Fotex Holding SE
75, Parc d'activités
L-8308 Capellen

R.C.S. Luxembourg B 146.938

Consolidated financial statements as at 31 December 2010, and Management report, and Independent auditor's report

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Management Report

The extraordinary general meeting of the Hungarian registered FOTEX HOLDING SE European public limited company held on 4 June 2009 decided to move the Company's registered office to Luxembourg. The Company has been registered in the Luxembourg companies register under the number R.C.S. B 146.938.

The Company's new registered address is at 75, Parc d'activités, L-8308 Capellen, Luxembourg. The Metropolitan Court of Budapest, as the competent authority, struck the Company off the Hungarian companies register on 28 August 2009.

Fotex Holding SE ("Fotex" or the "Company") is a European public limited company regulated under the laws of the Grand Duchy of Luxembourg. The Company is primarily the holding company of a group of subsidiaries (Fotex and its subsidiaries, hereafter the "Group") incorporated in Hungary, Luxembourg and The Netherlands and engaged in a variety of property management, manufacturing, retailing and other activities. Except for Upington Investments S.à r.l., Downington Holding S.à r.l. and Fotex Netherlands B.V. which are registered in Luxembourg and in The Netherlands, respectively, all subsidiaries of the Group are registered and operate in Hungary.

List of Shareholdings

The ownership of principal consolidated subsidiaries, after considering indirect shareholdings, is:

Subsidiary:	Principal Activities:	2010	2009
		%	%
Ajka Kristály Kft. (Ajka)	Crystal manufacturing and retail	100.0	100.0
Balaton Bútor Kft.	Furniture manufacturer	100.0	100.0
Balaton Glas Hotel Kft.	Property management (Note 22)	100.0	100.0
Downington Holding S.à r.l.	Investment holding	100.0	100.0
Europrizma Kft.	Advertising	100.0	100.0
Fotex Cosmetics Kft.	Cosmetics retailer	100.0	100.0
Fotexnet Kft.	Internet retail and other services	100.0	98.6
Hungaroton Music Zrt.	Archive of Hungarian music	99.2	99.2
Hungaroton Records Kft.	Music publishing and music retailing	99.8	99.8
Keringatlan Kft.	Property management (Note 22)	100.0	100.0
Fotex Netherlands B.V.	Property management (Note 22)	100.0	100.0
Primo Zrt.	Clothing retailing and wholesaling	100.0	100.0
Sigma Kft.	Property management services	75.1	75.1
Székhely 2007 Kft.	Property management	99.1	99.1
Upington Investments S.à r.l.	Investment holding	100.0	100.0

Movements in Subsidiary Investments

During 2010, Fotex Group entered into the following transactions and mergers:

- At 31 December 2010, the companies court registered the merger of Balaton Glas Hotel Kft. into Keringatlan Kft., effective as of 1 January 2011.

During 2009, the Fotex Group entered into the following transactions and mergers:

- On 5 February 2009, Upington Investments Ltd. moved its headquarters from Cyprus to Luxembourg.
- At 29 February 2009, KONT-VESZ Kft. merged into Kontúr Zrt.
- At 4 March 2009, Keringatlan Kft. established a subsidiary in The Netherlands - Fotex Netherlands B.V., to create, develop and manage a property portfolio in The Netherlands.
- At 1 October 2009, Europtic Kft., Domus Zrt. and Kontúr Zrt. merged into Keringatlan Kft.

The Group has operations in The Netherlands, Luxembourg and Hungary. More than 90% of the Group's operations are carried out in Hungary. Geographical segments are not presented in the consolidated financial statements as the costs of producing such information would exceed its merits.

For management purposes, the Group is divided into 8 business lines:

Furniture production and sales
Investment property management
Household goods and cosmetics
Crystal and glass
Music records production and distribution
Clothing
Advertising
Other – administration and holding activities

Management separately evaluates the performance of its operating segments in order to make decisions regarding resource allocation and other decisions related to operations management. Decisions regarding financing (including financial revenues and expenses) and taxation are made at Group level and not at segment level.

Net sales per segment:

	2010	2009
Net sales:	Net sales EUR	Net sales EUR
Furniture	2,724,164	3,511,049
Investment property	24,462,300	24,322,407
Household goods and cosmetics	810,215	1,042,955
Crystal and glass	7,291,841	4,261,146
Music	1,950,959	2,471,314
Clothing	692,760	880,016
Advertising	–	263,479
Other	4,124,260	4,077,017
Inter-segment elimination	(3,060,821)	(3,558,814)
Net sales	38,995,678	37,270,569

Consolidated Income Statement:

	for the year ended 31 December	
	2010	2009
	EUR	EUR
Revenue	38,995,678	37,270,569
Operating expenses	(32,085,113)	(34,663,822)
Interest income	1,455,905	1,337,042
Interest expenses	(1,315,700)	(608,355)
Income before income taxes	7,050,770	3,335,434
Income tax expense	(663,664)	(1,028,073)
Net income	6,387,106	2,307,361
Attributable to:		
Equity holders of the parent company	6,375,028	2,224,780
Non-controlling interests	12,078	82,581
Net income	6,387,106	2,307,361
Basic earnings per share	0.11	0.04
Diluted earnings per share	0.11	0.04

Consolidated Cash Flow Statement:

	for the year ending 31 December	
	2010	2009
	EUR	EUR
Cash generated from operations	12,219,296	10,640,814
Income tax paid	(286,956)	(1,425,080)
Net cash flow from operating activities	11,932,340	9,215,734
Cash flows from investing activities:		
Acquisition of tangible and intangible assets	(21,956,568)	(36,504,437)
Sale proceeds of tangible and intangible assets	10,806	53,525
Purchase of financial investments	(90,618)	(1,330,091)
Repayments of loans granted	1,078,669	115,754
Interest received	955,021	788,599
Net cash flow used in investing activities	(20,002,690)	(36,876,650)
Cash flows from financing activities:		
Loan received	14,068,473	25,308,474
Dividends paid	-	(46,345)
Interest paid	(1,438,917)	(587,130)
Purchased treasury shares	(145,347)	(509,121)
Net cash flow from financing activities	12,484,209	24,165,878
Change in cash and cash equivalents	4,413,859	(3,495,038)
Cash and cash equivalents at beginning of the year	12,997,087	18,130,262
Effect of foreign currency translation	(165,063)	(1,638,137)
Cash and cash equivalents at end of the year	17,245,883	12,997,087

