

Fotex Nyrt. and Subsidiaries
Consolidated Balance Sheets

		At December 31,	
	Notes	2008	2007
		THUF	THUF
Assets			
Current Assets:			
Cash and short term deposits	5	5,447,642	8,361,373
Other current financial assets	6	130,948	180,683
Accounts receivable and prepayments	7	1,205,477	1,871,417
Income tax receivable		72,418	188,075
Inventories	8	2,352,010	2,639,687
Total current assets		9,208,495	13,241,235
Non Current Assets:			
Property, plant & equipment	9	2,928,700	2,491,522
Investment properties	10	14,697,689	15,105,072
Deferred tax asset	16	84,237	190,835
Intangible assets	11	1,052,955	1,235,681
Other non-current financial assets	6	1,156,848	205,533
Goodwill arising on acquisition	12	2,806,314	2,806,314
Total non current assets		22,726,743	22,034,957
Total assets	18	31,935,238	35,276,192
Liabilities and Shareholders' Equity			
Current Liabilities:			
Provision		104,420	19,374
Accounts payable and accrued expenses	13, 18	2,199,609	2,150,202
Total current liabilities		2,304,029	2,169,576
Non-current Liabilities:			
Deferred tax liability	16	201,871	230,065
Total non-current liabilities		201,871	230,065
Shareholders' Equity:			
Issued capital	14	7,272,365	7,272,365
Additional paid-in capital		8,710,131	8,710,131
Goodwill write-off reserve	14	(577,091)	(663,459)
Retained earnings	14	18,731,978	18,004,521
Treasury shares, at cost	14	(4,717,444)	(461,627)
Equity attributable to equity holders of the parent		29,419,939	32,861,931
Minority interest in consolidated subsidiaries		9,399	14,620
Total shareholders' equity		29,429,338	32,876,551
Total liabilities and shareholders' equity		31,935,238	35,276,192

See accompanying notes to consolidated financial statements.

Fotex Nyrt. and Subsidiaries
Consolidated Statements of Income

	Comment	At December	At December 31, 2007		
		31, 2008	Continuing	Discontinued	Total
		THUF	operations	operations	THUF
Revenue	18	11,157,940	12,586,765	3,074,684	15,661,449
Cost of sales		<u>(3,232,315)</u>	<u>(4,008,039)</u>	<u>(2,475,195)</u>	<u>(6,483,234)</u>
Gross income		7,925,625	8,578,726	599,489	9,178,215
Selling, general and administration expenses	15	(6,789,820)	(7,815,140)	(1,064,778)	(8,879,918)
Interest income		270,402	284,535	1,053	285,588
Interest expense		<u>(1,209)</u>	<u>(4,599)</u>	<u>–</u>	<u>(4,599)</u>
Income / (Loss) before income taxes	18	1,404,998	1,043,522	(464,236)	579,286
Income tax expense	16	<u>(607,574)</u>	<u>(168,637)</u>	<u>–</u>	<u>(168,637)</u>
Net Income / (Loss)		<u>797,424</u>	<u>874,885</u>	<u>(464,236)</u>	<u>410,649</u>
Attributable to:					
Equity holders of the parent		787,309	863,628	(464,236)	399,392
Minority interests		10,115	11,257	–	11,257
Net income / (loss)		<u>797,424</u>	<u>874,885</u>	<u>(464,236)</u>	<u>410,649</u>
Earnings / (Loss) per share (HUF)	22	<u>12.57</u>	<u>12.48</u>	<u>(6.71)</u>	<u>5.77</u>

See accompanying notes to consolidated financial statements.

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

	Share Capital	Additional Paid-in Capital	Goodwill Write-off Reserve	Retained Earnings	Treasury Shares	Total	Minority Interest	Total equity
	THUF	THUF	THUF	THUF	THUF	THUF	THUF	THUF
January 1, 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	–	–	–	399,392	–	399,392	11,257	410,649
Capital increase (Note 14)	200,000	–	–	–	(200,000)	–	–	–
Dividends to minority	–	–	–	–	–	–	(8,825)	(8,825)
Acquisition of minority interest	–	–	–	–	–	–	(5,566)	(5,566)
Amortisation of goodwill write-off reserve (Note 14)	–	–	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>18,004,521</u>	<u>(461,627)</u>	<u>32,861,931</u>	<u>14,620</u>	<u>32,876,551</u>
January 1, 2008	7,272,365	8,710,131	(663,459)	18,004,521	(461,627)	32,861,931	14,620	32,876,551
Net income – 2008	–	–	–	787,309	–	787,309	10,115	797,424
Acquired by senior employees (Note 14)	–	–	–	–	200,000	200,000	–	200,000
Acquisition of treasury shares (Note 14)	–	–	–	–	(4,455,817)	(4,455,817)	–	(4,455,817)
Dividends to minority	–	–	–	–	–	–	(14,313)	(14,313)
Acquisition of minority interest	–	–	–	–	–	–	(100)	(100)
Amortisation of goodwill write-off reserve (Note 14)	–	–	86,368	(86,368)	–	–	–	–
Foreign currency translation	–	–	–	26,516	–	26,516	–	26,516
Other	–	–	–	–	–	–	(923)	(923)
December 31, 2008	<u>7,272,365</u>	<u>8,710,131</u>	<u>(577,091)</u>	<u>18,731,978</u>	<u>(4,717,444)</u>	<u>29,419,939</u>	<u>9,399</u>	<u>29,429,338</u>

See accompanying notes to consolidated financial statements.

