority interest (Note 13)	–	–	–	–	–	–	(5,566)	(5,566)
Amortisation of goodwill write-off reserve (Note 16)	–	–	86,368	(86,368)	–	–	–	–
Foreign currency translation	–	–	–	32,102	–	32,102	–	32,102
Other	–	–	–	–	–	–	285	285
December 31, 2007	<u>7,272,365</u>	<u>8,710,131</u>	<u>(663,459)</u>	<u>18,174,521</u>	<u>(461,627)</u>	<u>33,031,931</u>	<u>14,620</u>	<u>33,046,551</u>

See accompanying notes to consolidated financial statements.

Fotex Nyrt. and Subsidiaries
Consolidated Statements of Cash Flows

	Year ended December 31,	
	2007	2006
	THUF	THUF
Cash flows from operating activities:		
Income / (Loss) before minority interest and income taxes	749,286	(112,201)
Depreciation and amortisation	1,009,778	1,100,859
Impairment of goodwill	396,552	139,372
Impairment of intangible fixed assets	180,000	573,600
Retirement of tangible and intangible fixed assets	36,289	196,757
Retirement and provision on inventory and receivables	60,503	(234,992)
Income on disposal of fixed assets and intangibles	(25,107)	(184,093)
Income on disposal of state bonds	(54,109)	(87,677)
Interest income	(285,588)	(327,381)
Interest expense	4,599	119,345
Changes in assets and liabilities:		
Accounts receivable and prepayments	(370,778)	451,863
Inventory	821,027	738,191
Accounts payable and accrued expenses	(811,365)	(693,453)
Cash generated from operations	1,711,087	1,680,190
Interest paid	(4,909)	(119,118)
Income tax paid	(276,227)	(323,356)
Net cash flow from operating activities	1,429,951	1,237,716
Cash flows from investing activities:		
Purchase of tangible and intangible assets	(1,552,987)	(2,281,967)
Sale of tangible and intangible assets	172,932	290,101
Net purchase and sales of state bonds	(262,599)	260,488
Interest received	291,460	326,226
Acquisition of subsidiaries net of cash acquired	(50,000)	-
Purchase of shares in subsidiaries from minority shareholders	(5,566)	(1,609,843)
Net cash flow (used in) investing activities	(1,406,760)	(3,014,995)
Cash flows from financing activities:		
(Decrease) / Increase in debt	(209,047)	582,265
Decrease in debt	279	(4,620,827)
Net cash flow used in financing	(208,768)	(4,038,562)
Change in cash and cash equivalents	(185,577)	(5,815,841)
Cash and cash equivalents at beginning of year	8,546,950	14,362,791
Cash and cash equivalents at end of year	8,361,373	8,546,950

See accompanying notes to consolidated financial statements.

Fotex Nyrt. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2007
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 Luxembourg 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 Holding S.á.r.l. 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>2007</u>	<u>2006</u>
Ajka Kristály Kft. (Ajka)	Crystal manufacturing and retail	100.0	100.0
Azúr Zrt.	Cosmetics retailer and property management (Note 23)	–	99.9
Balaton Bútorgyár Zrt. (Balaton)	Furniture retailing and wholesaling	99.9	99.9
Balaton Glas Hotel Kft.	Property management	100.0	100.0
Bebufa Kft.	Furniture manufacturer	99.9	99.9
Dália Kft.	Property management (Note 23)	–	100.0
Domus Zrt.	Property management and furniture retailer (Note 13)	99.4	99.2
Downington Holding S.á.r.l.	Investment holding	100.0	100.0
DVD Rent Kft.	DVD rental and cinema management	100.0	100.0
Europrizma Kft.	Advertising	99.9	99.9
Europtic Kft.	Advertising	100.0	100.0
Fotex Cosmetics Kft.	Cosmetics retailer	100.0	100.0
Fotex Records Kft.	Property management	100.0	100.0
Fotexnet Kft.	Internet retail and other services (Note 13)	98.0	50.0
Hungaroton Music Zrt.	Music archive (Note 13)	99.2	98.2
Hungaroton Records Kft.	Music publishing and music retailing (Note 13)	99.8	99.4
Keringatlan Kft.	Property management	100.0	100.0
Kontúr Zrt.	Property management	99.9	99.8
Norba Kft.	Furniture manufacturer (Note 23)	99.8	–
Primo Zrt.	Clothing retailing and wholesaling	99.9	99.9
Sigma Kft.	Property services	75.1	75.1
Székhely Kft.	Property management (Note 23)	99.8	–
Upington Investments Ltd.	Investment holding	100.0	100.0

Fotex Nyrt. and Subsidiaries
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1. General (continued)

The consolidated financial statements of Fotex Nyrt. and Subsidiaries for the year ended December 31, 2007 were authorised for issue in accordance with a resolution of the directors on April 9, 2008.

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 Nyrt. 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 incomes 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.

2. Significant Accounting Policies (continued)

Basis of consolidation (continued)

Minority interests represent the portion of income 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

The accounting policies adopted are consistent with those of the previous financial year except as follows:

Initial application of new or revised Standards and Interpretations

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, 2007. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise in some cases to additional disclosures, including in some cases, revisions to accounting policies.

The changes in accounting policies result from the adoption of the following new or revised Standards:

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Amendment – Presentation of Financial Statements
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment

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

2. Significant Accounting Policies (continued)

Changes in accounting policies (continued)

The principal effects of these changes are as follows:

IFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

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. These new disclosures are shown in Note 22.

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies

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. As the Group has not identified hyperinflation in the economy of its functional currency, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 8 Scope of IFRS 2

This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instrument are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees as part of private share offering, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 9 Reassessment of Embedded Derivatives

IFRIC 9 states that the date to assess the existences of an embedded derivative is the date that 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. As the Group has no embedded derivative requiring separation from the host contract, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 10 Interim Financial Reporting and Impairment

The Group adopted IFRIC Interpretation 21 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

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

Changes in accounting policies (continued)

Income taxes

The Group has changed its accounting policy to reflect Hungarian local business tax and innovation contribution as part of income tax. In previous years these taxes were presented among other operating expenses. The reason for the change is that management believes these taxes are rather income tax in nature than other operating expense. Management's conclusion takes into consideration the recent decisions of the European Commission concerning the nature of these taxes and the international accounting practice generally applied to taxes of a similar nature.