Shareholders' equity:

	31 December 2010	31 December 2009
Shareholders' Equity:	EUR	EUR
Issued capital	30,543,933	30,543,933
Additional paid-in capital	32,895,729	32,895,729
Goodwill write-off reserve	(1,534,125)	(1,856,818)
Retained earnings	71,637,487	67,493,126
Treasury shares, at cost	(19,266,955)	(19,121,608)
Equity attributable to equity holders of the parent company	114,276,069	109,954,362
Non-controlling interest in consolidates subsidiaries	91,699	83,613
Total shareholders' equity	114,367,768	110,037,975

Registered Share Capital

The authorised and issued share capital amounts to EUR 30,543,933. The nominal value of each share is EUR 0.42. The Company's issued share capital on 31 December 2010 included 70,723,650 ordinary shares and 2,000,000 dividend preference shares (2009: 70,723,650 ordinary shares, and 2,000,000 dividend preference shares). The dividend preference shares were issued by Fotex in November 2007.

Dividend Preference Shares

The dividend preference shares are non-voting shares to be used as a remuneration and long-term incentive system for executive officers, as well as senior employees. The dividend preference shares are intended to encourage good stewardship in members of management by directly connecting dividend entitlement of preference shareholders to enhanced performance and stock exchange rates thereby contributing to increasing shareholder value for all. Fotex has an optional redemption right on dividend preference shares which is valid up to five years. Unless Fotex exercises its redemption right within five years of the end of employment of a member of management, the holder of such dividend preference shares may retain its shareholder rights. 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 double of the European central bank twelve months base interest rate relevant for the 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 profit after taxes minus non-controling interests. The total preference dividend payable is subject to approval of the General Meeting of the Shareholders. Given the nature of the employee dividend preference shares, the amount of shares in issue are treated as a short-term liability and any dividend payable will be treated as employee expense. If the Company does not pay the minimum dividend prescribed to the dividend preference shares in any given year, or does not fully pay them, and then in the subsequent year also does not pay dividends to the dividend preference shares, then the dividend preference shareholders are entitled to full voting rights until the Company rectifies the unpaid dividends.

In November 2007 Fotex issued 2,000,000 dividend preference shares with a face value of EUR 840,000 (HUF 200,000,000). On 13 May 2009, the Company's CEO exercised his redemption right under the approved incentive scheme and redeemed the preference shares of the managers of certain subsidiaries where annual profits fell short of their budget. The shares were redeemed at the rates set out in the underlying sale-purchase contracts (120% of the face value).
No dividend preference shares were redeemed in 2010.

Treasury Shares

As of 31 December 2010, the Company holds 12,632,549 treasury shares (including dividend preference shares) for a total amount of EUR 19,266,955 (31 December 2009: 12,579,779 shares at a cost of EUR 19,121,608). During 2010, the Company purchased 52,770 shares (2009: 466,510) on an arm's length basis. In 2010, no dividend preference shares from senior officers were redeemed (2009: 450,000 dividend preference shares totalling EUR 161,082).

Suggestions for Dividends to be paid to Dividend Preference Shares

At their meeting of 7 April 2011, the Board of Directors approved to pay dividends on the dividend preference shares equal to their face value. This dividend payment is subject to formal approval by the shareholders' meeting. The total amount of preference dividends due to members of management of EUR 651,000 is presented among payments to personnel in the consolidated financial statements.

Principal Related Parties

Gábor Várszegi, Chairman of the Board of Fotex, directly or indirectly controls a part of the voting shares of Blackburn International Inc. ("Blackburn"), a Panama company and Blackburn International S.à r.l. ("Blackburn Luxembourg"), a Luxembourg company and Zurich Investments Inc. ("Zurich"), a British Virgin Islands company. Blackburn Luxembourg has a controlling interest in Fotex Ingatlan Kft. ("Fotex Ingatlan") and Plaza Park Kft. ("Plaza Park"). As at 31 December 2010, Blackburn controls 16.9 % (2009: 16.9%) of the Company's share capital, Zurich controls 14.1% (2009: 14.1%), Fotex Ingatlan controls 17.6 % (2009: 17.6%), and Plaza Park 1.6% (2009: 1.6%). These companies are considered to be related parties.

Appointment and Replacement of Board Members

There were no changes in the members of the Boards of Directors compared to prior year. The members of the Board of Directors were appointed at the extraordinary general meeting of the Company held on 1 October 2009. The members were appointed for a period of 3 years until the 2012 Annual General Meeting of the Shareholders.

Members:

1. Mr. Gábor Várszegi
2. Mr. Dávid Várszegi
3. Mr. Bob Dole
4. Mrs. Anna Rammer
5. Mr. Wiggert Karreman
6. Mr. Jan Thomas Ladenius
7. Mr. Benoit de Bien

The shareholders, at the Extraordinary General Meeting held on 1 October 2009, appointed the following members for the audit committee:

1. Mr. Wiggert Karreman
2. Mr. Jan Thomas Ladenius
3. Mr. Benoit de Bien

The Directors are eligible for re-election and they may be removed with or without cause at the Annual General Meeting of Shareholders. In the event of a vacancy in the office of a Director because of death, resignation or any other cause, the remaining Directors may fill such vacancy in accordance with the terms of the law and until the next Annual General Meeting of Shareholders, which will ratify the nomination.