Fotex Nyrt. and Subsidiaries
Consolidated Statements of Cash Flows

	Year ended December 31,	
	2008	2007
	<u>THUF</u>	<u>THUF</u>
Operating activities:		
Income before minority interest and income taxes	1,404,998	579,286
Depreciation and amortisation	1,058,021	1,009,778
Impairment of goodwill	–	396,552
Provision	85,046	–
Impairment of intangible fixed assets	194,217	180,000
Retirement of tangible and intangible fixed assets	46,361	36,289
Retirement and provision on inventory, receivables and other investment	261,564	60,503
Income on disposal of fixed assets and intangibles	(44,109)	(25,107)
Income on disposal of other investment	(50)	(54,109)
Interest income	(270,402)	(285,588)
Interest expense	1,209	4,599
Changes in assets and liabilities:		
Accounts receivable and prepayments	788,003	(370,778)
Inventory	74,991	821,027
Accounts payable and accrued expenses	2,470	(641,365)
Cash generated from operations	<u>3,602,319</u>	<u>1,711,087</u>
Interest paid	(1,186)	(4,909)
Income tax paid	(285,717)	(276,227)
Preference dividend paid	(184,313)	–
Net cash flow from operating activities	<u>3,131,103</u>	<u>1,429,951</u>
Investing activities:		
Purchase of tangible and intangible assets	(1,156,255)	(1,552,987)
Sale of tangible and intangible assets	54,696	172,932
Net purchase and sales of state bonds	(654,452)	(262,599)
Interest received	251,602	291,460
Acquisition of subsidiaries net of cash acquired	–	(50,000)
Purchase of shares in subsidiaries from minority shareholders	–	(5,566)
Net cash flows used in investing activities	<u>(1,504,409)</u>	<u>(1,406,760)</u>
Financing activities:		
Loans granted	(84,608)	(208,768)
Acquisition of treasury shares	(4,455,817)	–
Net cash flow used in financing	<u>(4,540,425)</u>	<u>(208,768)</u>
Change in cash and cash equivalents	(2,913,731)	(185,577)
Cash and cash equivalents at beginning of year	<u>8,361,373</u>	<u>8,546,950</u>
Cash and cash equivalents at end of year	<u>5,447,642</u>	<u>8,361,373</u>

See accompanying notes to consolidated financial statements.

Fotex Nyrt. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2008
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>2008</u>	<u>2007</u>
Ajka Kristály Kft. (Ajka)	Crystal manufacturing and retail	100.0	100.0
Balaton Bútor Kft.	Furniture manufacturer (Note 20)	100.0	–
Balaton Bútorgyár Zrt. (Balaton)	Furniture retailing and wholesaling (Note 20)	–	99.9
Balaton Glas Hotel Kft.	Property management	100.0	100.0
Bebufa Kft.	Furniture manufacturer (Note 20)	–	99.9
Domus Zrt.	Property management and furniture retailer	99.4	99.4
Downington Holding S.á.r.l.	Investment holding	100.0	100.0
DVD Rent Kft.	DVD rental and cinema management (Note 20)	–	100.0
Europrizma Kft.	Advertising	100.0	100.0
Europtic Kft.	Advertising	100.0	100.0
Fotex Cosmetics Kft.	Cosmetics retailer	100.0	100.0
Fotex Records Kft.	Property management (Note 20)	–	100.0
Fotexnet Kft.	Internet retail and other services (Note 20)	98.6	98.0
Hungaroton Music Zrt.	Music archive	99.2	99.2
Hungaroton Records Kft.	Music publishing and music retailing	99.8	99.8
Keringatlan Kft.	Property management	100.0	100.0
Kont- Vesz Kft	Property management (Note 20)	100.0	–
Kontúr Zrt.	Property management (Note 20)	99.9	99.9
Norba Kft.	Furniture manufacturer (Note 20)	–	99.8
Primo Zrt.	Clothing retailing and wholesaling	100.0	99.9
Sigma Kft.	Property services	75.1	75.1
Székhely Kft	Property management (Note 20)	99.1	99.8
Upington Investments Ltd.	Investment holding	100.0	100.0

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1. General (continued)

The consolidated financial statements of Fotex Nyrt. and Subsidiaries for the year ended December 31, 2008 were reviewed and authorized for approval on the General Meeting in accordance with a resolution of the directors on March 27, 2009.

2. Significant Accounting Policies

Basis of presentation

The consolidated financial statements have been prepared on a historical cost basis. 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 December 31, 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, revenues and expenses and gains and losses resulting from intra-group transactions that are recognized in assets or liabilities at year end, are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Fotex Nyrt. and Subsidiaries
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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, 2008. 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:

- IFRIC 11 IFRS 2 - Group and Treasury Share Transactions
- IFRIC 12 - Service Concession Arrangements
- IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The principal effects of these changes are as follows:

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 March 1, 2007. The Group has adopted IFRIC Interpretation 11 as of January 1, 2008, 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. The Group amended its accounting policy accordingly. The Group has not issued instruments caught by this interpretation.

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2. Significant Accounting Policies (continued)

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 January 1, 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 has no impact on the Group.

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 January 1, 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 has no defined benefit schemes; therefore the adoption of this interpretation had no impact on the financial position or performance of the Group.

Improvements to IFRSs

In May 2008 the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. Group has early adopted the following amendments to standards:

- IAS 1 Presentation of Financial Statements: Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the balance sheet. The Group amended its accounting policy accordingly and analysed whether Management's expectation of the period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any re-classification of financial instruments between current and non-current in the balance sheet.
- IAS 16 Property, Plant and Equipment: Replace the term "net selling price" with "fair value less costs to sell". The Group amended its accounting policy accordingly, which did not result in any change in the financial position.
- IAS 23 Borrowing Costs: The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one - the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.
- IAS 38 intangible Assets: Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service. This amendment has no impact on the Group because it does not enter into such promotional activities.

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2. Significant Accounting Policies (continued)

Cash and cash equivalents

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

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

Foreign currency translation

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

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.

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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)

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

For arrangements entered into prior to January 1, 2005, the date of inception is deemed to be January 1, 2005 in accordance with the transitional requirements of IFRIC 4.

Group as a lessee:

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

Group as a lessor:

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Financial assets

Initial recognition

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. The Group determines the classification of its financial assets at initial recognition.

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

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loan and other receivables, held to maturity investments.

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2. Significant Accounting Policies (continued)

Financial assets (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the balance sheet at fair value with gains or losses recognised in the income statement.

The Group has not designated any financial assets as at fair value through profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

The Group has no derivative embedded contract as of December 31, 2008 and December 31, 2007.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Gains and losses are recognised in the consolidated income statement when the investments are derecognised or impaired, as well as through the amortisation process. The Group has held-to-maturity investments during the year ended December 31, 2008.

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2. Significant Accounting Policies (continued)

Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the income statement, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the income statement.

Financial liabilities

Initial recognition

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, include directly attributable transaction costs.

The Group's financial liabilities include trade and other payables.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

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2. Significant Accounting Policies (continued)

Financial liabilities (continued)

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by IAS 39.

Gains or losses on liabilities held for trading are recognised in the income statement.