As a result of the above-noted changes the operating expenses decreased and the income taxes increased with the same amount. This change does not affect the net income and the equity. The amounts reported in the previous years have been adjusted accordingly for comparison purposes and are included in Note 19 to the financial statements.

Significant accounting judgements, 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 2007 is THUF 2,806,314 (2006: THUF 3,160,762). Further details are given in Note 11.

Fotex Nyrt. and Subsidiaries
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2. Significant Accounting Policies (continued)

Significant accounting judgments, estimates and assumptions (continued)

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, 2007 is THUF 1,000,000 (2006: THUF 1,180,000). 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 income 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 incomes together with future tax planning strategies. The carrying value of recognised tax losses at 31 December 2007 was THUF 1,173,347 (2006: THUF 219,456) and the unrecognised tax losses at 31 December 2007 was THUF 1,428,287 (2006: THUF 3,010,574). Further details are given in Note 19.

Fair Value of Investment Properties and Land, Buildings and Improvement among Property, Plant and Equipments

The Group has determined and presented in the notes the fair value of investment property and land, building and improvements 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.

Fotex Nyrt. and Subsidiaries
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All amounts in HUF '000 unless otherwise indicated

2. Significant Accounting Policies (continued)

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.

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.

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

2. Significant Accounting Policies (continued)

Property, plant and equipment (continued)

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.

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.

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2. Significant Accounting Policies (continued)

Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through income 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 income 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 as 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. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible. Receivables from related parties are recognized and carried at cost.

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.

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2. Significant Accounting Policies (continued)

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.

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.

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2. Significant Accounting Policies (continued)

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.

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.

2. Significant Accounting Policies (continued)

Intangible assets (continued)

Intangible assets with finite lives such as shop rental rights, 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 such 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.

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.

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2. Significant Accounting Policies (continued)

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 income nor taxable income 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 income 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 income nor taxable income 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 income will be available against which the temporary differences can be utilised.

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 income 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.

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 as income tax expense.

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2. Significant Accounting Policies (continued)

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.

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.

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2. Significant Accounting Policies (continued)

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 has operations in Cyprus, Luxembourg and in Hungary. However, the majority (over 97%) of activities is 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 ordinary 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 ordinary 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)

Future changes in accounting policies

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective for December 2007 year-ends. The Group has not early adopted these standards and interpretations for 2007.

- IAS 23 Borrowing Costs effective for annual periods beginning on or after 1 January 2009
- IFRS 8 Operating Segments effective for annual periods beginning on or after 1 January 2009
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions effective for annual periods beginning on or after 1 March 2007.
- IFRIC 12 Service Concession Agreements effective for annual periods beginning on or after 1 January 2008
- IFRIC 13 Customer Loyalty Programmes effective for annual periods beginning on or after 1 July 2008
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction effective for annual periods beginning on or after 1 January 2008

The principal effects of these changes are as follows:

IAS 23 Borrowing Costs

A revised IAS 23 Borrowing costs was issued in March 2007, and becomes effective for annual periods beginning on or after 1 January 2009. The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

IFRS 8 Operating Segments

IFRS 8 Operating Segments was issued in November 2006, and becomes effective for annual periods beginning on or after 1 January 2009.

This standard requires disclosure of information about the Group's operating segment and replaced the requirement to determine primary (business) and secondary (geographical) reporting segment of the Group. The Group determined not to early adopt this standard, so the current year segment information had been prepared similar to last year under IAS 14 Segment Reporting. As a consequence there is no revised comparative information regarding this standard.

IFRIC 11 IFRS 2 – Group and Treasury Share Transaction

IFRIC Interpretation 11 was issued in November 2006, and becomes effective for annual periods beginning on or after 1 March 2007. The Group has elected not to adopt IFRIC Interpretation 11 as of 1 January 2007, insofar as it applies to consolidated financial statements. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instrument to be accounted for as an equity-settled scheme, even if the entity buys the instrument from another party, or the shareholders provide the equity instruments needed.

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2. Significant Accounting Policies (continued)

Future changes in accounting policies (continued)

IFRIC 12 Service Concessions Arrangements

IFRIC Interpretation 12 was issued in November 2006 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and hence this Interpretation will have no impact on the Group.

IFRIC 13 Customer Loyalty Programmes

IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group expects that this interpretation will have no impact on the Group's financial statements as no such schemes currently exist.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 18 Employee Benefits. The Group expects that this Interpretation will have no impact on the financial position or performance of the Group.

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 at banks earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and short-term deposits is HUF 8,361,373 (2006: HUF 8,546,950).

Cash includes fixed deposits of THUF 5,680,198 (December 31, 2006 6,676,139) at rates ranging from 3% to 6% (2006 2% to 7%). 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 2007, the Group has HUF 115 million (December 31, 2006 THUF 332 million) restricted cash as security for rental deposits received. Rental deposits are repayable when the rental agreements terminate.

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4. Other investments

	<u>2007</u>	<u>2006</u>
	THUF	THUF
Government securities held to maturity	33,170	330
Other short term investments held to maturity	432	432
Total other investments	<u>33,602</u>	<u>762</u>

Government securities represent discounted treasury notes over three month maturity.

5. Accounts Receivable and Prepayments

	<u>2007</u>	<u>2006</u>
	THUF	THUF
Trade receivables	1,247,585	1,151,737
Taxes recoverable	141,941	254,101
Caution paid as part of a tender	250,100	–
Other receivables and prepayments	389,569	339,502
Provision for doubtful debts	(157,778)	(168,635)
Total accounts receivable and prepayments	<u>1,871,417</u>	<u>1,576,705</u>

For terms and conditions relating to related party receivables, refer to Note 27.

Trade receivables are non-interest bearing and are generally on 0-60 days' terms.

Taxes recoverable are generally on three months terms.

In December 2007 Keringatlan Kft. had to pay HUF 250 million advance as part of a tender regarding a real estate acquisition. The tender was not successful and the advance was returned at the beginning of 2008.

As at 31 December 2007, trade receivables at nominal value of 157,778 THUF (2006: 168,635 THUF) were impaired and fully provided for.

