

**Fotex First American-Hungarian Holding plc.**  
**Quarterly Report for January-March 2007.**

The quarterly report for the period of January till March 2007 of the Fotex Group's activities has been prepared in compliance with the IFRS regulations. Data contained herein is consolidated, but it is un-audited.

Compared to the reference period the scope of companies included in the consolidated group have changed to a considerable extent. The scope of consolidation has been extended by the addition of Downington Srl., a Luxembourg-based subsidiary formed in the second quarter of the reference year. As part of restructuring within the Group the AZÚR Ingatlanhasznosító Kft. ("AZÚR" Real Estate Management llc.) -shown in the reference year's first quarter as an independent subsidiary company merged into the AZÚR ZRt. and both the KONTÚR Lakásfelszerelési Kft. ("KONTÚR" Home Decoration llc.) and the KONTÚR Papír Kft. merged into the KONTÚR ZRt., while - in the fourth quarter - the Fotex-2000 Kft. merged into the Keringatlan Kft.. On February 28 of the accounting period the DÁLIA Kft. merged into the KONTÚR Kft. A separate chart presents the companies drawn into the consolidation and our consolidated share proportion in said companies. The ratio of Holdings and Votes might differ due to cross-shareholdings through the subsidiaries.

The structural and functional changes commenced years ago have continued during the accounting period. In the course of said changes the Group gradually abandons its conventional trading/retailing activities and channels its resources into more effectively functioning activities. In rationalizing the Group's business activities and organization we concentrated on separating the real estate management activities from our core business and moving these tasks into clean-profiled companies set-up on a regional basis or on the basis of some other specific aspect. Along with phasing out certain trading and service activities (photo, optics, telecom, cosmetics, technical articles) we at the same time placed more impetus on real estate management and development conducted in connection with real estate held by the Group.

As of the accounting period's last day the furniture trading sector - which gradually trimmed down its turnover - has also been merged into the parent company, the DOMUS NyRt. In our planning the reorganization of all conventional trading activities - by way of restructuring the DOMUS Group - shall be largely completed during this year. Separating the activities conducted by the Group's production sector as well as its real estate maintenance and management units from the core activity sector is a task to be accomplished during the accounting year.

Said reorganization includes the dissolution, or the splitting-up or an amalgamation of certain companies, while some companies may be sold or - if the market is favourable - may be acquired. In the course of the reorganization in progress the Group assumes the transitory costs occurring additionally upon such measures of restructuring/refurbishing or shall accept the reducing effects on profitability, while sufficient attention shall be paid to optimizing the extent of losses inevitably inherent in such changes.

### ***I. Production and turnover data***

#### ***Income (revenue from sales)***

The Fotex Group's net revenue from sales amounted to 78.6 % of the reference period. Revenue from exports amounted to 101.8 % and the consolidated domestic turnover amounted to 73.9 % in comparison to the reference period.

The developments indicated above in the Group's revenue from sales have been brought along - in addition to changes in market trends - by phasing out the photo and telecom

business after the reference period and by closing shops in the furniture, home decoration, and cosmetics sector.

On the Group level, and compared to the reference period's data, production output fell by 8.5 %, the revenue from sales in the retailing and wholesale sector fell as planned, and revenue from other core activities grew by 3.4 %.

The scope of Group companies engaged in **production activities** did not change in relation to the reference basis. Their total revenue from sales at current prices fell by 8.5 % when compared to the reference period. In our Group two companies are engaged in manufacturing, the Ajka Kristály Kft. ("Ajka" Crystals llc.) and the Bebufa Kft. which manufactures furniture and supplies merchandise to the Balaton Bútorgyár Zrt. ("Balaton" Furniture Works plc.). Ajka Kristály's revenue from sales fell back by 1.5 % against that of the reference period. The net revenue from sales realized on sales to non-Group entities by the Group's furniture manufacturing/trading division fell back by 20.4 % against the volume recorded for the same period in the previous year. The net domestic revenue from sales of our companies engaged in production activities the drop amounted to 41.6 % while there was a 6.1 % increase in the export revenue from sales. Changes both in domestic and export sales have been brought along to a larger extent by output developments in furniture manufacturing. Our company engaged in glassware manufacturing encountered a slight drop in domestic sales while the exported volume was close to the level of the reference basis.

In pursuing the Group's new concepts we are gradually giving up all trading/retailing activities. In this respect we divested our share interest in a music wholesale company which previously realized a large turnover volume (i.e. selling the interest in Gong Express Kft.) and sold the Telecom Agency Network, while, in a later course, we dissolved the technical merchandise wholesale and retail sector (i.e. the owner's resolution on dissolving the activities of KERAVILL Rt.) and sold optics business sector (by selling our interest in F-O Optika Fotó Kft.) as well as the stationary retail business (by selling a considerable portion of the retail chain run by KONTÚR Papír Kft.); a part of the cosmetics and Telecom retail shops has been sold in the first half of the reference year (i.e. selling a significant portion of the retail chains of AZÚR Rt. and of Fotex-2000 Kft.), and after the DOMUS NyRt. has been delisted from the stock exchange we started with transforming the business profile in the furniture trading division. In January in the reference period we also disposed of the retail activities in photo services and photo articles. The real estate objects made vacant in the course of reducing the volume of commerce have been leased to non-Group partners.

The share of revenue from commercial activities in the Group's recorded trading volume is gradually diminishing. In accordance with the change in business concept the share of these activities within total revenue amounts to 27.2 % (the basis was 40.9 %). In line with the Group's intentions this tendency is expected to continue in the future.

The Group's **retail trade turnover** dropped near to half of the previous period. The decrease in retail turnover is due to an intended retreat in this segment as has been decided earlier. During the reference year our company closed down its less profitable units in the music and home decoration sector. Most shops in the telecom and cosmetics sectors have been sold. Shops of these two business divisions that could not be sold together with operation license have been utilized by way of renting out.