Powers of the Board of Directors

The Board of Directors has been authorised by the shareholders to manage the day-to-day operations of the Company, as well as to make administrative decisions at the Company. All rights which have not been conferred to the shareholders by the articles of association or by the laws remain of the competence of the Board of Directors. The Board may decide paying interim dividends as prescribed by law. All long-term pay schemes, plans, or incentive programs relating to the employees of the Company and its subsidiaries, which the Board would like to implement have to be first brought before and approved by the shareholders and the General Meeting of the Shareholders.

Rules Governing Amendments to the Articles of Incorporation

Amendments to the Articles of Incorporation are approved by resolution at an Extraordinary General Meeting of Shareholders under the conditions of the law.

Significant Events After the Reporting Date

There were no significant or otherwise relevant issues which occurred after the reporting date.

Other Disclosures

There are no agreements with shareholders which are known to the Company and may result in restrictions on the transfer of securities or voting rights within the meaning of the 2004/109/EC (transparency directive).

There are no restrictions on the transfer of securities in the Articles of Incorporation of the Company.

There are no securities granting special control right to their holders and there are no restrictions on voting rights of the ordinary shares.

There are no significant agreements to which the Company is party and which would take effect, alter or terminate upon change of control following a public offering or takeover bid.

There are no agreements between the Company and its Board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a takeover bid.

Since 1 October 2010 Keringatlan Kft. has outsourced its facility management activity to the Group's entity Székhely 2007 Kft.

Future Prospects

The financial position and performance of the Group remained stable and even improved, despite the difficult market conditions in 2010. The Dutch investments of the Group have increased due to the utilization of the favourable investment opportunities.

The Group will continue seeking for favorable investment opportunities taking into account the market conditions given and the stable cash flow of the Group.

7 April 2011, Capellen

Várszegi Gábor
Fotex Holding SE
Chairman of the Board

Independent auditor's report

To the Shareholders of
Fotex Holding SE
75, Parc d'Activités
L-8308 Capellen

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Fotex Holding SE, which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the Board of Directors determines is necessary to enable the preparation and presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the "réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the "réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the "réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Fotex Holding SE as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements.

ERNST & YOUNG
Société Anonyme
Cabinet de révision agréé

René ENSCH

Luxembourg, 7 April 2011

Fotex Holding SE and Subsidiaries
Consolidated Statement of Financial Position
Figures in EUR

	Note	31 December 2010	31 December 2009
		EUR	EUR
Assets			
Current Assets:			
Cash and short-term deposits	5	17,245,883	12,997,087
Current portion of other financial assets	6	515,301	957,318
Accounts receivable and prepayments	7	6,483,893	5,460,720
Income tax receivable	17	440,601	1,116,079
Inventories	8	7,637,998	7,635,224
Total current assets		32,323,676	28,166,428
Non-current Assets:			
Property, plant & equipment	9	9,841,384	10,193,661
Investment properties	10	102,384,809	88,429,705
Deferred tax assets	17	419,510	419,236
Intangible assets	11	2,814,996	2,844,347
Non-current portion of other financial assets	6	6,838,490	7,066,520
Goodwill arising on acquisition	12	10,067,494	10,361,520
Total non-current assets		132,366,683	119,314,989
Total assets		164,690,359	147,481,417
Liabilities and Shareholders' Equity			
Current Liabilities:			
Interest-bearing loans and borrowings	16	848,825	426,994
Provisions		217,373	474,542
Accounts payable and other liabilities	13	8,912,889	8,931,819
Total current liabilities		9,979,087	9,833,355
Non-current Liabilities:			
Interest-bearing loans and borrowings	16	37,852,693	24,881,480
Other long-term liabilities	13	1,939,830	2,040,474
Deferred tax liability	17	550,981	688,133
Total non-current liabilities		40,343,504	27,610,087
Shareholders' Equity:			
Issued capital	14	30,543,933	30,543,933
Additional paid-in capital		32,895,729	32,895,729
Goodwill write-off reserve	14	(1,534,125)	(1,856,818)
Retained earnings		71,637,487	67,493,126
Treasury shares, at cost	14	(19,266,955)	(19,121,608)
Equity attributable to equity holders of the parent company		114,276,069	109,954,362
Non-controlling interests in consolidated subsidiaries		91,699	83,613
Total shareholders' equity		114,367,768	110,037,975
Total liabilities and shareholders' equity		164,690,359	147,481,417

The accompanying notes on pages 15 to 66 form an integral part of these consolidated financial statements.

Fotex Holding SE and Subsidiaries
Consolidated Income Statement
Figures in EUR

	Note	for the year ended 31 December 2010	2009
		EUR	EUR
Revenue	20	38,995,678	37,270,569
Operating expenses	15	(32,085,113)	(34,663,822)
Interest income		1,455,905	1,337,042
Interest expenses		(1,315,700)	(608,355)
Income before income taxes	20	7,050,770	3,335,434
Income tax expense	17	(663,664)	(1,028,073)
Net income		6,387,106	2,307,361
Attributable to:			
Equity holders of the parent company		6,375,028	2,224,780
Non-controlling interests		12,078	82,581
Net income		6,387,106	2,307,361
Basic earnings per share	24	0.11	0.04
Diluted earnings per share	24	0.11	0.04

The accompanying notes on pages 15 to 66 form an integral part of these consolidated financial statements.

Fotex Holding SE and Subsidiaries
Consolidated Statement of Comprehensive Income
Figures in EUR

	Note	for the year ended 31 December 2010 EUR	2009 EUR
Net income		6,387,106	2,307,361
Other comprehensive income:			
Exchange differences on translation of foreign operations	19	(1,911,966)	(2,064,279)
Total comprehensive income		4,475,140	243,082
Attributable to:			
Equity holders of the parent company		4,467,054	148,621
Non-controlling interests		8,086	94,461
		4,475,140	243,082

The accompanying notes on pages 15 to 66 form an integral part of these consolidated financial statements.