The Group has not designated any financial liabilities as at fair value through profit or loss.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

The Group has no loans and borrowings as of December 31, 2008 and December 31, 2007.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Amortised cost of financial instruments

Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

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2. Significant Accounting Policies (continued)

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Due from loans and advances to customers

For amounts due from loans and advances to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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2. Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Interest and similar income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Derecognition of financial instruments

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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2. Significant Accounting Policies (continued)

Derecognition of financial instruments (continued)

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Provisions

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

Pensions

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

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2. Significant Accounting Policies (continued)

Investment properties

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

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

	Years
Buildings	50

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

Transfers are made to investment properties 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 properties 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 acquirer'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 is incurred.

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

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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 the 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.

Companies – domiciled in Hungary - pay local business tax, to local municipalities -at percentages-based on the physical location of their 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 an income tax expense.

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2. Significant Accounting Policies (continued)

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.

Subsequent Events

Material 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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3. 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 December 31, 2008 is THUF 2,806,314 (2007: THUF 2,806,314). Further details are given in Note 12.

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, 2008 is THUF 1,000,000 (2007: THUF 1,000,000). Further details are given in Note 11.

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 December 31, 2008 was THUF 461,781 (2007: THUF 1,173,350) and the unrecognised tax losses at December 31, 2008 was THUF 714,766 (2007: THUF 1,428,284). Further details are given in Note 16.

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3. Significant accounting judgements, estimates and assumptions (continued)

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 10.

4. Standards issued but not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective for December 2008 year-ends. The Group has not early adopted these standards and interpretations for 2008.

IAS 1 Revised Presentation of Financial Statements

The revised Standard was issued in September 2007 and becomes effective for financial years beginning on or after January 1, 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

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 January 1, 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 January 1, 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation

These amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for financial years beginning on or after January 1, 2009. The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Group, as the Group has not issued such instruments.

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4. Standards issued but not yet effective (continued)

IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after July 1, 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27

Consolidated and Separate Financial Statements

The amendments to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statement. Both revisions will be effective for financial years beginning on or after January 1, 2009. The revision to IAS 27 will have to be applied prospectively. The new requirements affect only the parent's separate financial statement and do not have an impact on the consolidated financial statements.

IFRS 2 Share-based Payment (Revised)

The IASB issued an amendment to IFRS 2 in January 2008 which becomes effective for financial years beginning on or after January 1, 2009. It clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The amendments to the standards will have no impact on the financial position or performance of the Group, as the Group has no such scheme.

IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements The revised standards were issued in January 2008 and become effective for financial years beginning on or after July 1, 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. The changes by IFRS 3R and IAS 27R will affect future acquisitions or loss of control and transactions with minority interests. The standards may be early applied, however, the Group does not intend to apply this possibility.

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4. Standards issued but not yet effective (continued)

IFRS 8 Operating Segments

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

This standard requires disclosure of information about the Group's operating segment and replaces 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.

Improvements to IFRSs

As stated in Note 2 the Group has early adopted some of the amendments to standards following the 2007 'Improvement to IFRSs' project. The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

- IFRS 7 Financial Instruments: Disclosures: Removal of the reference to 'total interest income' as a component of finance costs.
- IAS 8 Accounting Policies, Change in Accounting Estimates and Errors: Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
- IAS 10 Events after the Reporting Period: Clarification that dividends declared after the end of the reporting period are not obligations.
- IAS 16 Property, Plant and Equipment: Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.
- IAS 18 Revenue: Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39.
- IAS 19 Employee Benefits: Revised the definition of 'past service costs', 'return on plan assets' and 'short term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment. Deleted the reference to the recognition of contingent liabilities to ensure consistency with IAS 37.
- IAS 20 Accounting for Government Grants and Disclosures of Government Assistance: Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Also, revised various terms used to be consistent with other IFRS.
- IAS 27 Consolidated and Separate Financial Statements: When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.
- IAS 34 Interim Financial Reporting: Earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33.

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4. Standards issued but not yet effective (continued)

- IAS 36 impairment of Assets: When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. This amendment has no immediate impact on the consolidated financial statements of the Group because the recoverable amount of its cash generating units is currently estimated using 'value in use'.
- IAS 39 Financial Instruments: Recognition and Measurement: Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Removed the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.
- IAS 40 Investment Property: Revision of the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised of the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability.

IFRIC 13 Customer Loyalty Programmes

IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after July 1, 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 15 Agreement for the Construction of Real Estate

IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after January 1, 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 will not have an impact on the consolidated financial statement because the Group does not conduct such activity.

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4. Standards issued but not yet effective (continued)

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after October 1, 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Group is currently assessing which accounting policy to adopt for the recycling on disposal of the net investment.

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.

5. 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 THUF 5,447,642 (2007: THUF 8,361,373).

Cash includes fixed deposits and discounted treasury notes within three months maturity of THUF 3,122,776 (December 31, 2007 5,680,198) at rates ranging from 2% to 8% (2007 3% to 6%). The Company has EUR, USD and HUF deposits. The lower rates are on foreign currencies while the higher ones on HUF.

As at December 31, 2008, the Group has HUF 606 million (December 31, 2007 THUF 115 million) restricted cash as security for rental deposits received. Rental deposits are repayable when the rental agreements terminate.

6. Other financial assets

	2008	2007
	THUF	THUF
Government securities held to maturity	329	33,170
Short term part of long term loan provided to other parties	130,268	147,081
Other short term investments held to maturity	351	432
Total other current financial assets	130,948	180,683

Government securities represent discounted treasury notes over three month maturity.

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6. Other financial assets (continued)

	<u>2008</u>	<u>2007</u>
	THUF	THUF
Held to- maturity investment	687,101	37,205
Loan provided to senior employees	77,000	–
Long term part of loan granted to other parties	<u>392,747</u>	<u>168,328</u>
Total other non current financial assets	<u><u>1,156,848</u></u>	<u><u>205,533</u></u>

Held to -maturity investment

The held to-maturity investment mainly represents the OTP Bonds. The Group holds 5,100 pieces of subordinated OTP Bonds on nominal value of EUR 1,000 per piece. OTP Bonds were purchased by the subsidiary registered in Luxembourg for EUR 2,491,447 on December 1, 2008 and on December 2, 2008. The OTP Bonds were issued at 100% of the face value with September 19, 2006 as payment date, and September 19, 2016 as maturity date. The bond bears a coupon of 5.27%, with annual interest payments on each September 19. The held- to maturity investment in amount of THUF 658,533 is measured at amortised cost using the effective interest rate of 18% as at the end of December 31, 2008. The fair value of the OTP Bonds at December 31, 2008 is THUF 655,930.