The retail trading volume in the Group's furniture division dropped by approx. 30 %, mainly due to loss in the turnover of units closed down in connection with business profile changes and subrented to outside partners. The retail volume in the cosmetics and home decoration division has been determined by the fact that from a substantial portion of the shops of AZÚR

ZRt. the lease rights and the stock of merchandise have been sold during the reference year. As of the closing day of this accounting period there were only 5 operating retail units in the home decoration and cosmetics division, of which three shops serving a discriminating clientele are specialized in distributing selective and semi-selective cosmetics products (the Fotex Cosmetics chain) and only two shops offer the conventional AZÚR assortment of goods. The 15.7 % drop in garment retailing may be attributed to market shyness experienced during the first two months of the year; since March we are now witnessing a steadily growing sales volume. The KONTÚR Lakásfelszerelési Kft. that merged into the KONTÚR ZRt. during the reference year gradually abandoned its retailing activities the revenue from which appears anyhow in the KONTÚR ZRt. that emerged after said merger. The shops closed down are utilized by renting out. The photo retailing and services activities have been abandoned in January during the reference period.

The Group's **turnover in wholesale activities** has a marginally small volume, accounting only for 4.2 % of total trading turnover. In recent years the wholesale trading agency activities had been left behind and now only self-manufactured products (garment, music media) are traded wholesale by the Group.

Revenue from garment wholesale activities grew during the reference period while revenue from exports to the Russian market could not be kept up during accounting period, the revenue from said export sales fell by more than a third. The domestic wholesale activities fell during the accounting period even further, by - 44.7 %. A smaller rate of decrease was present in the wholesale volume of music media. This line of business had realized a rather high revenue from exports, due to initial buy-ins of dealers who started to operate during the reference year and such growth just could not be repeated during the reference period. Due to said drop in exports and in spite of a 10 % growth in domestic wholesale activities, wholesale volume, on the whole, fell back by 7.5 %. During the reference period our cosmetics wholesale line had been phased out as in January the Fotex Cosmetics Kft. finished its wholesale activities.

The share of revenue from the **other core activities** within overall total revenue is steadily growing, which applies in particular to revenue realized in connection with real estate management. Revenue from real estate management, real estate leasing and rent-out, music publishing, and from advertisements are included here, as well as revenue from sales via the Internet, from the leasing of DVD to the public, as well as from ticket and cafeteria sales in the newly opened movie theater. The Group's revenue from leasing fees grew considerably to surpass the reference period, due to growth both in real estate lease volume and in the level of leasing fees. The Group's revenue realized directly in connection with real estate management accounts for more than a quarter of overall total revenue during the reference period, and for over a third in the accounting period.

## **II. Margins**

The Group's total gross volume in margins decreased by HUF 127.9 million (5.9 %) as compared to the reference year's corresponding period. The decrease in gross margins volume was the result of a 21.4 % drop in trading volume and of a 9.4 % rise in the backing level. The volume of margins fell by HUF 463.9 million, due to the decline that occurred in trading volume, which was partially offset by a fall of HUF 336.0 million in sales operating costs, which fell more sharply than the trading volume and thus led to an increase in backing level.

During the accounting period the backing level in each of the core business activities has shown growth: 0.7 % in the retailing sector, 7.9 % in wholesale activities, and 6.4. % in the production segment.

The change in backing level during the accounting period benefited from a change in the ratio of other business activities within the net revenue from sales which in comparison to the reference period grew by 10.5 %, due to a narrowing-down in the commercial activities of the Group and to an increase in revenue from such activities.

### ***III. Position of the Group's companies***

When compared to the reference period, the total net revenue from sales of **AJKA Kristály Kft.** fell during the accounting period by 1.5 %. The revenue from exports, expressed in HUF, remained at the reference level, in spite of unfavorable changes in the rate of exchange, while the domestic sales fell by 11.9 %. The share of revenue from exports amounts to 90.0 % of total net revenue from sales. During the reference year this company accomplished a rationalization of resources/capacities. In addition to reviewing and updating the range of products it optimized its capabilities, also by duly considering not only the demands profile of the existing and potential customers but also their solvency. The revenue from exports - which realized at the reference level - has been achieved with a reduced number of customers. The capabilities were specifically dedicated to satisfying market demand supported by good customer solvency and a sufficient-rated margin at a particularly high level of service quality. Within the range of products the share of merchandise carrying a lower rate of margins has been reduced. Manufacturing of low-priced luxury articles has been discontinued and the company turned to producing higher-priced premium luxury items. The family of customers now includes world-famed firms like William Yeoward, Fabergé, Waterford, Tiffany, Calvin Klein, etc. who play dominating roles in the distribution of AJKA glassware in the premium luxury category. This company operated also during the accounting period at a considerable loss, but its losses could be reduced by half, compared to the reference period. Losses were largely due to extensive relocations of demand on the market. The outcome of said market changes is that customers tend to order regularly smaller series. While during the reference period the average number of items ordered per one product was for decorative products 73, for cups and goblets 195, the average size of serial production runs dropped for the accounting period to 51 and 147, respectively. Such dwindling of the production routine leads to a significant deterioration in efficiency. Production in smaller series requires more frequent retooling and restarts which inevitably results in a higher rate of refuse and an increase in idle time, thus finally in considerable additional costs. During the previous period AJKA Kft. rationalized its production capacities and in this connection reduced its staff, and - compared to the reference period - now the average number of staff is reduced by 142 members. The company's liquidity could not be improved. The balance sheet value of own production on stock increased against the reference period, in spite of value losses that became effective as of the end of 2006. The volume on stock had been adversely influenced by lesser-volume series ordered, due to additionally manufactured pieces necessary to ensure safe delivery in the case of smaller series. With regard to financing the company, in March of the reference year, made arrangements for inter-Group financing. By using funds received from within the Group the company repaid its bank loans. Its liquidity can be maintained only by drawing on loans made available within the Group.