Fotex Holding SE and Subsidiaries
Consolidated Statement of Changes in Equity

	Issued Capital EUR	Additional Paid-in Capital EUR	Goodwill Write-off Reserve EUR	Retained Earnings EUR	Treasury Shares EUR	Total EUR	Non-controlling interests EUR	Total Equity EUR
1 January 2009	27,465,688	32,895,729	(2,179,511)	70,745,443	(18,612,487)	110,314,862	35,497	110,350,359
Net income 2009	–	–	–	2,224,780	–	2,224,780	82,581	2,307,361
Other comprehensive income	–	–	–	(2,076,159)	–	(2,076,159)	11,880	(2,064,279)
Total comprehensive income	–	–	–	148,621	–	148,621	94,461	243,082
Redeemed treasury shares (note 14)	–	–	–	–	(509,121)	(509,121)	–	(509,121)
Minority dividends	–	–	–	–	–	–	(46,345)	(46,345)
Reversed written off goodwill reserve (note14)	–	–	322,693	(322,693)	–	–	–	–
Share conversion*	3,078,245	–	–	(3,078,245)	–	–	–	–
31December 2009	30,543,933	32,895,729	(1,856,818)	67,493,126	(19,121,608)	109,954,362	83,613	110,037,975
1 January 2010	30,543,933	32,895,729	(1,856,818)	67,493,126	(19,121,608)	109,954,362	83,613	110,037,975
Net income 2010	–	–	–	6,375,028	–	6,375,028	12,078	6,387,106
Other comprehensive income	–	–	–	(1,907,974)	–	(1,907,974)	(3,992)	(1,911,966)
Total comprehensive income	–	–	–	4,467,054	–	4,467,054	8,086	4,475,140
Redeemed treasury shares (note 14)	–	–	–	–	(145,347)	(145,347)	–	(145,347)
Reversed written off goodwill reserve (note14)	–	–	322,693	(322,693)	–	–	–	–
31 December 2010	30,543,933	32,895,729	(1,534,125)	71,637,487	(19,266,955)	114,276,069	91,699	114,367,768

* Further to the transformation of Fotex, the Company's issued capital was translated into EUR on 1 January 2009 at the rate 264.78 HUF /EUR. The difference between the opening rate in 2009 and the rate in the articles of association has been shown as an adjustment in share capital.

The accompanying notes on pages 15 to 66 form an integral part of these consolidated financial statements.

Fotex Holding SE and Subsidiaries
Consolidated Cash Flow Statement

	Note	for the year ended 31 December 2010	2009
		EUR	EUR
Cash flows from operating activities:			
Income before non-controlling interests and income taxes	20	7,050,770	3,335,434
Depreciation and amortisation	15	5,156,519	4,094,204
Provisions used and reversed		(257,169)	89,001
Impairment of intangible assets		-	1,118,324
Scrapped tangible assets		131,709	23,985
Write off of inventories, impairment loss of debtors and other receivables		816,886	1,330,542
Gain on disposals of fixed assets		574	(28,537)
Gain on disposal of other investments		-	(55,777)
Interest income		(1,455,905)	(1,337,042)
Interest expenses		1,315,700	608,355
Changes in assets and liabilities:			
Decrease/(Increase) of accounts receivable and prepayments		(1,068,202)	(1,736,606)
Decrease/(Increase) of inventories		(253,015)	603,581
Increase of accounts payable and other liabilities		781,429	2,595,350
Cash generated from operations		12,219,296	10,640,814
Income tax paid		(286,956)	(1,425,080)
Net cash flow from operating activities		11,932,340	9,215,734
Cash flows from investing activities:			
Acquisition of tangible and intangible assets		(21,956,568)	(36,504,437)
Sale proceeds of tangible and intangible assets		10,806	53,525
Purchase of financial investments		(90,618)	(1,330,091)
Repayments of loans granted		1,078,669	115,754
Interest received		955,021	788,599
Net cash flow used in investing activities		(20,002,690)	(36,876,650)
Cash flows from financing activities:			
Loan received		14,068,473	25,308,474
Dividends paid		-	(46,345)
Interest paid		(1,438,917)	(587,130)
Purchased treasury shares		(145,347)	(509,121)
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Change in cash and cash equivalents		4,413,859	(3,495,038)
Cash and cash equivalents at beginning of the year	5	12,997,087	18,130,262
Effect of foreign currency translation		(165,063)	(1,638,137)
Cash and cash equivalents at end of the year	5	17,245,883	12,997,087

The accompanying notes on pages 15 to 66 form an integral part of these consolidated financial statements.

1. General

Further to the decision of the shareholders, as of 31 December 2008, the Court of Registration cancelled Fotex Nyrt. from the companies register on the grounds of transformation and, according to the Court's decision dated 9 January 2009, registered FOTEX HOLDING SE Nyilvánosan Működő Európai Részvénytársaság (FOTEX HOLDING SE European public limited company) as of 1 January 2009. Following the transformation into a European public limited company, the Company's extraordinary general meeting held on 4 June 2009 decided to move the Company's registered office to Luxembourg. The Company has been registered in the Luxembourg companies register under the number R.C.S.B 146.938. The Company's new registered address is at 75, Parc d'activités, L-8308 Capellen, Luxembourg. The Metropolitan Court of Budapest, as the competent authority, struck the Company off the Hungarian companies register on 28 August 2009.