Loan provided to senior employees

A loan of HUF 122 million was provided by Fotex Nyrt at market interest rate to certain senior employees. This loan was used by these employees to purchase preference shares as described in Note 14. From the loan THUF 45,000 was reclassified to other financial assets as short term part of the loan.

The long term loan granted to other parties mainly represents the following loans provided by Domus Zrt. to legal entities which took over the discontinued operation of Domus Lánc Kft. in 2007:

There is a THUF 390,469 (December 31, 2007 THUF 261,105) 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 15,187 (December 31, 2007 THUF 2,513). From the loan THUF 55,680 (December 31, 2007 THUF 106,747) was reclassified to other financial assets as short term part of the loan.

There is a THUF 49,583 (December 31, 2007 THUF 30,876) 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 August 31, 2012. The interest income received on the amount was THUF 950 (December 31, 2007 THUF 322). From the loan THUF 12,516 (December 31, 2007 THUF 23,980) was reclassified to other financial assets as short term part of the loan.

There is a THUF 34,144 (December 31, 2007 THUF 18,212) 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 599 (December 31, 2007 THUF 123). From the loan THUF 17,072 (December 31, 2007 THUF 16,354) was reclassified to other financial assets as short term part of the loan.

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7. Accounts Receivable and Prepayments

	2008	2007
	THUF	THUF
Trade receivables	1,026,342	1,236,147
Taxes recoverable	95,759	141,941
Caution paid as part of a tender	–	250,100
Other receivables and prepayments	259,132	401,007
Provision for doubtful debts	(157,564)	(146,340)
Provision for other receivables	(18,192)	(11,438)
Total accounts receivable and prepayments	<u>1,205,477</u>	<u>1,871,417</u>

For terms and conditions relating to related party receivables, refer to Note 23.
Trade receivables are non-interest bearing and are generally on 0-60 days' terms.
Taxes recoverable are generally recovered after a three months period.

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

As at December 31, 2008, trade and other receivables at nominal value of 175,756 THUF (2007: 157,778 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 January 1, 2007	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 December 31, 2007	138,680	19,098	157,778
Charge for the year	46,572	–	46,572
Utilised	(1,044)	–	(1,044)
Unused amounts reversed	<u>(23,608)</u>	<u>(3,942)</u>	<u>(27,550)</u>
At December 31, 2008	<u>160,600</u>	<u>15,156</u>	<u>175,756</u>

As at December 31, 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	
2008	605,223	143,959	64,637	23,440	6,875	24,644	868,778
2007	683,174	258,856	93,415	24,084	19,091	11,187	1,089,807

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8. Inventories

	<u>2008</u>	<u>2007</u>
	THUF	THUF
Products held for resale and finished goods	2,489,378	2,476,459
Raw materials and consumables	417,877	489,716
Work in progress	471,723	498,646
Total inventory	<u>3,378,978</u>	<u>3,464,821</u>
Provision for products held for resale and finished goods	(851,008)	(649,174)
Provision for raw materials and consumables	(105,960)	(105,960)
Provision for work in progress	(70,000)	(70,000)
Provision for inventory	<u>(1,026,968)</u>	<u>(825,134)</u>
Net book value	<u>2,352,010</u>	<u>2,639,687</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 1,026,968 (December 31, 2007: THUF 825,134) is appropriate.

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9. Property, plant and equipment

Movements in property, plant and equipment for the year ended December 31, 2008 were as follows:

	Land, Buildings and Improvements	Furniture, Fixtures and Equipment	Construction in Progress	Total
	THUF	THUF	THUF	THUF
Cost:				
January 1, 2008	1,387,275	5,742,603	364,671	7,494,549
Additions	47,728	235,290	25,362	308,380
Disposals and write downs	–	(406,976)	(1,722)	(408,698)
Transfer from Investment property (note 10)	554,160	–	–	554,160
December 31, 2008	<u>1,989,163</u>	<u>5,570,917</u>	<u>388,311</u>	<u>7,948,391</u>
Depreciation:				
January 1, 2008	(403,095)	(4,599,932)	–	(5,003,027)
Depreciation expense	(54,721)	(299,067)	–	(353,788)
Disposals and write downs	–	343,841	–	343,841
Transfer from Investment property (note 10)	(6,717)	–	–	(6,717)
December 31, 2008	<u>(464,533)</u>	<u>(4,555,158)</u>	<u>–</u>	<u>(5,019,691)</u>
Net book value:				
December 31, 2008	<u>1,524,630</u>	<u>1,015,759</u>	<u>388,311</u>	<u>2,928,700</u>
December 31, 2007	<u>984,180</u>	<u>1,142,671</u>	<u>364,671</u>	<u>2,491,522</u>

As of December 31, 2008 gross value of tangible fixed assets fully depreciated or fully impaired was THUF 2,231,855 (2007: THUF 2,389,803). Carrying amount of temporarily idle tangible assets was THUF 19,635 (2007: THUF 37,521) 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 10 to the Financial Statements.

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9. Property, plant and equipment (continued)

	Land, Buildings and Improvements	Furniture, Fixtures and Equipment	Construction in Progress	Total
	<u>THUF</u>	<u>THUF</u>	<u>THUF</u>	<u>THUF</u>
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 10)	(4,411,575)	–	–	(4,411,575)
December 31, 2007	<u>1,387,275</u>	<u>5,742,603</u>	<u>364,671</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 10)	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>364,671</u>	<u>2,491,522</u>
January 1, 2007	<u>4,229,229</u>	<u>1,044,013</u>	<u>966,539</u>	<u>6,239,781</u>

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10. 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, 2008 were as follows:

	<u>Investment Properties</u>
	THUF
Cost:	
January 1, 2008	18,551,851
Additions	868,655
Disposal	(71,961)
Transfer to Property, Plant and Equipment	(554,160)
December 31, 2008	<u>18,794,385</u>
Depreciation:	
January 1, 2008	(3,446,779)
Depreciation expense	(675,054)
Disposal	18,420
Transfer to Property, Plant and Equipment	6,717
December 31, 2008	<u>(4,096,696)</u>
Net book value:	
December 31, 2008	<u>14,697,689</u>
December 31, 2007	<u>15,105,072</u>