Movements in the provision for impairment of receivables were as follows:

	Individually impaired THUF	Collectively impaired THUF	Total THUF
At 1 January 2006	171,214	9,495	180,709
Charge for the year	53,574	–	53,574
Utilised	<u>(57,190)</u>	<u>(8,458)</u>	<u>(65,648)</u>
At 31 December 2006	167,598	1,037	168,635
Charge for the year	983	18,061	19,044
Utilised	<u>(29,901)</u>	<u>–</u>	<u>(29,901)</u>
At 31 December 2007	<u>138,680</u>	<u>19,098</u>	<u>157,778</u>

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5. Accounts Receivable and Prepayments (continued)

As at 31 December, the ageing analysis of trade receivables is as follows after impairments:

	Neither past due nor impaired	Past due but not impaired					Total
		< 30 days	30-90 days	90-180 days	180-360 days	>360 days	
2007	683,174	258,856	93,415	24,084	19,091	11,187	1,089,807
2006	638,078	190,028	46,611	37,631	44,741	26,013	983,102

6. Inventories

	<u>2007</u>	<u>2006</u>
	THUF	THUF
Products held for resale and finished goods	2,476,459	3,096,522
Raw materials and consumables	489,716	518,525
Work in progress	498,646	670,801
Total inventory	<u>3,464,821</u>	<u>4,285,848</u>
Provision for products held for resale and finished goods	(649,174)	(577,814)
Provision for raw materials and consumables	(105,960)	(105,960)
Provision for work in progress	(70,000)	(70,000)
Provision for inventory	<u>(825,134)</u>	<u>(753,774)</u>
Net book value	<u>2,639,687</u>	<u>3,532,074</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 825,134 (December 31, 2006: THUF 753,774) is appropriate.

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7. Property, plant and equipment

Movements in property, plant and equipment for the year ended December 31, 2007 were as follows:

	Land, Buildings and Improvements	Furniture, Fixtures and Equipment	Construction in Progress	Total
	THUF	THUF	THUF	THUF
Cost:				
January 1, 2007	5,362,713	5,828,170	966,539	12,157,422
Additions	631,905	479,692	(601,868)	509,729
Disposals and write downs	(195,768)	(565,259)	–	(761,027)
Transfer to Investment property (note 8)	(4,411,575)	–	–	(4,411,575)
December 31, 2007	<u>1,387,275</u>	<u>5,742,603</u>	<u>346,671</u>	<u>7,494,549</u>
Depreciation:				
January 1, 2007	(1,133,484)	(4,784,157)	–	(5,917,641)
Depreciation expense	(218,174)	(318,752)	–	(536,926)
Disposals and write downs	95,598	502,977	–	598,575
Transfer to Investment property (note 8)	852,965	–	–	852,965
December 31, 2007	<u>(403,095)</u>	<u>(4,599,932)</u>	<u>–</u>	<u>(5,003,027)</u>
Net book value:				
December 31, 2007	<u>984,180</u>	<u>1,142,671</u>	<u>346,671</u>	<u>2,491,522</u>
December 31, 2006	<u>4,229,229</u>	<u>1,044,013</u>	<u>966,539</u>	<u>6,239,781</u>

As of December 31, 2007 gross value of tangible fixed assets fully depreciated or fully impaired was THUF 2,389,803 (2006: THUF 2,442,027). Carrying amount of temporarily idle tangible assets was THUF 37,521 (2006: THUF 104,582) at year end.

As at December 31, 2006 year end management reassessed its real estate portfolio and determined that in line with its business strategy, it will present such real estate that is leased and is available for lease to third parties as investment property. Real estate which remains categorized as land, buildings and improvements as presented above is measured in the Balance Sheet at historic cost less accumulated depreciation. Its fair value is disclosed in note 8 to the Financial Statements.

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7. Property, plant and equipment (continued)

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>

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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. 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.

Movements in investment property for the year ended December 31, 2007 was as follows:

	<u>Investment Properties</u> THUF
Cost:	
January 1, 2007	13,134,543
Additions	1,005,733
Transfer from Property, Plant and Equipment	4,411,575
December 31, 2007	<u>18,551,851</u>
Depreciation:	
January 1, 2007	(2,172,684)
Depreciation expense	(421,130)
Transfer from Property, Plant and Equipment	(852,965)
December 31, 2007	<u>(3,446,779)</u>
Net book value:	
December 31, 2007	<u>15,105,072</u>
December 31, 2006	<u>10,961,859</u>

The fair value of real estate which is classified as Investment property as at 31 December 2007 is analysed as follows:

Category	Area M ²	Carrying value THUF	Low	Fair value	High
			THUF	Medium THUF	THUF
Retail outlets	144,581	10,433,722	58,822,434	66,338,697	76,286,048
Office	6,317	184,335	1,927,542	2,173,841	2,499,804
Warehouse	97,609	1,154,410	9,928,042	11,196,636	12,875,548
Other buildings	58,009	1,427,714	4,496,223	5,070,745	5,831,093
Land	676,629	1,904,891	16,773,985	18,917,346	21,753,963
Total investment property	<u>983,144</u>	<u>15,105,072</u>	<u>91,948,226</u>	<u>103,697,265</u>	<u>119,246,456</u>

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8. Investment properties (continued)

The fair value of real estate which was reclassified to Investment property as at 31 December 2006 was analysed as follows in the 2006 financial statements:

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>

In the 2006 disclosures set out above 581,629 m² of land remained classified as property plant and equipment. In its 2007 disclosures the Company has reclassified this land as part of its Investment property.

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, there will be full utilization rate for properties and the rental fee will cover the entire area.

Fair values are presented as a range of low, medium and high values. Medium values were calculated by discounting expected cash flows (realizable rental fee) of the next 14 year at a rate of 7% in the first year and 3% in the following years (2006: 7.1% for each year) which is considered the appropriate weighted discount rate for valuing real estate property on the relevant markets. The realizable rental fee has been determined in EUR and inflated by 2% (2006: 0%) from year to year. The EUR rental fee has been converted to HUF on the year end MNB foreign exchange rate. 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.

The fair value of real estate which remains categorized as land, buildings and improvements (see Note 7), not as investment property is analyzed in the tables below also. 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.