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Subsidiary:	Principal Activities:	2010	2009
		%	%
Ajka Kristály Kft. (Ajka)	Crystal manufacturing and retail	100.0	100.0
Balaton Bútor Kft.	Furniture manufacturer	100.0	100.0
Balaton Glas Hotel Kft.	Property management (Note 22)	100.0	100.0
Downington Holding S.à r.l.	Investment holding	100.0	100.0
Europrizma Kft.	Advertising	100.0	100.0
Fotex Cosmetics Kft.	Cosmetics retailer	100.0	100.0
Fotexnet Kft.	Internet retail and other services	100.0	98.6
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
Fotex Netherlands B.V.	Property management (Note 22)	100.0	100.0
Primo Zrt.	Clothing retailing and wholesaling	100.0	100.0
Sigma Kft.	Property services	75.1	75.1
Székhely 2007 Kft.	Property management	99.1	99.1
Upington Investments S.à r.l.	Investment holding	100.0	100.0

The consolidated financial statements of the Group for the year ended 31 December 2010 were formally approved by the Board of Directors on 7 April 2011 and will be presented to the annual general meeting of shareholders for approval on 26 April 2011.

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 Group 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 subsidiaries 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 as adopted by the EU ("IFRS"). IFRS comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC"), and the EU.

Effective 1 January 2005, the Group prepares its consolidated financial statements in accordance with IFRS as adopted by the EU. At 31 December 2010, 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.

As a result of Fotex's transformation to an SE (Societas Europaea) from 1 January 2009, Fotex Holding SE became a European public limited company that is regulated under the laws of the Grand Duchy of Luxembourg. The reporting currency of the consolidated financial statements changed to EUR – please see accounting policy change Note 2 for more detail.

Basis of consolidation

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

All intra-group balances, revenues and expenses and gains and losses resulting from intra-group transactions are eliminated.

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.

Non-controlling interests represent the portion of income or loss and net assets not held by the Group and are presented separately in the consolidated income statement and within shareholders' equity in the consolidated statement of financial position, separately from the equity attributable to equity holders of the parent. 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 statement of financial position at the date of the acquisition of the minority interest is reflected as being a transaction between owners.

2. Significant Accounting Policies (continued)

As a result of its transformation into a European public limited company, the Company's financial records have been kept in EUR since 1 January 2009. Accordingly, Fotex Group's consolidated financial statements are prepared in EUR.

The functional currency of the Group's subsidiaries included in the consolidation is the Hungarian Forint ("HUF"), except for the subsidiaries outside of Hungary, whose functional currency is EUR. Considering that the reporting currency is EUR, it was necessary to convert the elements of the statement of financial position and income statements of subsidiaries from HUF to EUR.

The following foreign currency ("FX") rates have been applied at the conversion from HUF to EUR:

The income statement has been converted to EUR using the quarterly Hungarian National Bank ("MNB") average FX rate:

	2010	2009
First quarter	268.57 HUF/EUR	294.57 HUF/EUR
Second quarter	274.38 HUF/EUR	285.93 HUF/EUR
Third quarter	282.46 HUF/EUR	271.36 HUF/EUR
Forth quarter	275.90 HUF/EUR	270.90 HUF/EUR

Assets and liabilities have been converted to EUR using the MNB FX rate as at 31 December 2010: 278.75 HUF/EUR (2009: 270.84 HUF/EUR).

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 1 January 2010. Adoption of these revised Standards and Interpretations did not have any effect on the financial performance or position of the Group. They did however give rise in some cases to additional disclosures, including in some cases, revisions to accounting policies. The changes in accounting policies result from the adoption of the following new or revised Standards:

- IFRS 2 – Share-based Payment – Group Cash-settled Share-based Payment Transactions effective 1 January 2010
- IFRS 3 – Business Combinations (Revised)
- IAS 17 – Leases – Amendment
- IAS 27 – Consolidated and Separate Financial Statements (Amended)
- IAS 39 – Financial Instruments: Recognition and Measurement – Eligible Hedged Items
- IFRIC 17 – Distribution of Non-cash Assets to Owners
- IFRIC 18 – Transfers of Assets from Customers

2. Significant Accounting Policies (continued)

The principal effects of these changes are as follows:

IFRS 2 – Share-based Payment – Group Cash-settled Share-based Payment Transactions
The IASB issued an amendment to IFRS 2 that clarifies the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2010.The adoption of this amendment did not have any impact on the financial position or performance of the Group as the Group did not have such scheme.

IFRS 3 – Business Combinations (Revised) and IAS 27 – Consolidated and Separate Financial Statements (Amended)

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported result in the period that an acquisition occurs and future reported results. The Group has concluded that the amendment will have no impact on the consolidated financial position or performance of the Group in 2010.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will they 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.
The changes by IFRS3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

The change in accounting policy was applied prospectively and had no material impact on earnings per share.

IAS 17 – Leases – Amendment
This amendment deletes much of the existing wording in the standard to the effect all leases of land (where title does not pass) were operating leases. The amendment requires that in determining whether the lease of land (either separately or in combination with other property) is an operating or a finance lease, the same criteria are applied as for any other asset. The Group does not have finance leases of land as lessor or lessee. Therefore, this change has no impact on the financial position or performance of the Group.

IAS 39 – Financial Instruments: Recognition and Measurement – Eligible Hedged Items
The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment has no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

2. Significant Accounting Policies (continued)

IFRIC 17 – Distribution of Non-cash Assets to Owners
This Interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The Interpretation has no effect on either, the financial position or performance of the Group.

IFRIC 18 – Transfers of Assets from Customers
This Interpretation applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. Agreements within the scope of this Interpretation are agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. The Group has no such agreements.

Improvements to IFRSs

In May 2008 and April 2009 the IASB issued omnibus amendments to its Standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each Standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group:

Issued in May 2008

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity retains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position or performance of the Group.

Issued in April 2009

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. The amendment is applied prospectively and has no impact on the financial position or performance of the Group.

IFRS 8 Operating Segments: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 20.

IAS 7 Statement of Cash Flows: states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact amongst others, the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2010 upon cash settlement.