The Group's **furniture production** is run by Bebufa Kft., a company formed in 2005 in the course of outsourcing the production activities of Balaton Bútorgyár ZRt.. Parts of the production facilities formerly owned by the Group have been disposed of (DÁLIA Kft.) or have been separated from Balaton Bútorgyár ZRt. in the course of production profile rationalization. In 2004 production activities of **DÁLIA Bútorgyár Kft.**, which previously manufactured mainly kitchen furniture, have been closed down by a shareowner's resolution. After production has stopped in this Kft. its machinery and other production equipment, as well as any finished products in stock have been sold out or shifted to Bebufa Kft. as capital contribution in kind. Any other assets held but not rated as furniture production asset - such as in particular its own real estate object served by a full-scale infrastructure and situated along a

frequented national highway - are utilized by way of renting out. As of February 28 this company merged into the KONTÚR ZRt., the majority of which is owned by the Group and which is engaged in real estate management.

Manufacturing activities to produce merchandise to be traded by **Balaton Bútorgyár ZRt.** are now (since September 1, 2005) conducted by Bebufa Kft. Bebufa Kft. does not conduct trading activities on its own, its entire production output being sold both on the domestic and on foreign markets by Balaton Bútorgyár ZRt.. This ZRt. - in addition to performing any and all chores of foreign trading - is also engaged in real estate management and utilization. This latter type of business shall be outsourced as part of profile rationalization and the activities of the ZRt. shall be restricted to trading and commerce. Real estate management shall be shifted to the KONTÚR ZRt., specialized for this segment, which shall start operations after the transformation of the companies concerned. During the reference period the Balaton Bútorgyár ZRt. erected a new 3100 sq.m. production hall on its own land situated in a non-urban environment which shall provide space for furniture parts production and - in its two-storey wing - for offices. This capital investment had been financed by funds made available within the Group. With putting into operation of this facility the entire production technology for furniture production could be accommodated on one site, thus reducing the costs associated with the former production on two separate sites. Thus, the prime manufacturing costs could be reduced and the company's products were made more attractive for the market. By commissioning of said new production hall they freed the former site with superstructure facilities located in downtown Veszprém city - till then used as offices and for production - which real estate with its prime use area of 20,000 sq.m. may well be of commercial interest. The consolidated revenue from sales of Balaton Bútorgyár ZRt. during the accounting period decreased by 20.4 %, and its revenue from sales before consolidation by 17.7 % against the same period in the previous year. The decline was largely felt on the public sector procurement area but also the sales volume in the Company's own shops went down. On the domestic market restrictions imposed by the state budget, along with recurring uncertainty associated with it and with the number of supplier competitors on this market being doubled, this Company's established market position weakened further. Domestic sales to resellers and by owned reference shops decreased slightly when compared to the reference basis. In realizing revenue from domestic sales tendering for projects lying outside the government sector such as hotel refurbishings and other construction objects becomes increasingly dominant, though such jobs involve individually run production processes. Both the volume and value of exports increased sharply (by 32.8 %), mainly due to new models successfully introduced to the Norwegian market at the end of last year. A good volume of orders for these products has a positive effect also on the future, while said increase may also be attributed to newly won customers. Both the producing Kft. and the trading ZRt., taken separately, operated at a loss during the first quarter, both in the reference period and during the accounting period.

Largest trading volume has been realized with **furniture sales**, in part by selling merchandise manufactured by Balaton Bútorgyár ZRt.'s own production subsidiary, and in part by sales effected by the DOMUS Chain of department stores. The furniture retail business of the Fotex Group is largely run by the **DOMUS Group**, the sales performance of which is heavily exposed to a drain in turnover, due to competition growing in recent years in each market segment, to the many newly opening selling entities and abundant capacities. A steady decline in trading volume during the recent years, accompanied by a fall in profitability, led to a situation in which the DOMUS Group's profits derived from its trading activities did not reach a level of profitability which may be realized by leasing out the real estate owned by it. An extensive series of change in DOMUS Group's business profile could be foreseen in renting out store and warehouse space used so far by the Domus Lánc Kft. (Domus Chain llc.) to other firms, as well as in offering entire department stores for utilization by firms not associated with the Chain. Thus, during 2006 the store in Debrecen, Miskolc, Szentes, Barcs,

Zalaegerszeg, Szeged and Kaposvár had been closed down, followed by the store in Mosonmagyaróvár and Pécs in the first quarter of 2007. In previous years these closed-down stores contributed 30 % to DOMUS' turnover. A different type of utilization for these objects is necessitated by a steady downfall during recent years in the trading volume of Domus Lác Kft., a company specialized in home furnishing and decoration, and by the resulting deterioration in profitability, as well as by the general situation in the domestic furniture trade. Developments in the trading volume of DOMUS have been largely determined by the volume missed due to closing down said stores and by the effect of a reduced purchase volume as additional closing-downs could be anticipated in the course of changing the business profile. The stores still in operation could realize trading volumes that were close to the average of the reference basis. The Company's volume of margins fell back in excess of the decline in trading volume, due to a 3 % reduction in the margins (cover) level caused by selling out at a discount the inventory in connection with closing down said stores. The value of stock of the DOMUS Group at closing as of the accounting period's last day was by HUF 431 million less than for the reference period, which basically is the consequence of the effects of purchase-in restrictions and of selling-out the inventory of to-be-closed stores. At closing the accounting period the staff of the DOMUS Group had been reduced from last year's 313 to 201 persons. Due to additional costs entered in the books in connection with missing covering assets resulting from said fall in revenue, and in connection with singular by-effects of staff reduction (wage-related separation payments, payments of severance bonuses), as well as to other recorded extra costs incurred during the accounting period and to price margin losses suffered by selling-out store inventories the DOMUS Group - in combination - arrived at balance sheet loss of HUF 116 million (by HUF 21 million less than in the reference period). Discontinuing the sale of home decoration/furnishing articles in more stores during the remaining interval of the year shall bring about another singular rise in staff-related costs and in losses due to reduced price margins. And before the end of this year this cannot be compensated by the profit-improving effects of high-flying lease fees paid by non-associated parties.