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8. Investment properties (continued)

The fair value of real estate which remains categorized as land, buildings and improvements as at 31 December 2007 is analyzed as follows:

Category	Area m ²	Carrying value THUF	Fair value		
			Low THUF	Medium THUF	High THUF
Retail outlets	770	107,539	313,273	353,302	406,279
Office	841	18,576	256,619	289,410	332,806
Warehouse	8,171	30,922	831,043	937,232	1,077,769
Other buildings	62,538	727,328	4,847,261	5,466,639	6,286,350
Land	183,188	99,816	4,541,326	5,121,611	5,889,586
Total land, buildings and improvements	255,507	984,180	10,789,522	12,168,194	13,992,790

The fair value of real estate which remains categorized as land, buildings and improvements as at 31 December 2006 is analyzed as follows:

Category	Area m ²	Carrying value THUF	Fair value		
			Low THUF	Medium THUF	High 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

In the 2006 disclosures set out above 581,629 m² of land remained classified as property plant and equipment. In its 2007 disclosures the Company has reclassified this land as part of its Investment property

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9. Intangible Assets

Movements in intangible assets for the year ended December 31, 2007 was as follows:

	Media and merchandising rights	Other	Total
	THUF	THUF	THUF
Cost:			
January 1, 2007	1,834,520	397,106	2,231,626
Additions	–	37,525	37,525
Disposals and write downs	–	(131,781)	(131,781)
December 31, 2007	<u>1,834,520</u>	<u>302,850</u>	<u>2,137,370</u>
Amortisation:			
January 1, 2007	(654,520)	(125,566)	(780,086)
Amortisation expense	–	(51,722)	(51,722)
Impairment	(180,000)	–	(180,000)
Disposals and write downs	–	110,119	110,119
December 31, 2007	<u>(834,520)</u>	<u>(67,169)</u>	<u>(901,689)</u>
Net book value:			
December 31, 2007	<u>1,000,000</u>	<u>235,681</u>	<u>1,235,681</u>
December 31, 2006	<u>1,180,000</u>	<u>271,540</u>	<u>1,451,540</u>

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

In 2003 Fotex Nyrt. acquired certain media and merchandising rights associated with the football club, FTC, as part of its exit from its ownership of the club which it acquired in 2001 valued at HUF 1.9 billion (approximately Euro 8 million). The merchandising rights with the exclusion of clothing are unlimited and both the media and merchandising rights are granted into perpetuity. Up to 31 December 2005 there were no indications of impairment. During 2006, the Hungarian Football Association did not give FTC the license to play in the first league. FTC legally contested this and won the right to play in the first league, however, the championship has started and FTC could not play in the first league due to financial difficulties. Consequently the club could only play matches in the second league in the season 2006/2007. In 2008 FTC was acquired by a British investor which has plans for significant development of the club. Management has assessed the recoverability and the value of the asset based on the estimated revenue streams that are presently and potentially available, discounted at an appropriate interest rate to arrive at the fair value. Based on managements’ estimation, an impairment of HUF 574 million had been recognized in the income statement in 2006 and additional HUF 180 million in 2007.

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9. Intangible Assets (continued)

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	<u>1,834,520</u>	<u>397,106</u>	<u>2,231,626</u>
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	<u>(654,520)</u>	<u>(125,566)</u>	<u>(780,086)</u>
Net book value:			
December 31, 2006	<u>1,180,000</u>	<u>271,540</u>	<u>1,451,540</u>
December 31, 2005	<u>1,753,600</u>	<u>478,012</u>	<u>2,231,612</u>

10. Long Term Investments

	2007	2006
	THUF	THUF
Long term securities held to maturity	–	6,938
Other long term investments held to maturity	37,205	61,817
Long term loan granted to other parties	315,409	–
Total long term investments	<u>352,614</u>	<u>68,755</u>

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

The long term loan granted to other parties mainly represents the following loans each provided by Domus Zrt. to legal entities which took over the discontinued operation of Domus Lác Kft.:

There is a THUF 261,105 (EUR 1,036,667) loan to Domus VIVA Kft. with interest of EURO-LIBOR 12 month rate. The loan is secured by mortgage on the property of Domus VIVA Kft and immediate collection right over the bank account of Domus VIVA Kft. The maturity of the loan is August 31, 2012. The interest income received on the amount was THUF 2,513.

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10. Long Term Investments (continued)

There is a THUF 30,876 (EUR 121,981) loan to Modusz Alba Kft. with interest of EURO-LIBOR 12 month rate. The loan is secured by mortgage on the property of Modusz Alba Kft and immediate collection right over the bank account of Modusz Alba Kft. The maturity of the loan is October 31, 2010. The interest income received on the amount was THUF 322.

There is a THUF 18,212 (EUR 72,009) loan to Domus Store Kft. with interest of EURO-LIBOR 12 month rate. The loan is secured by mortgage on the property of Domus Store Kft and immediate collection right over the bank account of Domus Store Kft. The maturity of the loan is October 31, 2010. The interest income received on the amount was THUF 123.

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>2007</u>	<u>2006</u>
	THUF	THUF
Cost:		
At January 1	5,525,120	5,525,120
Addition	42,104	–
Disposal	–	–
At December 31	<u>5,567,224</u>	<u>5,525,120</u>
Amortisation and Impairment		
At January 1	(2,364,358)	(2,224,986)
Impairment charge for the year	(396,552)	(139,372)
At December 31	<u>(2,760,910)</u>	<u>(2,364,358)</u>
Net book value		
At January 1	<u>3,160,762</u>	<u>3,300,134</u>
At December 31	<u>2,806,314</u>	<u>3,160,762</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 positive discounted net cash-flows from the cash generating units concerned.

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12. Accounts Payable and Accrued Expenses

	<u>2007</u>	<u>2006</u>
	THUF	THUF
Trade payables	583,141	1,383,428
Taxes payable	219,187	226,920
Advances from customers	25,369	122,118
Accrued expenses	293,162	284,705
Payable to employees	101,781	128,401
Deposit received for rental	530,667	451,577
Other miscellaneous payables	226,895	424,003
Total accounts payable and accrued expenses	<u>1,980,202</u>	<u>3,021,152</u>

Terms and conditions of the above financial liabilities:

Trade payables are non-interest bearing and are normally settled on 30-day term.

Other payables are non-interest bearing and have an average term of 1 to 3 months.

Payable to employees are non-interest bearing and represent a one month salary with contributions.

Rental deposits are generally payable on 30-day term when the rental agreements terminate.