2. Significant Accounting Policies (continued)

IAS 36 Impairment of Assets: the amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

Other amendments resulting from improvements to IFRSs to the following Standards did not have any impact on the accounting policies, financial position or performance of the Group:

Issued in April 2009

- IAS 1 Presentation of Financial Statements
- IAS 34 Interim Financial Reporting
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation

Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less. Cash and cash equivalents comprise cash on 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 purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

Foreign currency translation

With Fotex's transformation to SE (Societas Europapaea) from 1 January 2009, Fotex became a European public limited company registered in Luxembourg that is regulated under the laws of the Grand Duchy of Luxembourg. As a consequence of the change of its registered office to Luxembourg, Fotex changed its major contracts to EUR and changed its functional currency from HUF to EUR. The reporting currency of the consolidated financial statements changed also from HUF to EUR.

In view of the reporting currency change as of 1 January 2009, the Group has translated and has disclosed all relevant comparative financial information according to the translation rules set by IAS 21 "The Effect of Changes in Foreign Exchange Rates".

As the change in IAS 21 regarding the presentation currency is similar to a change in the accounting policies, when an entity changes its presentation currency, it is appropriate to follow the approach in IAS 8 which requires retrospective application, except where it is impracticable.

2. Significant Accounting Policies (continued)

After considering the costs and benefits of retrospective application of translation to EUR, Fotex decided to apply the translation using the opening balance of the first comparative period presented in the 2009 consolidated financial statements. In accordance with the above, in the case of subsidiaries whose functional currency is HUF, the Group has applied the opening exchange rates of the first comparative period (1 January 2008) to translate assets and liabilities in the 2009 consolidated financial statements.

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 translated at the exchange 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 cost of direct materials and labour and a proportion of overheads in manufacturing subsidiaries, but excludes borrowing costs.

Net realisable 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.

2. Significant Accounting Policies (continued)

Freehold land is not depreciated.

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

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

The cost of properties retired or otherwise disposed of, together with the accumulated depreciation provided thereon, is eliminated from the financial statements. 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.

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

<u>Group as a lessee:</u>
Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

2. Significant Accounting Policies (continued)

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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Financial assets

Initial recognition
Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All investments are initially recognised 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, loans and other receivables and held-to-maturity investments.

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 statement of financial position at fair value with changes in the fair value recognised in the income statement. The Group has not designated any financial assets as at fair value through profit or loss.

2. Significant Accounting Policies (continued)

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 31 December 2010 and 2009.

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 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 them 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 income statement when the investments are derecognised or impaired, as well as through the amortisation process. The Group has held-to-maturity investments as of 31 December 2010 and 2009.

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. The Group has no available-for-sale financial assets as of 31 December 2010 and 2009.

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.

2. Significant Accounting Policies (continued)

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
Financial liabilities at fair value through profit or loss include 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.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position 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 rate 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.

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 isexperiencing 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 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.

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.

2. Significant Accounting Policies (continued)

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.

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.

2. Significant Accounting Policies (continued)

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 by the Hungarian state via certain social security charges included in the gross cost of the employees wage.

Investment properties

Investment properties are measured initially at cost, including transaction 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 cost of day-to-day servicing of an investment property. Subsequent to initial recognition under the cost model assets are recognised at cost and depreciated systematically over this useful life.

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

	Years
Buildings	20-30

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.

2. Significant Accounting Policies (continued)

Business combinations and Goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After 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 that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit 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.

2. Significant Accounting Policies (continued)

Business combinations prior to 1 January 2010

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were 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. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

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.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their 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 capitalised 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.

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 lives 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 are 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.

2. Significant Accounting Policies (continued)

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 statement of financial position 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 Group's 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 consolidated statement of changes in shareholder's equity. The Group had no such investments in either 2010 or 2009.

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.

2. Significant Accounting Policies (continued)

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 substantially 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.

Subsidiaries of the Group - 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.

Treasury shares

Fotex owned ordinary shares 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.

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.

2. Significant Accounting Policies (continued)

Interest income
Revenue is recognised as the interest accrues using the effective interest rate 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 consolidated 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. The only material reclassification relates to the expenses of EUR 25,797,229 from the "Selling, general and administration expenses" and EUR 8,866,593 from the "Cost of Sales" captions into "Operating expenses", as the Board of Directors determined that the presentation of the expenses by nature rather than by function is more appropriate to the consolidated financial statements of the Group.

3. Significant accounting judgments, estimates and assumptions

Judgments

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

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

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 as at 31 December 2010 is EUR 10,067,494 (2009: EUR 10,361,520). 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 are 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 31 December 2010 is EUR 2,658,396 (2009: EUR 2,658,396). 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 income together with future tax planning strategies. The recognised tax loss as at 31 December 2010 is EUR 1,136,887 (2009: EUR 0). Further details are given in Note 17.

Fair Value of Investment Properties
The Group has determined and presented in the notes the fair value of investment properties 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 properties: retail outlets, offices, warehouses and other real estate property using average rental fees currently realisable 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 consolidated financial statements, the following Standards and Interpretations were in issue but not yet effective for December 2010 year-end.

IFRS 9 Financial Instruments: is the first step in a three part project by the IASB to replace IAS 39 Financial Instruments. This first part, dealing with the classification and measurement of financial assets, simplifies the recognition of financial assets by requiring such assets to be measured at either amortised cost or fair value, depending on certain criteria. The Standard is effective for financial years beginning on or after 1 January 2013. The Group is in the process of analysing the impact of this Standard on their consolidated operations as well as the date at which they plan to adopt the Standard.

4. Standards issued but not yet effective (continued)

IAS 24 Related Party Disclosures (Revised)
The IASB issued a revised version of IAS 24 Related Party Disclosures that simplifies the disclosure requirements for government related entities and clarifies the definition of a related party. The revised Standard is effective for annual periods beginning on or after 1 January 2011, with early application permitted. The Group has concluded that the amendment will have no impact on the consolidated financial position or performance of the Group.