The Group's **cosmetics line of business** underwent considerable changes before this accounting period. The **AZÚR ZRt.** representing the retailing entity in the line of business operated at a loss for several years which forced the ownership to close down these commercial activities. To implement this, the lease rights over the facilities of a group of the Company's retailing units and their tradable inventories had been sold during the reference period to a professional investor. Employees in such transferred shops had been taken over by the purchasing entity without interrupting their legal relationship as employees, accordingly this repositioning of staff involved no additional costs on the Group's side. The retail chain's shrinking and the slimming down in commercial activities - added to the above development - resulted anyway in a substantial reduction of staff. From the reference period to the accounting period the number of employees fell from 80 to 12. In this accounting period **AZÚR ZRt.**'s operating profits increased to reach figures in black, a result of revenue realized by selling shop facilities. Free funds could be deposited and blocked to earn interest, the income so realized had a positive effect on profitability. As of the accounting period's last day this ZRt. operates 2 shops, the activities of which are planned to discontinue. The Company owns 9 real estate objects which may be put to use by renting out. The bulk of covering assets is being generated by these activities. A resolution has been passed in the Company's annual general meeting to cut the additional costs resulting from running in parallel similar businesses, i.e. to merge into Keringatlan Kft. which is engaged in real estate management.

In essence, the Group's cosmetics business line has been reduced to the present retailing activities of **Fotex Cosmetics Kft.** The Kft.'s wholesale line had been liquidated during January in the reference year. The retailing activities - which continue to cover luxury brand

cosmetics products and to render luxury category cosmetic services - have been concentrated in three shops. Retail turnover shows an increase of 15.1 %. The business activities of Fotex Cosmetics Kft. during the accounting period, like for the reference period, led to a loss, though by 15.7 % less than in the reference period. After the financing burden associated with the wholesale inventory has eased, liquidity improved and the Company is able to carry on business without bank loans, by using inter-Group borrowing.

Based on a decision of Fotex NyRt.'s executive board, three years ago the Group abandoned the conventional wholesale of audio and video media, and slimmed down capacities used in the retail branch of this business line. However, music publishing activities are being carried on, in line with market demands, through the Hungaroton Records Kft., while the Hungaroton Music ZRt. is involved in maintaining the music archive.

The trading activities of **Fotex Records Kft.**, in recent years responsible for operating most of the Group's music retailing, have been liquidated. At present the activities of Fotex Records Kft. are limited to mediated services which include the management and commercialization of leased objects in MOM Park shopping mall, and the renting-out of an owned real estate object purchased from the local self-government.

The music division's publishing and trading activities are handled by Hungaroton Records Kft.. Revenue of this Kft. dropped *bérlemény* 23.2 %. The decline in retail trading volume is due to a fall of 40.5 % in retail turnover. On January 15 the Kft. closed down its shop in Duna Plaza shopping mall, which during the reference period realized the largest, though in its tendency declining trading volume. The trading volume lost by closing down said shop could not be recompensated by those two shops which operate in other shopping malls and by the new shop opened on March 23 in the Sugár shopping mall to make up for the closed-down shop. The Company's revenue from exports, as expressed in HUF, have dropped by 17.1 %, also its revenue from selling its license decreased. The domestic publishing volume of trade shows a growth of 10.0 %. The new retailing unit opened in the Sugár shopping mall with its larger floor area does not imply - at the company level - the development of such retailing space, it only means a rearrangement of facilities as both the rapid development in technology and the spreading of downloading music material from the Internet, including the growth on the illegal markets, do not call for developments in this line. The Company's loss for the accounting period was by 21.7 % higher than that for the reference period, which loss is due to the singular decline in revenue from sales caused by closing down said shop.

The PRIMO ZRt. deals with the domestic and foreign trade of branded, mainly men's clothing and fashions. The net revenue from sales fell by 36.4 %, compared to the corresponding period in the previous year. Within this, the retail trading volume fell by 15.7 %, the domestic wholesale volume by 44.7 %, and revenue from export sales by 33.6 %, when compared to the same period in the previous year. As of the last day of this accounting period the Company operated 4 retail units situated at well-frequented locations, which earned approximately a quarter of total revenue from sales. In spite of a decline in trading volume this Company is operating at a profit, both with regard to management and business matters and to its financial results. Its after-tax profits were significantly higher in the accounting period than in the reference period. In relation to its trading volume this ZRt. maintains a high level of goods inventory at a rotation cycle of 384 days.

During the accounting period the Group closed down instructions **photo services line**. After selling its interest in the F-O Optika Fotó Kft. the Group also liquidated the **photo services segment in the Fotex-2000 Kft.** In the third quarter of the reference year the exclusive contract operated with the T-Mobile branch of Magyar Telecom NyRt. has expired and on the basis of an owners' resolution the retailing activities covering telecommunication services and

equipment have been discontinued. Slimming down on the photo market, the spreading of digital photography since 2001, the sharp decline in analogous photography volume and in the number of photo printings brought along developments in the trade that could not be coped with both by manufacturers and service providers. The Kft. discontinued wholesale trading in photo material and equipment as early as in the 4th quarter of 2004, while the retailing arm closed in January this year. To an external third party entity the owner(s) granted license to use the brand name on two retail units engaged in photo services. Based on an owners' resolution the Company merged - as of November 30 in the reference year - into the Keringatlan Kft. engaged in real estate commercialization, in order to manage and to put to use the real estate and investments owned by the Company.

The main task of Fotexnet Kft. is to sell Internet space and services via its Internet shop operated without logistics as a kind of converted "Shopping Mall" and opened on July 29, 2006. Internet space may be purchased against a monthly flat rate or against a lease fee plus commission on volume traded. There is a very high demand for Internet-based services and as of the last day in the accounting period the Fotexnet Department Store operated a total of 65 stores and 25 smaller units called "express store". After the conversion the Company shall fill the stores mainly with products of external partners - which is in variation to the existing practice -, with delivery of purchased items by the partner who effected the sale. The Company's responsibility is to provide the trading space, to ensure its reliability and appeal to the public. These activities furnish 27.3 % of total revenue from sales. In addition to revenue from operating the Internet store system other revenue is being derived from market research, trade promotion, as well as from sales and services related to the computer sector. Costs and expenditure in the Company did not grow as much as its trading volume and the Company closed the period with a small profit.