13. Minority Interest

	<u>2007</u>	<u>2006</u>
	THUF	THUF
Balance at beginning of year	17,469	1,685,917
Dividends of subsidiaries	(8,825)	(11,100)
Purchase of minority shareholder interests	(5,566)	(1,639,700)
Other	285	(579)
Income / (Loss) attributable to minorities	11,257	(17,069)
Balance at end of year	<u>14,620</u>	<u>17,469</u>

Dividends of subsidiaries

In case of Sigma Kft. there is 25% minority interest. The HUF 8,825 thousand dividend is payable based on the resolution of the members to minority owner.

Minority Interest in FotexNet Kft.

In 2006 the Minority shareholders of FotexNet Kft. increased its capital in the company which resulted in minority interest in FotexNet Kft. of 50%. However, the Group retained virtual control over the subsidiary as the minority interest was held by Blackburn International Inc., a related party to the Group. During 2007 Fotex Group companies through various capital subscriptions totalling HUF 140 million increased the share capital in FotexNet Kft. with the result that by year end 2007 the minority interest decreased to 2%.

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13. Minority Interest (continued)

Minority Interest in Domus Zrt.

In 2007 Domus Zrt. purchased its own shares at nominal value THUF 2,488 for THUF 3,732 from minority shareholders.

Other changes in the Minority Interest

During 2007 the Group purchased interest from minority owners in Hungaroton Music Zrt. at THUF 1,342 nominal value. As Hungaroton Music Zrt. has ownership in Hungaroton Records Kft. this resulted in a decrease in the minority ownership in both companies.

14. Issued Capital

The authorised and issued share capital is THUF 7,272,365. The par value of the shares is HUF 100. At December 31, 2007 the Company's issued share capital consists of 72,723,650 shares (December 31, 2006 70,723,650 shares) which include 70,723,650 ordinary shares and 2,000,000 dividend preference shares. The dividend preference shares were issued in November 2007 as described in Note 15.

Of the issued shares, 3,536,960 shares costing THUF 461,627 (December 31, 2006, 1,536,960 shares costing THUF 261,627) are held as treasury shares.

15. Preference share scheme

The general meeting of the Company on August 31, 2007 authorized the Board of Directors to increase the equity capital by a maximum amount of HUF 785,818,000, by issuing dividend preference shares (shares with dividend rights only, without voting right) against monetary contribution. within 5 years from the date of the general meeting.

These preference shares are to be used as a remuneration and long-term incentive system for executive officers, as well as senior employees. The reason for the preference share scheme available to members of management is to establish a direct link between share rates and profits achieved and profits shared by strengthening proprietorship within management thereby increasing shareholder value. Fotex Nyrt. has an option to redeem the dividend preference shares within 5 years. If Fotex Nyrt. does not exercise its option within 5 years from the date of the issue of dividend preference shares to employees then the owner of the dividend preference share will be entitled to exercise its rights after the date of the termination. The dividend rate on the preference shares shall not exceed 50% of the given year's average stock-exchange price of Fotex shares, but shall not be less than an amount equivalent to the double sum of the central bank base interest rate, valid on January 1 of the given year, applied to the face value of the share. The total sum of the dividend determined for preference dividend cannot exceed 30% of the consolidated IFRS income after taxes minus minority interest. The total preference dividend payable is subject to approval of the general meeting of the Company. Should the dividend preference shares be issued to management and dividend will be declared then under IFRS it will be recorded in the 2007 financial statements as an adjustment based on the decision of the general meeting.

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15. Preference share scheme (continued)

In November 2007 Fotex Nyrt. issued 2,000,000 preference shares with a face value of HUF 200 million. As at December 31, 2007 the dividend preference share has been presented as treasury shares (Note 14) as none of the share has yet been allocated to senior employees. As of the date of the approval of these financial statements no decision has been made as to allocation of preference shares or the amount of any preference dividend which may be payable based on the 2007 result.

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 Nyrt. (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.

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 Nyrt. at December 31, 2007 amount to THUF 2,317,293 (December 31, 2006 THUF 2,363,512).

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18. Selling, General and Administration Expenses

	December 31, 2007			December 31, 2006		
	Continuing operations THUF	Discontinued operations THUF	Total THUF	Continuing operations THUF	Discontinued operations THUF	Total THUF
Personnel expense	2,859,916	494,895	3,354,811	3,063,078	936,334	3,999,412
Material type costs	2,255,347	553,635	2,808,982	2,322,737	997,614	3,320,351
Other expenses	1,524,049	12,298	1,536,347	1,352,822	81,938	1,434,760
Depreciation and amortization	1,005,828	3,950	1,009,778	1,076,596	24,263	1,100,859
Total selling, general and administration expenses	7,645,140	1,064,778	8,709,918	7,815,233	2,040,149	9,855,382

Major element among "Other expenses"

	2007 THUF	2006 THUF
Impairment of Goodwill (Note 11)	(396,552)	(139,372)
Impairment of intangibles (Note 9)	(180,000)	(573,600)
Impairment on Inventories (Note 6)	(71,360)	270,607
Impairment on Trade Receivables (Note 5)	10,857	12,074
Realised foreign exchange gain /(loss) net	(62,034)	(72,047)
Unrealised foreign exchange gain /(loss) net	(38,052)	(14,850)
Tax expenses	(247,706)	(277,882)
Other expenses	(551,500)	(639,690)
Total "Other expenses"	(1,536,347)	(1,434,760)

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19. Income Taxes

	<u>2007</u>	<u>2006</u>
	THUF	THUF
Current income tax expense	(273,637)	(340,083)
Deferred income tax	105,000	(65,071)
Income tax expense	<u>(168,637)</u>	<u>(405,154)</u>

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

	<u>2007</u>	<u>2006</u>
	THUF	THUF
Income / (Loss) before minority interest and income taxes	<u>749,286</u>	<u>(112,201)</u>
Tax at statutory rate of 16%	(119,886)	17,952
Effect of tax losses for which no corresponding deferred tax asset recognized	(202,680)	(432,833)
Effect of tax losses from previous periods for which corresponding deferred tax asset recognized for the first time in the current period.	152,623	35,113
Differences arising from Cyprus and Luxembourg tax rates	35,860	(51,477)
Effect of change in the tax rate from 16% to 20% from 2007 on the tax base correction items	–	(25,915)
Effect of permanent differences	218,073	228,447
Solidarity tax at statutory rate of 4% (from September 1, 2006) – see explanation below.	(58,036)	(19,348)
Local business tax (Note 2 change in accounting policy)	(177,102)	(146,935)
Innovation tax (Note 2 change in accounting policy)	(17,489)	(10,158)
Income tax expense	<u>(168,637)</u>	<u>(405,154)</u>

Fotex Nyrt. and its subsidiaries are subject to periodic audit by the Hungarian Tax Authority (“APEH”). Because the application of tax laws and regulations for 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 Hungarian government introduced an additional, so called solidarity tax of 4% payable on statutory accounting incomes made in the period from September 1, 2006.