IAS 32 Financial Instruments: Presentation, Classification of Right Issues
The amendment provides that when an entity issues rights denominated in a currency other than the entity's functional currency, and those rights are issued pro rata to the entity's existing shareholders for a fixed amount of cash, they should be classified as equity even if their exercise price is denominated in a currency other than the issuer's functional currency. The amendment is effective for annual periods beginning on or after 1 February 2010, with earlier application permitted. The amendment is to be applied retrospectively. The Group plans to adopt this interpretation at its effective date, and does not anticipate any significant impact on its consolidated financial statements.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)
The amendment provides guidance on assessing the recoverable amount of a net pension asset.

The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The Group has concluded that the interpretation will have no impact on the consolidated financial position or performance of the Group.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
The Interpretation clarifies that when equity instruments are issued to a creditor, the financial liability is extinguished and the equity instruments are treated as consideration paid to extinguish the liability. The equity instruments are measured at either the fair value of the liability extinguished or the fair value of the equity instruments issued, whichever is more reliable. Any difference between the carrying amount of the financial liability and the fair value of the equity instruments issued is recognised immediately in profit or loss. The Interpretation has an effective date for financial year beginning on or after 1 July 2010. The Group has concluded that the Interpretation will have no impact on the consolidated financial position or performance of the Group.

Improvements to IFRSs (issued in May 2010)

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS Standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, could have an impact on the Group:

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IFRIC 13 Customer Loyalty Programmes

The Group, however, expects no impact from the adoption of the amendments on its consolidated financial position or performance.

5. Cash and cash equivalents

Liquid assets held at banks bear daily floating interest rates and are deposited for the short-term (1 day to 3 months) in view of the prompt liquidity needs of the Group. Such deposits yield interest according to the applicable short-term rates. The fair value of cash and short-term deposits is EUR 17,245,883 (2009: EUR 12,997,087).

Cash includes fixed deposits of EUR 2,740,413 (2009: EUR 7,964,063) at rates ranging from 3.5% to 7.1% (2009: 2% to 9%). The Company has EUR, USD and HUF deposits. The lower rates are on foreign currencies while the higher ones are on HUF.

6. Other financial assets

Current	31.12.2010 EUR	31.12.2009 EUR
Cash deposits connected to rented properties	279,509	228,840
Current part of long-term loans to other companies	-	571,219
Other short-term investments held-to-maturity – net of impairment	235,792	157,259
Current portion of other current financial assets, total	515,301	957,318

Non-current	31.12.2010 EUR	31.12.2009 EUR
Cash deposits connected to rented properties	1,933,037	2,040,474
Investments held-to-maturity	4,804,608	4,356,649
Loans to senior officers	92,393	265,755
Long-term loans to other companies – net of impairment	8,452	403,642
Non-current portion of other financial assets, total	6,838,490	7,066,520

Cash deposit connected to rented properties
The Group has received 2 to 3 months deposits from its tenants which are held at a bank. Deposits are only repayable if the related rental contract is terminated. Based on the historical and expected rental cancellation rate, the Group has classified the deposits which are expected to be repayable in more than one year to long-term, and the deposits which are expected to be repayable within one year were classified as short-term.

Investments held-to-maturity
Long-term securities held-to-maturity include mainly OTP Bank Nyrt. ("OTP") and MOL Nyrt ("MOL") bonds purchased by the Group's subsidiary in Luxembourg.

6. Other financial assets (continued)

The Group has 7,100 subordinated OTP bonds with face value of EUR 1,000 each purchased by the Group on 1 and 2 December 2008 and on 27 January 2009 for EUR 3,509,853. The bonds were issued on 19 September 2006 and mature on 19 September 2016 at a rate of 100% of the face value. The bonds bear 5.27% interest and interest is paid on 19 September each year. The cost of the investment, which the Group intends to hold to maturity, less the effective interest at 31 December 2010 is EUR 4,093,865 (2009: EUR 3,734,520). The applied average effective interest rate is 18%. The fair value of the OTP bonds at the year-end is EUR 6,146,738 (2009: EUR 5,456,606).

The Group purchased 1,000 MOL bonds with face value of EUR 1,000 each on 12 March 2009 for EUR 524,380. The MOL bonds mature on 5 October 2015 and bear an interest of 3.88% payable on 5 October each year. The cost of the investment, which the Group intends to hold to maturity, less the effective interest at 31 December 2010 is EUR 608,801 (2009: EUR 517,812). The applied average effective interest rate is 16%. The fair value of the MOL bonds at the year-end is EUR 889,873 (2009: EUR 822,870).

Loans to senior officers:
Arm’s length loans granted by Fotex are to senior officers to purchase dividend preference shares totalling EUR 92,393 at 31 December 2010 (2009: EUR 265,755) (Note 14).

Most other long-term loans represent loans that were granted to companies that had taken over the discontinued operations of Domus Lánc Kft. All the loans were terminated by the end of 2010 and the uncollected outstanding amounts were written off as described below. The remaining amount of other long-term loans of EUR 8,452 represents insignificant loans to other parties.

EUR 1,496,235 (2009: EUR 1,496,235) was granted to Domus VIVA Kft. at 12-month EURO-LIBOR interest rate. The loan was secured by a mortgage on Domus VIVA Kft’s assets and prompt collection orders on the company’s bank accounts. The loan would have matured on 31 August 2012 but was terminated on 15 July 2010. From the realisation of the securities the Group received EUR 814,527. The remaining amount of EUR 75,092 was written off (until 31 December 2009 EUR 606,616 of impairment had already been booked).

EUR 104,342 (2009: EUR 104,342) was granted to Modusz Alba Kft. at 12-month EURO-LIBOR interest rate. The loan was secured by a mortgage on Modusz Alba Kft’s assets and prompt collection orders on the company’s bank accounts. The loan agreement was cancelled with immediate effect on 7 September 2009 as the debtor had failed to meet its timely instalment paying obligations. The total loan was written off in 2009.