**DVDrent Kft.** is engaged mainly in renting out films on DVD, which includes DVD polishing activities and related publicity services. As of March 22, 2007 to its scope of operations has been added the operation of a movie theater opened in the Sugár shopping mall which boosted its trading volume to reach abt. 150 %. Operations during the accounting period ended with a small loss.

In the course of reorganizing the Group's activities that portion of assets which formerly had been put to use via the trading activities of subsidiaries has been either rededicated for other own business purposes or increasingly must be given over for leasing out to non-Group entities, as the trading activities need to be slimmed down. As result of this change in business strategy the Group turned into a real estate commercialization undertaking. At year's end, as part of the audited annual financial report, both the investment-bound and the self-used real estate objects had been revaluated.

The composition of the Group's real estate assets and the factors considered upon determining their real market value did not change significantly during the accounting period.

Accordingly, the figures shown in the audited annual report for 2006 shall be considered as the relevant values in evaluating the Group's real estate assets.

Category:	Area:			Real market value (low estimate):		
	investment-bound:	self-used:	total:	investment-bound:	self-used:	total:
	sqm.			thousand Forints		
shops (retail)	111 924	28 810	140 734	41 614 428	10 711 869	52 326 297
offices	8 255	275	8 530	2 762 467	92 023	2 854 490
warehouses	91 584	21 869	113 453	10 215 564	2 439 337	12 654 901

other buildgs.	57 695	58 156	115 851	3 813 369	4 324 140	8 137 509
building land	95 000	765 000	860 000	2 102 501	16 930 538	19 033 039
Total:	364 458	874 110	1 238 568	60 508 329	34 497 907	95 006 236

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

As the real value is being reviewed by the Group upon the compilation of the annual financial report, we prudently select the low value for the Group's real estate assets which is in excess of HUF 90 billion.

**SIGMA Kft.**'s main task is to assist in renting out real estate objects made available in the Group's real estate portfolio and in putting them to best economic use under the existing market conditions. During the first quarter this Company did not perform advisory or real estate mediating jobs and its realized revenue had been derived from services rendered to Group companies. Its unconsolidated trading volume was higher than anticipated for the period in its annual revenue plan, of which 83 % has been earned by renting out retail space. During the accounting period a total of 12,000 sqm. retail space has been placed under new or extended lease contract. Major contracts include the leasing out of Domus NyRt. department stores in Pécs and Debrecen, and the prolongation contracts signed for the first and second floor of shopping mall "Sugár Üzletközpont". Revenue from renting out offices and warehouse facilities accounts for 13.4 % of total revenue, and that from rendering advisory and other services and activities for 3.5 %. The Company's pre-taxation profit is significantly higher than for the reference period, due to realizing more revenue than anticipated for the specific time interval.

After KONTÚR ZRt. had absorbed its subsidiaries, the Kontúr Papír Kft. and the Kontúr Lakberendezési Kft., its business activities became limited to real estate commercialization, though it still operates one retailing unit, a home decoration shop, a leftover business after the merger with Kontúr Lakberendezési Kft.. Its revenue comes mainly from leasing out its own real estate objects. Its directly earned revenue is increased by subleasing an object leased from a local self-government and by the volume of pertinent costs invoiced to tenants, as well as by administrative services rendered. Consolidated revenue grew by 97.4 %, as its two subsidiaries, the Kontúr Papír Kft. and the Kontúr Lakberendezési Kft. merged with it, effective from July 31, 2006, and as the DÁLIA Kft., another of the Group companies engaged in real estate management, had been absorbed as of February 28, during this accounting period. Since said dates the revenue earned from real estate objects leased out by these absorbed companies had been added directly to the books of this ZRt.. The ZRt.'s core activity remains the commercialization of its owned real estate objects, the scope of which is steadily growing by the acquisition of new real estate. In the second quarter of the reference year it purchased full ownership of the Glas Hotel Kft., formerly owned by Ajka Kristály Kft., which is a direct and high-value new addition to its owned real estate portfolio (a hotel situated in Balatonalmádi on Lake Balaton). This company operates at a profit, though its pre-taxation profit with an increase of 27.6 % could not follow the growth rate of trading volume.

Within the Group **Keringatlan Kft.** is the major unit operating with a clear-cut real estate management profile. This Kft. had been subject to several restructuring measures. As of July 27, 2005, the Keringatlan Kft. absorbed its two subsidiaries, also engaged in real estate management, the Alfa-Örs Kft. and the Szivárvány Rt.. As of December 1, 2006, also the Fotex-2000 Kft. had been absorbed, the retail branch of which was discontinued on January 1, 2007, while its revenue earned by leasing out real estate objects has been added to the books of Keringatlan Kft.. This Kft. directly owns - and manages - 40 % of all commercial real estate objects of the Group and 30 % of the Group's warehousing space. Its revenue mainly comes from renting/leasing out real estate objects.

More than 93.0 % of its total revenue has been earned from external third parties. Its consolidated revenue shows a significant rise, even after the technical effects of mergers in the reference year had been eliminated. The growth in revenue is largely due to an increase in leasing fees, as several formerly vacant objects could be leased out (in Kistarcsa township, in Budapest's Szervita Square and Kossuth Lajos Street, 2nd floor in Sugár shopping mall), and as said new tenants could be contracted at higher leasing fees. Leasing fees fixed in EURO were subjected to adverse developments due to deterioration in the EURO-HUF exchange rate. However, contracts provide that the leasing fees are indexed to inflation which fact has shown its positive effects. This Kft. operates at profit and achieved considerable amounts of profit both in operation and before taxation. When compared to the reference period, the tangible assets of the Kft. grew in volume by completed capital investments and by the purchase of real estate. The Kft. secured bank loans for financing the purchase of investments owned by its two subsidiaries absorbed during 2005 and the reconstruction of the Sugár shopping mall. Based on a Group decision, during the reference year the Kft. completed arrangements to use inter-Group borrowing in the future. It has repaid its foreign exchange-based bank loans by using funds provided by a Group member. This Kft. also owns appropriate own funds. Using its own funds and without resorting to using external funding it successfully provides financing for the third phase in reconstructing the Sugár Üzletház shopping mall. The first phase in the full-scale reconstruction of this shopping mall had been completed in 2004, the second phase was completed by November 2005, and the third phase of reconstruction was finished in effect at the end of the 1st quarter, and also an inter-Group operated movie theater has been opened for the public. During said reconstruction activities the shopping mall's business could be kept up uninterrupted.