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

In 2005 Upington, an investment holding company was established in Cyprus which had an effective tax rate of 10%. In addition, Downington, a financial holding company was established in Luxembourg during 2006 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, 2007 and 2006 are attributable to the items detailed in the tables below:

	Consolidated balance sheet		Consolidated income statement	
	2007 THUF	2006 THUF	2007 THUF	2006 THUF
Deferred income tax liabilities				
Accelerated depreciation for tax purposes	(129,587)	(120,561)	(9,026)	(102,864)
Eliminated intercompany transactions	(31,556)	(35,739)	4,183	(31,630)
Capitalisations of small value assets	(30,079)	(18,828)	(11,251)	1,800
Fair value adjustments on acquisition	(38,843)	(42,375)	3,532	(5,650)
Gross deferred income tax liabilities	(230,065)	(217,503)	(12,562)	(138,344)
Deferred income tax assets				
Provisions	3,099	38,160	(35,061)	38,160
Tax losses carried forward	187,736	35,113	152,623	35,113
Gross deferred income tax assets	190,835	73,273	117,562	73,273
Deferred income tax			105,000	(65,071)
Net deferred income tax liability	(39,230)	(144,230)		

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	2,500,679
2008	26,114
2009	18,125
2010	30,908
2011	10,770
2012	15,038
Total	<u>2,601,634</u>

Deferred tax assets have not been recognised in respect of these losses in the past as they have arisen in subsidiaries that have been loss-making for some time. Due to the Group reorganisation and merger process which started in 2006 it has become possible for the Group to utilise certain past losses as several loss-making entities merged during the previous and current years into profit-making entities. As a consequence in 2006 the Group recognised deferred tax asset for the tax losses of THUF 181,309 at Dália Kft. and THUF 38,146 at Kontúr Zrt as due to the mergers in 2006 it has become probable that the tax losses carried forward will be realisable. As additional mergers took place in 2007 the deferred tax assets recognised for the tax losses carried forward also increased. As a result in 2007, the company recognised deferred tax assets in the amount of THUF 187,736 for the following tax losses THUF 71,918 at Keringatlan Kft., THUF 32,596 at Kontúr Zrt. and THUF 1,068,833 at Domus Zrt.

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20. Discontinued operations

In 2007 the Company took a strategic decision to exit the furniture retail operation performed by Domus Lác Kft. As a result on 31st March, 2007 Domus Lác Kft. merged into Domus Zrt. After the merger Domus Lác Kft. which was a furniture retailer continued its operation as part of Domus Zrt. to the end of August 2007 with a continuously decreasing activity. After the end of September 2007 the remaining furniture inventory was mainly purchased by three entities. Those entities were established by former employees of Domus Lác Kft. The three entities also have an obligation for the purchase of the inventory owned by Domus Zrt. as of December 31, 2007. As Domus Lác Kft. was not sold as an operating entity rather it has gradually ceased its activity there was no business disposal.

The net assets and liabilities of Domus Lác Kft. included in the consolidated balance sheet as set out in the table below.

	<u>2007</u>	<u>2006</u>
	THUF	THUF
Net assets disposed of:		
Cash	–	446,583
Accounts receivable and prepayments	151,773	133,456
Inventory	209,650	892,926
Fixed assets	–	46,802
Accounts payable and accrued expenses	–	(650,190)
	<u>361,423</u>	<u>869,577</u>

The current year account receivable and prepayments represent receivable from the three entities which acquired Domus Lác Kft. inventories. The current year inventory represents those items which were sold to these three entities under a sales commission agreement.

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21. Segment Information

Revenue (a):	2007	2007	2007	2006	2006	2006
	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	1,226,482	75,439	1,301,921	1,656,490	12,361	1,668,851
Investment property	5,158,670	449,550	5,608,220	3,490,632	404,444	3,895,076
Electrical, household goods and cosmetics	628,858	6,159	635,017	1,524,211	13,978	1,538,189
Crystal and glass	2,895,449	8,195	2,903,645	2,846,865	19,305	2,866,170
Music	973,814	3,175	976,989	1,167,887	1,285	1,169,172
Photographic products and services	–	–	–	692,878	9,799	702,677
Clothing	478,214	–	478,214	554,065	569	554,634
Advertising	27,735	62,813	90,548	22,652	43,286	65,938
Corporate and other	1,197,543	574,871	1,772,414	870,343	542,539	1,412,882
Inter-segment elimination	–	(1,180,203)	(1,180,203)	–	(1,047,566)	(1,047,566)
Revenue from continued operations	12,586,765	–	12,586,765	12,826,023	–	12,826,023
Revenue from discontinued furniture operations (Note 20)	3,074,684	–	3,074,684	5,179,003	–	5,179,003
Revenue from operations	15,661,449	–	15,661,449	18,005,026	–	18,005,026

a) Revenue relating to crystal and glass products and rental are principally foreign currency sales. Approximately half of the revenue relating to manufactured furniture are export revenue. Other sales are generally Hungarian Forint sales.

Net income / (loss) before tax:	2007	2006
	THUF	THUF
Furniture	110,407	299,357
Investment property	1,853,385	1,660,795
Electrical, household goods and cosmetics	27,222	43,902
Crystal and glass	(462,355)	(97,690)
Music	(93,553)	(59,934)
Photographic products and services	–	(160,177)
Clothing	45,926	(56,297)
Advertising	(1,613)	(129,776)
Corporate and other	(265,897)	(1,052,908)
Net income before tax from continued operations	1,213,522	447,272
Net loss from discontinued furniture operations (Note 20)	(464,236)	(559,473)
Net income/(loss) relating from operations	749,286	(112,201)

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21. Segment Information (continued)