The fair value of real estate which is classified as Investment property as at December 31, 2008 is analysed as follows:

Category	Area m ²	Carrying value THUF	Fair value		
			Low THUF	Medium THUF	High THUF
Retail outlets	145,701	10,312,341	48,006,598	54,442,482	59,928,035
Office	6,552	194,110	763,795	866,191	953,467
Warehouse	97,677	1,000,112	8,077,703	9,160,620	10,083,632
Other buildings	38,992	993,147	1,819,841	2,063,813	2,271,760
Land	658,763	2,197,980	7,654,423	8,680,594	9,555,239
Total investment property	<u>947,685</u>	<u>14,697,689</u>	<u>66,322,360</u>	<u>75,213,700</u>	<u>82,792,133</u>

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10. Investment properties (continued)

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

	<u>Investment Properties</u> <u>THUF</u>
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>
January 1, 2007	<u>10,961,859</u>

The fair value of real estate which was reclassified to Investment property as at December 31, 2007 was analysed as follows:

<u>Category</u>	<u>Area</u> <u>m²</u>	<u>Carrying</u> <u>value</u> <u>THUF</u>	<u>Low</u> <u>THUF</u>	<u>Fair value</u> <u>Medium</u> <u>THUF</u>	<u>High</u> <u>THUF</u>
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>

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 decrease prospectively 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. The average yields of rented out investment properties were estimated based on primary market yields and on the location of the properties. For valuation purposes, unrented investment properties were considered at an EUR 2.77/month rent plus 3% extra margin.

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10. Investment properties (continued)

The fair value of land has been determined based on average market prices and in a value much lower than in the comparable period in view of expected falling market prices due to the current financial crisis. The land underneath the rented buildings amounting to 90,665 m² has not been included in the valuation. The rental fees determined in EUR and converted into HUF on MNB average rate has been considered stable.

Fair values are presented as a range of low, medium and high values. The medium values of rented properties were calculated at a yield range of 7.9%-8.7% (2007: 7.1%) and a recovery period of 11.5-12.5 years (2007: 14 years) as the net present values of future cash flows based on realisable rents identified separately for each of the presented categories. The EUR rental fee has been converted to HUF on the yearly average 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.

In the case of properties held for own use, retail outlets were valued on the same basis as rented investment properties. All other properties were considered on the same basis as unrented investment properties. In the comparable period, the value of these properties was determined 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.

The fair value of real estate which remains categorized as land, buildings and improvements as at December 31, 2008 is analyzed as follows:

Category	Area m ²	Carrying value THUF	Low THUF	Fair value Medium THUF	High THUF
Retail outlets	190	176,032	40,514	45,945	50,575
Office	276	15,921	20,281	23,000	25,317
Warehouse	46	3,393	3,055	3,465	3,814
Other buildings	76,363	1,274,104	5,203,142	5,900,688	6,495,234
Land	215,528	55,180	2,504,303	2,840,036	3,126,195
Total land, buildings and improvements	<u>292,403</u>	<u>1,524,630</u>	<u>7,771,295</u>	<u>8,813,134</u>	<u>9,701,135</u>

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

Category	Area m ²	Carrying value THUF	Low THUF	Fair value 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	<u>255,507</u>	<u>984,180</u>	<u>10,789,522</u>	<u>12,168,194</u>	<u>13,992,790</u>

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11. Intangible Assets

Movements in intangible assets for the year ended December 31, 2008 was as follows:

	Media and merchandising rights	Other	Total
	THUF	THUF	THUF
Cost:			
January 1, 2008	1,834,520	302,850	2,137,370
Additions	–	44,206	44,206
Disposals and write downs	–	(21,534)	(21,534)
December 31, 2008	<u>1,834,520</u>	<u>325,522</u>	<u>2,160,042</u>
Amortisation:			
January 1, 2008	(834,520)	(67,169)	(901,689)
Amortisation expense	–	(29,179)	(29,179)
Impairment	–	(194,217)	(194,217)
Disposals and write downs	–	17,998	17,998
December 31, 2008	<u>(834,520)</u>	<u>(272,567)</u>	<u>(1,107,087)</u>
Net book value:			
December 31, 2008	<u>1,000,000</u>	<u>52,955</u>	<u>1,052,955</u>
December 31, 2007	<u>1,000,000</u>	<u>235,681</u>	<u>1,235,681</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 December 31, 2005 there were no indications of impairment. 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, the impairment of HUF 754 million which had been recorded, in addition to the amortisation of the right up to the change in IAS 38 which ceased the regular amortisation expense of HUF 80 million represents the recoverable value of the right.as of December 31, 2008.

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11. Intangible Assets (continued)

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>
January 1, 2007	<u>1,180,000</u>	<u>271,540</u>	<u>1,451,540</u>

12. Goodwill arising on Acquisition

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

	2008	2007
	THUF	THUF
Cost:		
At January 1	5,567,224	5,525,120
Addition	–	42,104
Disposal	–	–
At December 31	<u>5,567,224</u>	<u>5,567,224</u>
Amortisation and Impairment		
At January 1	(2,760,910)	(2,364,358)
Impairment charge for the year	–	(396,552)
At December 31	<u>(2,760,910)</u>	<u>(2,760,910)</u>
Net book value		
At January 1	<u>2,806,314</u>	<u>3,160,762</u>
At December 31	<u>2,806,314</u>	<u>2,806,314</u>

At year end management reviewed goodwill carried in the books for impairment and considered that no further impairment is necessary.

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13. Accounts payable and accrued expenses

	<u>2008</u>	<u>2007</u>
	THUF	THUF
Trade payables	605,059	583,141
Taxes payable (excluding income taxes)	239,233	219,187
Advances from customers	7,401	25,369
Accrued expenses	265,532	268,467
Deferred rental income	172,000	24,695
Declared dividend in connection with management incentive preference share scheme (Note 14)	46,500	170,000
Payable to employees	60,823	101,781
Deposit received for rental	663,645	530,667
Other miscellaneous payables	139,416	226,895
Total accounts payable and accrued expenses	<u>2,199,609</u>	<u>2,150,202</u>

Terms and conditions of the above financial liabilities:

Trade payables are non-interest bearing and are normally settled on 20-30 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.