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

For managing the investments of Fotex NyRt. the fully-owned Upington Investments Ltd. has been established in November 2005 with domicile in Cyprus. From selling the Company's investments it has and manages quite considerable funds which is available for providing inter-Group financing to some of the subsidiaries. For managing its financial instruments the Upington Ltd. formed during the reference year a subsidiary domiciled in Luxembourg, the Downington Srl., which plays a significant role in financing the Group's activities. The fact that the Group opted for internal financing resulted, as of the closing day in the reference period, in averting the need for HUF 4.2 billion external loans.

#### **IV. Costs developments**

The Group's operational costs show a decrease by HUF 386.6 million (16.3 %), when compared to the reference period.

Within the operational costs the **staff-related costs** have the largest share (44.3 %).

Against the reference year, the staff-related costs could be reduced by 15.0 %, while the full-time staff's average number dropped by 25.6 %. The development of staff-related costs had

been heavily influenced - in addition to salary payments to said average number of staff - by singular additional payments to employees who had to leave due to reorganization measures within the Group's activities.

On the Group level the average salary of full-time employees could be raised by 12.6 %, which is mainly attributable to the fact that the staff's composition has changed, and that certain Group companies increased the wage level, in particular of their blue-collar staff. Each member company of the Group undertook a staff rationalization - when compared to the reference period - to match the reduction in the trading volume. A considerable saving in costs could be achieved by the AZÚR ZRt. by way of closing down its shops, which also resulted in a significant drop in the number of staff. Due to staff reductions both the Ajka Kristály and the Domus group show a considerable fall in their staff-related costs.

The number of full-time staff of the Group fell during one year by 323 persons.

Within the operational costs the **material-related costs** have the second largest share (33.8 %). As against the reference period their amount decreased by 15.2 %.

The **material-type expenditure** - seen on the Group's level - varied considerably among the member companies. Within the category of operational costs the material-related costs included those of non-producing companies, taken from the material-related costs of the Group, the amount of which dropped by 11.9 % against the reference period. Within the material-related costs of non-producing companies the water, gas, and energy costs plus the fuel cost represent the largest portion.

On the Group's level the costs of material-type services used fell by 12.7 % as compared to the previous year which is due to slimming down activities and to cost-saving measures introduced in the companies. Within the material-type services used the highest share falls leasing fees, the amount of which decreased by 23.7 % when compared to the same period in the reference year.

Due to shops recently closed down and to the effects of cost-saving measures introduced, the communication costs, the maintenance costs, the transport costs, the commission of agents, and the fees of contract work decreased on the Group's level. The costs for advertisements, publicity and trade promotion as well as for security and safeguarding have, however, increased, when compared to the same period in the previous year.

On the Group's level the **depreciation costs** amount to 14.2 % of the operational costs, the amount of which decreased by 1.3 %, as against the reference period, as tangible assets associated with closed-down activities have been removed from accounting. Phase III of the Sugár-project was not yet an activated asset during this accounting period. The depreciation costs include the depreciation amounts on assets owned by the Group, as accounted for in the books.

During this accounting period the **other expenditures** amount to 7.7 % of the operational costs. As against the 1st quarter of 2006 the other expenditures dropped by 41.1 %. A major drop could be observed in the case of Fotex-2000 Kft. which was still present in the reference data. The reason is the removal from accounting of assets sold to external parties, which represented a single item for the reference period.

In our Group of companies the costs of selling activities dropped significantly, by 35.5 %, as against the reference period, due to the reduction in the volume sold and to changes in the assortment of goods. The sales costs include the costs of materials and of material-type services used by the producing/manufacturing companies, as well as the value upon purchase of goods sold and the value of services sold (mediated).

In the case of our producing/manufacturing companies the amount of material costs and of material-type services used has decreased when compared to the reference period. In the case of Ajka Kristály Kft. the costs of raw and auxiliary materials used and of energy consumed have decreased which is attributable to the omission of own-financed investments and to the rationalization of production.

The value upon purchase of goods sold, which make up for a large portion of sales costs, has decreased against the previous year. In the case of AZÜR ZRt. and Domus NyRt. the value upon purchase of goods sold shows a significant decrease, due to the closing-down of shops.

### **Profit and loss developments**

The Group closed the 1st quarter of 2007 with an after-tax profit of HUF 76.8 million, after deduction of minority dividends.

The Group's gross margins (cover) decreased by 5.9 % (i.e. HUF 127.9 million) against the reference period. The reason for gross margins decrease against the reference basis lies in the significant drop that could be observed in the case of sales costs and of the net revenue from sales.

While the net revenue from sales dropped against the previous period by HUF 970.8 million (21.4 %), we could observe a drop of HUF 842.9 million (by 35.6 %) in the case of the sales costs. The total amount of operational costs applied towards the business activities decreased by HUF 386.6 million, as against the reference period.

The combined effect of the above led to HUF 56.3 million as the Group's operational (ordinary business) profit for the 1st quarter of 2006 (???) which corresponds to an improvement on the profits line of HUF 258.6 million when compared to the reference period.

The outcome of the Group's financial transactions was a profit of HUF 43.6 million. This improvement over the reference period (HUF 83.7 million) is the combined result of the following factors:

The 25.5 % drop in interest revenue (against the previous year) is mainly due to the fact that interest payments received from banks for locked-up deposits of free funds of Group companies lag behind those received during the reference period. The significant drop (93.5 %) in expenditure on interest - as compared to the previous period - was due to repaying the entire bank loan mass of Ajka Kristály Kft. and Keringatlan Kft. during the reference year, and to the fact that any borrowings required for liquidity in all subsidiaries had been kept inter-Group which evidently resulted in further reductions in expenditure on interest.