Total Assets:	2007	2007	2007	2006	2006	2006
	Assets external THUF	Assets inter-segment THUF	Assets THUF	Assets external THUF	Assets inter-segment THUF	Assets THUF
Furniture	1,000,929	33,635	1,034,565	4,698,222	6,700	4,704,922
Investment property	17,543,035	33,824	17,576,859	13,235,348	22,345	13,257,693
Electrical, household goods and cosmetics	935,852	4,262	940,114	1,608,740	81,644	1,690,384
Crystal and glass	2,836,341	1,955	2,838,295	2,641,096	13,211	2,654,307
Music	832,347	99	832,446	883,078	5,629	888,707
Photographic products and services	–	–	–	17,230	63	17,293
Clothing	744,244	1,000	745,244	531,088	90,000	621,088
Advertising	187,230	9,193	196,424	70,941	2,716	73,657
Corporate and other	11,005,379	1,594,120	12,599,499	11,960,174	1,162,469	13,122,643
Inter-segment elimination	–	(1,678,088)	(1,678,088)	–	(1,384,777)	(1,384,777)
Total assets	35,085,357	–	35,085,357	35,645,917	–	35,645,917
	2007	2007	2007	2006	2006	2006
Liabilities:	Liabilities external THUF	Liabilities inter-segment THUF	Liabilities THUF	Liabilities external THUF	Liabilities inter-segment THUF	Liabilities THUF
Furniture	168,317	69,533	237,851	949,301	(39,000)	910,301
Investment property	640,062	607,526	1,247,588	669,828	855,273	1,525,101
Electrical, household goods and cosmetics	113,567	32,222	145,789	234,061	(18,002)	216,059
Crystal and glass	301,117	1,069,184	1,370,301	389,027	863,218	1,252,245
Music	166,326	220,250	386,575	239,211	186,128	425,339
Photographic products and services	–	–	–	3,436	1,840	5,276
Clothing	34,898	2,520	37,418	47,666	2,075	49,741
Advertising	62,879	15,064	77,943	5,593	(105)	5,488
Corporate and other	551,641	(39,252)	512,388	659,888	161,809	821,697
Inter-segment elimination	–	(1,977,046)	(1,977,046)	–	(2,013,236)	(2,013,236)
Liabilities	2,038,806	–	2,038,806	3,198,011	–	3,198,011

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21. Segment Information (continued)

Capital expenditure:	2007	2006
	THUF	THUF
Furniture	174,548	471,958
Investment property	1,079,743	1,184,534
Electrical, household goods and cosmetics	29,552	184,203
Crystal and glass	96,411	8,612
Music	31,284	149,533
Photographic products and services	–	19,181
Clothing	1,678	4,747
Advertising	448	1,631
Corporate and other	101,797	222,582
Capital expenditure	<u>1,515,462</u>	<u>2,246,981</u>
Depreciation and amortisation:	2007	2006
	THUF	THUF
Furniture	49,204	116,481
Investment property	639,301	519,288
Electrical, household goods and cosmetics	32,696	56,830
Crystal and glass	165,163	216,303
Music	40,987	46,312
Photographic products and services	–	33,461
Clothing	5,723	5,984
Advertising	2,041	649
Corporate and other	74,663	105,551
Depreciation and amortization	<u>1,009,778</u>	<u>1,100,859</u>

22. Financial risk management objectives and policies

The Group's principle financial liabilities, other than derivatives, comprise trade payables and hire purchase contracts. The Group has various financial assets such as trade receivables, cash and short term deposits, granted loans. The Company's cash is primarily held with major banks located in Hungary, Cyprus and Luxembourg. The financial liabilities and financial assets arise directly from the operations of the Group.

During the year the Group has entered into a small number of derivative transactions, primarily forward currency contracts. The purpose was to manage the currency risk arising from the Group's operations. There were no open derivative transactions as of December 31, 2007.

The main risk arising from the Group's financial instruments are foreign currency risk and credit risk. The Management is reviewing and managing each of these risks which are summarized below.

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22. Financial risk management objectives and policies (continued)

Interest rate risk

As the Group has no external financing liability there is no interest rate risk which could be managed.

Currency risk

The financial instruments that potentially subject the Company to currency risk consist principally of foreign currency trade receivables, payables and cash deposits in foreign currency. There is a currency risk which is associated to the EUR based rental agreements. The major part of the EUR based rental fees is invoiced in HUF on a daily spot rate. In order to limit the potential exchange loss as a result of any adverse change in the EUR-HUF exchange rates, the Group generally determines a minimum EUR-HUF exchange rate in the rental agreements for conversion purposes.

The Group also has a transactional currency exposure. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency. Approximately 20% of the Group's sales are dominated in currencies other than the functional currency of the operating unit making the sales, while costs are denominated in the unit's functional currency. The Group manages this risk in certain cases using forward currency contracts.

The following table demonstrates the sensitivity to a reasonably possible change in the EUR exchange rate, with all other variables held constant, of the Group's profit before tax in relation to export sales (due to changes in the fair value of monetary assets and liabilities).

		Increase/decrease in EUR rate	Effect on profit before tax
			THUF
2007		+5%	(119,906)
		-5%	125,909
2006		+5%	(122,209)
		-5%	128,225

The Group also has significant cash and cash equivalents in EUR as at December 31 which are influenced by possible change in the EUR exchange rate in the following way:

		Increase/decrease in EUR rate	Effect on cash and cash equivalents
			THUF
2007		+5%	304,104
		-5%	(289,462)
2006		+5%	270,378
		-5%	(257,503)

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22. Financial risk management objectives and policies (continued)

Credit risk

Credit risk is limited due to the dispersion across the customer base. Accordingly, the Company has no significant concentrations of credit risk. The Group manages its credit risk by advance payments, request of bank guarantees and cash deposits. In addition, the Group is monitoring on a regular basis the available business information regarding major creditors on the market. Receivable balances are monitored on an ongoing basis.

Liquidity risk

The Group monitors its risk regarding liquidity with the following tools:

- Monitoring of the daily available (restricted and non-restricted) free cash and cash equivalents balance by entities
- Monitoring of the entities' cash-flow on a weekly basis
- As part of the management information system the Group monitors the economic operation of the entities on a monthly basis

The table below summarises the maturity profile of the Group's financial liabilities at December 31, 2007 and December 31, 2006 based on contractual undiscounted payments.