14. Issued capital and reserves

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, 2008 the Company's issued share capital consists of 72,723,650 shares (December 31, 2007: 72,723,650 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 below.

Of the issued shares, 10,113,269 shares costing THUF 4,717,444 (December 31, 2007, 3,536,960 shares costing THUF 461,627) are held as treasury shares. During 2008 the company purchased 8,576,309 shares for THUF 4,455,817 on market value and sold 2,000,000 dividend preference shares to employees as part of preference share scheme for THUF 200,000.

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14. Issued capital and reserves (continued)

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 determination and approval of the amount of the preference dividend payable is to the authority of the annual general meeting of the Company.

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 had been presented as treasury shares as none of the share was allocated to senior employees. On April 28, 2008 dividend preference shares were purchased by senior employees on par value from the loan provided by Fotex Nyrt. at market interest rate (refer Note 6). According to the decision of the General Meeting in 2008 preference dividend of HUF 85 per share was paid on each dividend preference share in 2008 in amount of HUF HUF 170 million. This preference dividend to the management was disclosed as personnel expense in the financial statements at 2007. The payment of the preference dividend did not generate any additional tax liability for the Group.

The Board of Directors suggested HUF 46.5 million dividend for the dividend preference share for the approval of the forthcoming shareholder's meeting.

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 24 years. This amount is not shown as an asset, rather as a deduction from shareholders' equity in these financial statements.

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14. Issued capital and reserves (continued)

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, 2008 amount to THUF 742,523 (December 31, 2007 THUF 2,141,878).

15. Selling, General and Administration Expenses

	December 31, 2008		December 31, 2007	
	Continuing operations THUF	Continuing operations THUF	Discontinued operations THUF	Total THUF
Personnel expense	2,548,293	3,029,916	494,895	3,524,811
Material type costs	2,342,738	2,255,347	553,635	2,808,982
Other expenses	840,768	1,524,049	12,298	1,536,347
Depreciation and amortization	1,058,021	1,005,828	3,950	1,009,778
Total selling, general and administration expenses	6,789,820	7,815,140	1,064,778	8,879,918

Major element among "Other expenses"

	2008 THUF	2007 THUF
Impairment of Goodwill (Note 12)	–	(396,552)
Impairment of intangibles (Note 11)	(194,217)	(180,000)
Impairment on Inventories (Note 8)	(212,686)	(71,360)
Impairment on Trade Receivables (Note 7)	(46,572)	(19,044)
Realised foreign exchange loss net	53,295	(77,491)
Unrealised foreign exchange gain /(loss) net	87,084	(39,500)
Tax expenses (mainly building tax)	(270,669)	(247,706)
Indemnity payment	–	(190,000)
Other expenses	(257,003)	(314,694)
Total "Other expenses"	(840,768)	(1,536,347)

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16. Income Taxes

	2008	2007
	THUF	THUF
Current income tax expense	529,170	273,637
Deferred income tax	78,404	(105,000)
Income tax expense	<u>607,574</u>	<u>168,637</u>

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

	2008	2007
	THUF	THUF
Income before minority interest and income taxes	<u>1,404,998</u>	<u>579,286</u>
Tax at statutory rate of 16%	224,800	92,686
Effect of tax losses for which no corresponding deferred tax asset recognized	303,034	202,680
Effect of tax losses from previous periods for which corresponding deferred tax asset recognized for the first time in the current period.	–	(152,623)
Utilisation of previously unrecognized tax losses	–	–
Differences arising from Cyprus and Luxembourg tax rates	(57,127)	(35,860)
Non deductible expense	(155,411)	(190,873)
Adjustments in respect to current income tax of previous years	20,407	–
Solidarity tax at statutory rate of 4%	92,698	58,036
Local business tax	160,530	177,102
Innovation tax	18,643	17,489
Income tax expense	<u>607,574</u>	<u>168,637</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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16. Income Taxes (continued)

Deferred tax assets and deferred tax liabilities at December 31, 2008 and 2007 are attributable to the items detailed in the tables below:

	Consolidated balance sheet		Consolidated income statement	
	2008	2007	2008	2007
	THUF	THUF	THUF	THUF
Deferred income tax liabilities				
Accelerated depreciation for tax purposes	(136,156)	(129,587)	(6,569)	(9,026)
Eliminated intercompany transactions	(26,848)	(31,556)	4,707	4,183
Capitalisations of small value assets	(38,867)	(30,079)	(8,787)	(11,251)
Fair value adjustments on acquisition	–	(38,843)	38,843	3,532
Gross deferred income tax liabilities	(201,871)	(230,065)	28,194	(12,562)
Deferred income tax assets				
Provisions	10,352	3,099	7,253	(35,061)
Tax losses carried forward	73,885	187,736	(113,851)	152,623
Gross deferred income tax assets	84,237	190,835	(106,598)	117,562
Deferred income tax			(78,404)	105,000
Net deferred income tax liability	(117,634)	(39,230)		

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	1,004,823
2009	143,780
2010	10,887
2011	6,193
2012	10,864
Total	<u>1,176,547</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.

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17. Discontinued operations

In 2007 the Company took a strategic decision to exit the furniture retail operation performed by Domus Lánc Kft. As a result on March 31st, 2007 Domus Lánc Kft. merged into Domus Zrt. After the merger Domus Lánc 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 Lánc Kft. The three entities also had an obligation for the purchase of the inventory owned by Domus Zrt. as of December 31, 2007. As Domus Lánc 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 Lánc Kft. included in the consolidated balance sheet as set out in the table below.

	<u>2007</u> THUF
Net assets disposed of:	
Cash	–
Accounts receivable and prepayments	151,773
Inventory	209,650
Fixed assets	–
Accounts payable and accrued expenses	–
	<u>361,423</u>

The account receivable and prepayments represented receivable from the three entities which acquired Domus Lánc Kft. inventories. The inventory represented those items which were sold to these three entities under a sales commission agreement.

18. Segment Information

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).