Within the financial transactions the miscellaneous line holds the income and expenditure related to the financial transactions (with the exemption of revenue from interest and expenditure on interest) as well as the extraordinary income and the extraordinary expenditure. Among the items of the accounting period the major ones are the differences in the rates of exchange accounted for in connection with claims and liabilities involving foreign exchange settlements. The reason for a drop in revenue from financial transactions against the previous year lies in the fact that revenue in the reference year includes profits realized by selling share interest held in non-Group companies (the Fotex NyRt. and the Keringatlan Kft. sold their interest in the Ráday 11 Kft., and the Fotex NyRt. has also sold its interest in the Lux Kft.). There were no such divestments during the accounting year.

The main reason for a considerable drop in other expenditure on financial transactions - as against the reference year - lies in the fact that in the reference year the rate of exchange losses realized in connection with repaying the bank loans of Keringatlan Kft. and Ajka Kristály Kft. constituted a singular item.

The above factors resulted in a pre-taxation profit of HUF 99.9 million which is a HUF 342.4 million improvement when compared to the reference period. A HUF 6.6. million portion in the profit (the appropriation to minority interests) has a reducing effect on the Group's business results. The holders of minority interests receive dividends from the profits of subsidiaries according to their interest quota.

The Group's after-tax profits after allowing for the minority interests amounts to HUF 76.8 million.

### **The Group's assets and liabilities**

The balance sheet grand total of our Group of companies fell by 9.1 % against the reference period.

There is a HUF 546 million growth (+2.5 %) in the mass of invested assets, compared to the previous year.

The drop of 32.8 % in immaterial goods was mainly due the approx. 30 % value loss accounted for in 2006 related to the "FTC Commercialization Rights" that had been carried as a right possessing property value in the Group's books. In the mass of immaterial goods the major change occurred in the case of Fotex-2000 Kft. which during the reference year had sold both its rights possessing property value and its intellectual products.

The mass of tangible assets grew by 10.1 %, compared to the previous period.

Major additions to the mass of tangible assets during the accounting period were the completion of a production hall (on the Házgyári út site) for the Balaton Bútorgyár ZRt., the completed investment in equipment in connection with the reconstruction of the Sugár Üzletközpont shopping mall, and other acquisitions of business facilities, as well as a capital investment on the Agárd real estate property of Fotex NyRt. A significant reduction in tangible assets occurred in the Ajka Kristály Kft. as the amounts of booked depreciation of tangible assets had not been offset by investment into assets.

The 76.6 % drop (as against the same period in the previous year) in the mass of long-term investments is mainly due to technically reposting the Group's interest in the Balaton Glas Hotel Kft. to the category of tangible assets.

The total of current assets decreased by 24.0 %, as against the reference basis. The considerable fall (29.4 %) in liquid assets may be explained by the repayment of external bank loans and by disbursements effected in connection with the acquisition of DOMUS interests from external third party.

A decrease of 8.2 % in Group claims is due to changes in claims upheld during the reference period by firms excluded from the consolidation group, and in claims against purchasers and in other claims.

There was no significant change in the total value of the Group's inventories, while its composition changed as the inventory of own production grew and the value of commercial inventories decreased. The value of the securities portfolio dropped by 94.8 % which is due to changes in the value of credit-type securities held by Group companies for the purpose of stock trading. The securities held by the Group consist mainly of instruments maturing within 3 months and which had been reposted to the category of liquid assets.

Within the **resources** of the Group 7.5 % fall on liabilities which against the previous year decreased by 48.9 %.

Of the total of liabilities 22.1 % fall on long-term liabilities and 77.9 % on short-term liabilities

The volume of long-term liabilities decreased by 78.4 % against the same period in the previous year, the reason of which was that the Ajka Kristály Kft. and the Keringatlan Kft. have fully repaid the long-term bank loans received during the preceding years by using funds made available to them within the Group. The value of other long-term liabilities grew by 30.6 % when compared to the previous period. Among them are carried the surety deposits paid by tenants for the objects leased/rented as well as the deferred tax payment obligations of preceding years.

According to the balance sheet our short-term liabilities decreased by 16.3 %.

The total of the short-term liabilities is made up by miscellaneous other debts.

The short-term loans had been fully repaid. Repayment was made possible partly by improvements in the liquidity situation of certain Group member companies (AZÚR ZRt.) and partly by the fact that the Group changed from external financing to inter-Group financing (internal financing for Ajka Kristály Kft. and Keringatlan Kft.).

The decline in the mass of other short-term liabilities may be explained by a decrease in claims of suppliers on the Group and in its other short-term liabilities. A significant decrease in claims of suppliers could be observed in the case of the Domus chain and the FotexNet Kft.

Within the resources/liabilities the portion of the shareholders' equity amounts to 92.2 %. Within shareholders' equity the considerable change in profit reserves has been brought about by reposting the 2005 balance sheet profit to profit reserves, by settling the rate-of-exchange differences resulting from converting the EURO-based and EURO-closed balance sheets and profit-and-loss statements of foreign subsidiaries into Forints, and by settling the rate-of-exchange differences resulting from transactions effected between said foreign subsidiaries and the Keringatlan Kft., the Ajka Kristály Kft., and the Balaton Bútorgyár ZRt..

The decrease in the "other reserves (good-will)" line of the shareholders' equity category is due to amortization accounted for in this accounting year.

The significant drop of 96.9 % in minority interest is mainly due to purchasing a DOMUS interest from an external third-party entity, which led to increasing the Group's existing ownership in DOMUS NyRt. from 56.6 % to 99.2 %. Other reductions related to minority interests may be explained by acquiring share interests (i.e. ownership quotas) in firms from external third parties.

#### **Staff and organizational developments**

Based on a resolution passed in Fotex NyRt.'s annual general meeting on April 26, 2007, the members of the Audit Commission and of the Board of Directors - appointed as of July 1, 2006 - have been reelected to hold office during the period lasting until the day of the next ordinary general meeting following said reelection. There is no variation in the members of said committees.

In the Group's subsidiaries - by owner's resolution passed in shareowners' meetings or general meetings held in most cases upon the new Business Association Act becoming effective or during the reference period - the supervisory boards have been dissolved, with the exemption of Ajka Kristály Kft. and Bebufa Kft.. These latter two of our companies resolved in this year's annual ordinary shareowners' meeting that their supervisory boards shall be dissolved.