Year ended December 31, 2007	On demand THUF	Less than 3 months THUF	3 to 12 months THUF	1 to 5 years THUF	>5 years THUF	Total THUF
Trade payables	82,668	500,473	–	–	–	583,141
Taxes payable	–	219,187	–	–	–	219,187
Advances from customers	–	25,369	–	–	–	25,369
Accrued expenses	–	278,936	–	14,226	–	293,162
Payable to employees	–	101,781	–	–	–	101,781
Deposit received for rental	–	13,643	–	571,473	–	585,116
Other miscellaneous payables	–	172,446	–	–	–	172,446
Total accounts payable and accrued expenses	82,668	1,311,835	–	585,699	–	1,980,202

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22. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Year ended December 31, 2006	On	Less than	3 to 12	1 to 5	>5	Total
	demand	3 months	months	years	years	
	THUF	THUF	THUF	THUF	THUF	THUF
Trade payables	88,686	1,294,742	–	–	–	1,383,428
Taxes payable	–	226,920	–	–	–	226,920
Advances from customers	–	122,118	–	–	–	122,118
Accrued expenses	–	266,574	–	18,131	–	284,705
Payable to employees	–	128,401	–	–	–	128,401
Deposit received for rental	–	139,381	–	354,913	–	494,294
Other miscellaneous payables	10,235	371,051	–	–	–	381,286
Total accounts payable and accrued expenses	98,921	2,549,187	–	373,044	–	3,021,152

Capital management

From the sales of its interest in Fotex Optika Kft. in 2005 the Group has significant own cash balance which has been used for the internal financing, as necessary. During 2006 the Group replaced its external bank loans by internal financing. As a consequence on Group level, the financing expenses and risks significantly reduced.

Fair values

At December 31, 2007 and 2006 the carrying amounts of cash and cash equivalents, short-term investments, accounts receivable, 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 2007 Fotex Nyrt. entered into certain transactions and mergers as further described below:

- Dália Kft. merged into Keringatlan Kft. as at February 28, 2007.
- Domus Lác Kft. and Domus IBC Kft. merged into Domus Zrt. as at March 31, 2007.
- Azúr Kft. merged into Keringatlan Kft. as at August 31, 2007.
- Székhely 2007 Kft. demerged from Balaton Bútorgyár Zrt. as at September 30, 2007.
- The Group fully acquired Norba Kft. as at September 30, 2007 for a purchase price of THUF 50,000. The net asset of Norba Kft. was THUF 42,411 respectively at acquisition resulting in goodwill of THUF 7,589.

23. Investments in subsidiaries (continued)

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During 2006 Fotex Nyrt. 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 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 was decreased by 5,543 m² based on mutual agreement from 7,221 m² area to 1,678 m².

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 may be extended with a further five years. The Group decreased the rented area from January 1, 2008 by 2056 m² from 5,374 m² to 3,318 m² rented area.

The rental contract on retail outlets in shopping center “Csepel Plaza” was extended until December, 2010. The contract on the outlet in the shopping center in Pécs was valid till October, 2007 and was not extended. The contracts on the two retail outlets classified as other centers and shops expire in December, 2013 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:

2007	Fotex Plaza	Duna Plaza	MOM Park	Other centers and shops	Total
Operating lease commitment	THUF	THUF	THUF	THUF	THUF
2008	176,989	62,293	167,326	60,625	467,233
2009	–	50,661	172,930	56,948	280,539
2010	–	–	177,747	49,103	226,850
2011	–	–	179,168	46,010	225,178
After	–	–	188,831	91,686	280,517
Total	<u>176,989</u>	<u>112,954</u>	<u>886,002</u>	<u>304,372</u>	<u>1,480,317</u>

Operating lease payments for the year ended December 31, 2007 amounted to THUF 87,956 (December 31, 2006 THUF 318,406) for Duna Plaza, THUF 271,895 (December 31, 2006 THUF 242,426) for "MOM Park" and THUF 17,539 for the other centers and shops (December 31, 2006 THUF 19,228).

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 relevant municipality. During 2006 the Group exercised certain of these rights acquiring certain premises at a total purchase price of THUF 152,311. During 2007 the Group did not exercise any such rights.

25. Contingency

Euler Hermes Magyar Hitelbiztosító Zrt. had 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. In 2007 the legal case ceased as the plaintiff withdrew the suit.

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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:

	2007	2006
	THUF	THUF
Net income attributable to equity holders from continuing operations (THUF)	1,033,628	57,095
Loss attributable to equity holders from discontinued operations (THUF)	(464,236)	(557,381)
Net income / (loss) attributable to shareholders (THUF)	569,392	(500,286)
Weighted average number of shares in issue during the year	69,186,690	69,186,690
Basic earnings per share from continuing operations(HUF)	14.94	0.82
Basic loss per share from discontinued operations(HUF)	(6.71)	(8.06)
Basic earnings / loss per share (HUF)	8.23	(7.23)

The diluted earnings per share agree with basic earnings per share in 2007 and 2006 as there is no dilution effect in these years.

27. Related Party Transactions

Principal related parties

Gábor Várszegi, Chairman of the Board of Fotex Nyrt., 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, 2007, Blackburn controls 16.9% of the Company’s share capital (December 31, 2006, 16.9%), Zurich controls 14.1% (December 31, 2006, 14.1%), Fotex Ingatlan controls 17.6% (December 31, 2006, 17.6%), and Plaza Park 1.6% (December 31, 2006, 1.6%). These companies are considered to be related parties.

Related party rental transactions

In case of Plaza Park office accommodation agreements were modified in December, 2000, and were extended until 31 December, 2011. Based on their options, Fotex Nyrt. 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 Kft. 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. Rental and other related fees paid to Fotex Ingatlan for 2007 were THUF 81,387 (2006: THUF 88,293) and to Plaza Park THUF 212,509 (2006: THUF 242,339).

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27. Related Party Transactions (continued)

2007 transactions

There were no significant related party transactions in 2007.

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.

Compensation of key management personnel of the Group

Management, directors and members of the supervisory board of Fotex Nyrt. received short term employee benefits of THUF 152,961 for 2007 (2006: THUF 101,162).

28. Post Balance Sheet Events

As at January 1, 2008, Fotex Records Kft. merged into Hungaroton Records Kft. As at February 29, 2008, Fotex III. Kft., Fotex Kont. Kft. and Norba Kft. merged into Kontúr Zrt. and DVD Rent Kft. merged into FotexNet Kft. Activities of the merging companies are continued after the mergers.

29. Statement of responsibility

The annual consolidated report of Fotex Nyrt. on the year 2007 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, April 9, 2008

Gábor Várszegi
Chief Executive Officer