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18. Segment Information (continued)

Revenue (a):	2008	2008	2008	2007	2007	2007
	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	1,198,198	53,000	1,251,198	1,226,482	75,439	1,301,921
Investment property	5,406,916	395,820	5,802,736	5,158,670	449,550	5,608,220
Electrical, household goods and cosmetics	504,858	506	505,364	628,858	6,159	635,017
Crystal and glass	1,837,359	5,669	1,843,028	2,895,449	8,195	2,903,645
Music	874,642	40,413	915,055	973,814	3,175	976,989
Clothing	377,408	0	377,408	478,214	–	478,214
Advertising	34,591	134,165	168,756	27,735	62,813	90,548
Corporate and other	923,968	403,841	1,327,809	1,197,543	574,871	1,772,414
Inter-segment elimination		(1,033,414)	(1,033,414)	–	(1,180,203)	(1,180,203)
Revenue from continued operations	11,157,940	–	11,157,940	12,586,765	–	12,586,765
Revenue from discontinued furniture operations (Note 17)	–	–	–	3,074,684	–	3,074,684
Revenue from operations	11,157,940	–	11,157,940	15,661,449	–	15,661,449

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 before tax:	2008	2007
	THUF	THUF
Furniture	(167,809)	104,457
Investment property	2,593,365	1,816,835
Electrical, household goods and cosmetics	(24,409)	21,272
Crystal and glass	(501,914)	(470,005)
Music	(140,887)	(101,203)
Clothing	41,639	39,976
Advertising	8,218	(1,613)
Corporate and other	(403,205)	(366,197)
Net income before tax from continued operations	1,404,998	1,043,522
Net loss from discontinued furniture operations (Note 17)	–	(464,236)
Net income relating from operations	1,404,998	579,286

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18. Segment Information (continued)

Total Assets:	2008	2008	2008	2007	2007	2007
	Assets external THUF	Assets inter-segment THUF	Assets THUF	Assets external THUF	Assets inter-segment THUF	Assets THUF
Furniture	1,029,753	16,543	1,046,296	1,000,929	33,635	1,034,564
Investment property	18,001,339	170,116	18,171,455	17,543,035	33,824	17,576,859
Electrical, household goods and cosmetics	642,873	2,008	644,881	935,852	4,262	940,114
Crystal and glass	2,634,667	89	2,634,756	2,836,341	1,955	2,838,296
Music	551,088	152	551,240	832,347	99	832,446
Clothing	530,788	151,719	682,507	744,244	1,000	745,244
Advertising	114,574	3,818	118,392	187,230	9,193	196,423
Corporate and other	8,430,156	1,499,605	9,929,761	11,196,214	1,594,120	12,790,334
Inter-segment elimination		(1,844,050)	(1,844,050)	–	(1,678,088)	(1,678,088)
Total assets	<u>31,935,238</u>	<u>–</u>	<u>31,935,238</u>	<u>35,276,192</u>	<u>–</u>	<u>35,276,192</u>
	2008	2008	2008	2007	2007	2007
Liabilities:	Liabilities external THUF	Liabilities inter-segment THUF	Liabilities THUF	Liabilities external THUF	Liabilities inter-segment THUF	Liabilities THUF
Furniture	116,307	8,079	124,386	174,418	69,533	243,951
Investment property	954,396	330,855	1,285,251	678,276	607,526	1,285,802
Electrical, household goods and cosmetics	108,995	18,963	127,958	120,441	32,222	152,663
Crystal and glass	365,082	1,424,539	1,789,621	298,188	1,069,184	1,367,372
Music	91,596	16,549	108,145	173,976	220,250	394,226
Clothing	36,909	3,114	40,023	40,848	2,520	43,368
Advertising	59,960	15,783	75,743	62,879	15,063	77,942
Corporate and other	772,655	158,838	931,493	850,615	-39,252	811,363
Inter-segment elimination		(1,976,720)	(1,976,720)		(1,977,046)	(1,977,046)
Liabilities	<u>2,505,900</u>	<u>–</u>	<u>2,505,900</u>	<u>2,399,641</u>	<u>–</u>	<u>2,399,641</u>

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18. Segment Information (continued)

Capital expenditure:	2008	2007
	THUF	THUF
Furniture	36,281	174,548
Investment property	1,023,371	1,079,743
Electrical, household goods and cosmetics	46,715	29,552
Crystal and glass	50,976	96,411
Music	4,370	31,284
Clothing	428	1,678
Advertising	1,374	448
Corporate and other	57,725	101,797
Capital expenditure	<u>1,221,241</u>	<u>1,515,462</u>
Depreciation and amortisation:	2008	2007
	THUF	THUF
Furniture	38,485	49,204
Investment property	776,500	639,301
Electrical, household goods and cosmetics	27,897	32,696
Crystal and glass	117,675	165,163
Music	14,950	40,987
Clothing	4,322	5,723
Advertising	1,191	2,041
Corporate and other	77,001	74,663
Depreciation and amortization	<u>1,058,021</u>	<u>1,009,778</u>

19. 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 and 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, 2008.

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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19. Financial risk management objectives and policies (continued)

Asset risk

Management is reviewing its strategy relating to its investment in Ajka in view of the losses experienced in that company. Whatever the ultimate strategy of the group will be management believes that it will recover the value of the assets presently in use.

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 17% 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.

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19. Financial risk management objectives and policies (continued)

Currency risk (continued)

Management presents below the impact of EUR rate fluctuations on export sales and thus on the Group's pre-tax profit (all other variables are considered constant):

		Increase/decrease in EUR rate	Effect on profit before tax
			THUF
2008		+5%	95,172
		-5%	(90,640)
2007		+5%	119,906
		-5%	(125,909)

According to management, the real threat to the profits of subsidiaries affected by foreign exchange risks is posed by changes in market demand (reflected in the number or orders) in line with global market tendencies rather than on foreign exchange rate fluctuations.

The Group holds significant amounts in foreign currencies which are exposed to EUR rate fluctuations as follows:

		Increase/decrease in EUR rate	Effect on cash and cash equivalents
			THUF
2008		+5%	149,418
		-5%	(142,303)
2007		+5%	304,104
		-5%	(289,462)

Credit risk

Credit risk is decreased via the dispersion across the customer base. 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

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19. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities at December 31, 2008 and December 31, 2007 based on contractual undiscounted payments.