Among the public or non-public limited companies there is no board of directors in the PRIMO ZRt. and the AZÚR ZRt. and the powers vested by the Act in the board of directors shall be exercised by the general director.

The Balaton Bútor ZRt., the KONTÚR ZRt. and the Hungaroton Music ZRt. continue to run under a board of directors.

The DOMUS NyRt. is directed by a board of directors established by the general meeting held on November 27, 2006. The same meeting resolved to set up an Audit Commission and to dissolve the supervisory board and the board of directors then in office.

The organization of the DOMUS Group is involved in that the October 19, 2006 extraordinary general meeting of Domus NyRt. resolved to merge their last two subsidiaries, the Domus Lánc Kft. and the Domus Irodabútor (= office furniture) Center Kft. into the parent company. The merger's purpose was to eliminate the need for cross-invoicing, to do away with parallel-running operations, and to rationalize both the organization and the work

processes. Said changes have been registered by the Court of Registration as of March 31, 2007.

The merger of Dália Kft. - which after closing down its production segment was engaged in real estate management - into the Kontúr Kereskedelmi ZRt. has been registered by the Court of Registration as of February 28, 2007.

### Miscellaneous

In accordance with General Meeting Resolution No. 23/2000 the Fotex NyRt. - as of May 21, 2001 - completed a full-scale exchange of shares under cooperation with the Keler Rt. As said closing day a total of 70,388,664 shares had been exchanged, while 334,986 of the former shares had not been exchanged by their holders. In accordance with applicable legal regulations shares not exchanged had been declared by our Company as invalid. The new shares replacing those made invalid had been sold by the Company in a way considered most optimal from the viewpoint of the shareholders. The proceeds of such sales shall - after deducting the costs incurred - be forwarded to the owners of shares made invalid, to be deemed as compensation for former shares not exchanged and declared invalid, forwarding to be effected 30 days after all shares introduced to replace the invalidated securities have been sold, i.e. after November 15, 2001. Out of the mass of invalidated shares the value representing 154,756 shares has been disbursed so far, while the owners of 180,221 invalidated shares did not show up till date.

Fotex NyRt.'s ordinary annual general meeting held on April 28, 2004 decided to convert the shares issued by Fotex NyRt. and produced by printing into dematerialized securities. The effective day of conversion into the dematerialized format was November 11, 2004. Said conversion of shares did not affect any rights attached to said shares. The period made available for submitting paper-format shares for conversion extended from September 10, 2004 to November 10, 2004.

As of November 11, 2004 the printed-format shares had been declared invalid by the Fotex NyRt..

The dematerialised shares –substituting those not presented and showing a total nominal value of HUF 135,000 - have been sold on the Budapest Stock Exchange on February 15, 2005 at a rate of HUF 241, using the services of an investment broker.

These proceeds – after deducting the costs incurred prior to selling - have been disbursed upon presentation of the invalidated shares to the last authenticated owners of such shares, taking into consideration the statutory laws applicable to the expiry of claims represented by said securities. Following the dematerialisation procedure, the value of 860 shares has been paid out until today, while 490 void shares were not yet presented by their owners.

On September 20, 2001 the Fotex Group opened several retailing units in MOM Park Shopping Mall on an approx. 7000 square meter total floor area. Most of our retailing companies are exclusively present in that shopping centre. In December 2001 the Fotex NyRt. filed a lawsuit with the Budapest Municipal Court against MOM Park Bt. concerning negligence and partial nonperformance on the side of the Lessor. The court proceedings are pending.

The Fotex Group concluded a contract with the Lessor, effective as of December 31, 2003, in which the leased area in MOM Park had been reduced by approximately 1,500 square meters, while further negotiations concerning refurbishing/rearranging said leased facilities are in progress.

In an extraordinary general meeting of Keravill Rt. held on December 9, 2004 shareholders - with a general meeting resolution - decided to dissolve without a legal successor the Keravill Rt. by way of voluntary winding-up, in view of the company's business performance and

market opportunities. In the course of winding-up the trading and other business activities of the company have been closed down. In the process of closing down said business and trading activities the rather large inventory of merchandise and the miscellaneous equipment put up for sale could not be sold at planned prices. Accordingly the assets of this business company did not suffice for satisfying all known claims of creditors. The administrator on March 11, 2005 submitted to the Budapest Municipal Court an application for the Company's liquidation. As of the end of April 2005 the process of voluntary winding up had been changed - by enforceable order of the Budapest Municipal Court - into a liquidation procedure caused by the Company's insolvency. This liquidation procedure is in progress and according to its present status the Group had lost all property invested in said Company. In this Company all effective activities have been discontinued and accordingly - as of the last day in 2005 - the Company has been excluded from the consolidation group.

The Euler Hermes Magyar Hitelbiztosító (= Hungarian Credit Insurance) ZRt. filed lawsuit against Fotex NyRt. claiming that we should assume unlimited responsibility for an outstanding debt of Keravill Rt. in the amount of HUF 52,771 thousand, and that we should pay for that claim including interest accrued and court costs. Said claim is held unjustified by Fotex NyRt. and the court proceedings are in progress.

Following Hungary's ascension as of May 1, 2004 to the European Union our Group of companies opted for insisting that the trading volume tax imposed by local self-governments is not in harmony with Community law and is deemed to be a form of prohibited tax on trading volume. Accordingly we insist that as of the above date our obligations to pay the local trading tax have ceased to exist. Considering that the local self-governments hold an opposing view, those payment orders issued by them under the title of local trading volume tax requiring the payment of significant tax amounts have been appealed against by the members of the Group. Any second-instance decisions containing a refusal have been submitted to the Court where at present the relevant proceedings are in progress. The companies of the Group duly entered the local trading volume tax amounts in their books and fulfilled their payment obligations, subject to reservation of rights.

This Flash Report contains true and valid data and statements and does not omit facts that may be of importance in forming an opinion about this business entity's situation.

Budapest, May 14, 2007

VÁRSZEGI Gábor  
General Director