Year ended December 31, 2008	On demand	Less than 3 months	3 to 12 months	1 to 5 years	>5 years	Total
	THUF	THUF	THUF	THUF	THUF	THUF
Trade payables	181,028	401,736	10,022	12,273	–	605,059
Taxes payable (excluding income taxes)	66,491	170,616	2,126	–	–	239,233
Advances from customers	–	7,401	–	–	–	7,401
Accrued expenses	13,488	227,290	15,504	9,250	–	265,532
Deferred rental income	–	172,000	–	–	–	172,000
Declared dividend in connection with management incentive preference share scheme (Note 14)	–	46,500	–	–	–	46,500
Payable to employees	162	60,661	–	–	–	60,823
Deposit received for rental	–	7,308	27,491	619,657	9,189	663,645
Other miscellaneous payables	886	31,183	102,220	5,127	–	139,416
Total accounts payable and accrued expenses	262,055	1,124,695	157,363	646,307	9,189	2,199,609

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19. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Year ended December 31, 2007	On demand	Less than 3 months	3 to 12 months	1 to 5 years	>5 years	Total
	THUF	THUF	THUF	THUF	THUF	THUF
Trade payables	82,668	500,473	–	–	–	583,141
Taxes payable (excluding income taxes)	–	219,187	–	–	–	219,187
Advances from customers	–	25,369	–	–	–	25,369
Accrued expenses	–	254,241	–	14,226	–	268,467
Deferred rental income	–	24,695	–	–	–	24,695
Declared dividend in connection with management incentive preference share scheme (Note 14)	–	170,000	–	–	–	170,000
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	1,481,835	–	585,699	–	2,150,202

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, 2008 and 2007 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.

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20. Investments in subsidiaries

During 2008 Fotex Nyrt. entered into certain transactions and mergers as further described below:

- DVD Rent Kft. merged into Fotexnet Kft. as at February 29, 2008.
- Fotex III Kft, Fotex Kont Kft and Norba Kft. merged into Kontúr Zrt. at February 29, 2008. Fotex III Kft. and Fotex Kont Kft was not consolidated subsidiary of Fotex Nyrt before merger
- Kont –Vesz Kft. demerged from Székhely Kft. at July 31, 2008
- Bebufa Kft and Balaton Bútorgyár Zrt. merged at December 15, 2008. The name of the new company is Balaton Bútor Kft.
- Fotex Records Kft. merged into Hungaroton Records Kft. at January 1, 2008
- The General Meetings of Fotex Nyrt. hold on September 26 and December 9, 2008 Fotex Nyrt. decided to transfer the company into European Incorporation from January 1, 2009. According to the decision of General Meeting Fotex Első Amerikai-Magyar Vagyonkezelő Nyilvánosan Működő Részvénytársaság was deleted by the Court of Registration at December 31, 2008. According to the declaration of Court of Registration dated on January 9, 2009 Fotex Holding SE Public Company Limited by Shares was registered on December 31, 2008. The consolidated financial statement of Fotex Nyrt includes every transaction of the entities for 2008.

Entities included in the above mentioned mergers are continuing there activities after the mergers.

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 Lánc 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.

21. Operating Leases

The Group leases retail sites within shopping centers “Duna Plaza”, “MOM Park” and “Csepel Plaza” located in Budapest and at four 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. In 2008 the Group decreased the rented area by 180 m² from 1,687 to 1,498.

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21. Operating Leases (continued)

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 2,056 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 four retail outlets classified as other centers and shops expire in December 2010, November and December 2013 and in February, 2016.

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 23. At present the Group is committed to pay the following minimum rentals:

2008	Fotex Plaza	Duna Plaza	MOM Park	Other centers and shops	Total
Operating lease commitment	THUF	THUF	THUF	THUF	THUF
2009	175,862	43,119	187,259	61,578	467,818
2010	–	–	194,373	62,699	257,072
2011	–	–	201,815	54,871	256,686
2012	–	–	209,586	58,135	267,721
After	–	–	156,473	769,841	926,314
Total	<u>175,862</u>	<u>43,119</u>	<u>949,506</u>	<u>1,007,124</u>	<u>2,175,611</u>

Operating lease payments for the year ended December 31, 2008 amounted to THUF 58,714 (December 31, 2007 THUF 87,956) for Duna Plaza, THUF 168,903 (December 31, 2007 THUF 271,895) for “MOM Park” and THUF 61,324 for the other centers and shops (December 31, 2007 THUF 17,539).

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 2007 and 2008 the Group did not exercise any such rights.

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22. 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.

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:

	2008 THUF	2007 THUF
Net income attributable to equity holders from continuing operations (THUF)	787,309	863,628
Loss attributable to equity holders from discontinued operations (THUF)	–	(464,236)
Net income attributable to shareholders (THUF)	787,309	399,392
Weighted average number of shares in issue during the year	62,610,381	69,186,690
Basic earnings per share from continuing operations(HUF)	12.57	12.48
Basic loss per share from discontinued operations(HUF)	–	(6.71)
Basic earnings per share (HUF)	12.57	5.77

The diluted earnings per share agree with basic earnings per share in 2008 and 2007 as there is no dilution effect in these years.

23. 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, 2008, Blackburn controls 16.9% of the Company’s share capital (December 31, 2007, 16.9%), Zurich controls 14.1% (December 31, 2007, 14.1%), Fotex Ingatlan controls 17.6% (December 31, 2007, 17.6%), and Plaza Park 1.6% (December 31, 2007, 1.6%). These companies are considered to be related parties.

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23. Related Party Transactions (continued)

Related party rental transactions

In case of Plaza Park office accommodation agreements were modified in December, 2000, and were extended until December 31, 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 2008 were THUF 84,768 (2007: THUF 81,387) and to Plaza Park THUF 214,509 (2007: THUF 212,509).

Other related party transactions

There were no significant other related party transactions neither in 2007 nor in 2008.

Compensation of key management personnel of the Group

Management, directors and members of the supervisory board of Fotex Group received short term employee benefits of THUF 254,422 for 2008, which will increase by THUF 46,500 dividend according to the decision of the General Meeting (2007: THUF 397,663).

24. Statement of responsibility

The annual consolidated report of Fotex Nyrt. on the year 2008 contains true data and statements and it does not conceal any facts that are important for the assessment of the Company's position. The issuer is liable for damages as per Article 55. section (1) of the law on capital markets.

Budapest, March 27, 2009

Gábor Várszegi
Chief Executive Officer