EUR 112,833 (2009: EUR 112,833) was granted to Domus Store Kft. at 12-month EURO-LIBOR interest rate. The loan was secured by a mortgage on Domus Store Kft.’s assets and prompt collection orders on the company’s bank accounts. The loan would have matured on 31 October 2012, but it was terminated on 15 September 2010. From the realisation of the securities the Group received EUR 55,849. The remaining amount of EUR 16,263 was written off (until 31 December 2009 EUR 40,721 of impairment had already been booked).

Interest charged on the loans of EUR 64,990 was fully written off in 2010.

7. Accounts receivable and prepayments

	31.12.2010	31.12.2009
	EUR	EUR
Accounts receivable (debtors)	5,531,848	5,112,572
Impairment loss on accounts receivable (debtors)	(946,542)	(697,161)
Tax assets	498,766	364,800
Other receivables and prepayments/accrued income	1,739,316	749,210
Impairment loss on other receivables	(339,495)	(68,701)
Total	6,483,893	5,460,720

The terms applicable to related parties are set out in Note 25.

Debtors typically pay between 0 and 60 days, during this period no late payment interest is charged.

Tax assets are typically received within three months.

Impairment loss on debtors and on other receivables at 31 December 2010: EUR 1,286,037 (2009: EUR 765,862).

Movements in impairment loss:

	EUR
1 January 2009	860,235
Charge for the year	390,164
Utilised	(223,224)
Unused amount reversed	(233,662)
Currency loss arising from retranslation	(27,651)
31 December 2009	765,862
Charge for the year	656,965
Utilised	(62,942)
Unused amount reversed	(52,115)
Currency loss arising from retranslation	(21,733)
31 December 2010	1,286,037

7. Accounts receivable and prepayments (continued)

Aged debtors less impairment losses at 31 December:

	Not overdue and not impaired	Overdue but not impaired					
		< 30 days	30-90 days	90-180 days	180-360 days	>360 days	Total
2010	3,851,292	397,094	157,769	43,233	53,309	82,609	4,585,306
2009	3,583,526	393,302	207,207	81,790	23,139	126,447	4,415,411

8. Inventories

	31.12.2010	31.12.2009
	EUR	EUR
Merchandise and finished products	8,361,764	8,684,574
Materials	1,124,639	1,026,514
Work in progress	2,121,892	2,126,938
Inventories, gross	11,608,295	11,838,026
Impairment of merchandise and finished products	(3,409,006)	(3,688,723)
Impairment of materials	(46,450)	(40,633)
Impairment of work in progress	(514,841)	(473,446)
Impairment of inventories	(3,970,297)	(4,202,802)
Total inventories, net	7,637,998	7,635,224

Movements in inventory impairment loss:

Management has identified a number of Group companies that have slow moving inventories. Management considers the recognised impairment loss of EUR 3,970,297 as adequate (2009: EUR 4,202,802). Advances for inventories are presented among receivables. For the sake of comparison, advances of EUR 33,902 made for inventories in 2009 have been reclassified from inventories to receivables.

9. Property, plant and equipment

Movements in tangible assets during 2010 were as follows:

	Land, buildings, improvements	Furniture, machinery, equipment, fittings	Construction in progress	Total
	EUR	EUR	EUR	EUR
Cost:				
1 January 2010	7,379,174	20,205,460	1,115,426	28,700,060
Additions	853,793	946,258	-	1,800,051
Disposals and write downs	(218,866)	(1,728,509)	(654,668)	(2,602,043)
Currency loss arising from retranslation	(210,011)	(579,858)	(23,801)	(813,670)
31 December 2010	7,804,090	18,843,351	436,957	27,084,398
Accumulated depreciation:				
1 January 2010	(1,637,449)	(16,868,950)	-	(18,506,399)
Depreciation expense	(201,457)	(838,697)	-	(1,040,154)
Disposals and write downs	64,764	1,692,875	-	1,757,639
Currency gain arising from retranslation	57,618	488,282	-	545,900
31 December 2010	(1,716,524)	(15,526,490)		(17,243,014)
Net book value				
31 December 2010	6,087,566	3,316,861	436,957	9,841,384
31 December 2009	5,741,725	3,336,510	1,115,426	10,193,661

At 31 December 2010, the cost of tangible assets fully written off (due to ordinary or extraordinary depreciation) was EUR 5,606,963 (2009: EUR 6,763,885). The cost of tangible assets temporarily out of use is EUR 16,951 (2009: EUR 17,040).

At the end of 2006, management reassessed its property portfolio and decided 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. See details under Note 10. The properties shown in the above schedule among land, buildings and improvements are presented at cost less accumulated depreciation.

9. Property, plant and equipment (continued)

Movements in tangible assets during 2009 were as follows:

	Land, buildings, improvements	Furniture, machinery, equipment, fittings	Construction in progress	Total
	EUR	EUR	EUR	EUR
Cost:				
1 January 2009	7,512,511	21,039,798	1,466,541	30,018,850
Additions	205,804	822,576	(373,172)	655,208
Disposals and write downs	(336,306)	(1,232,483)	-	(1,568,789)
Currency (loss)/gain arising from retranslation	(39,244)	(424,431)	22,057	(441,618)
Transfer to/from investment properties (Note 10)	36,409	–	–	36,409
31 December 2009	7,379,174	20,205,460	1,115,426	28,700,060
Accumulated depreciation:				
1 January 2009	(1,754,411)	(17,203,558)	–	(18,957,969)
Depreciation expense	(266,465)	(778,834)	–	(1,045,299)
Disposals and write downs	328,954	756,395	–	1,085,349
Currency gain arising from retranslation	54,473	357,047	–	411,520
Transfer to/from investment properties (Note 10)	–	–	–	–
31 December 2009	(1,637,449)	(16,868,950)	–	(18,506,399)
Net book value				
31 December 2009	5,741,725	3,336,510	1,115,426	10,193,661
31 December 2008	5,758,100	3,836,240	1,466,541	11,060,881

10. Investment properties

The Group controls a significant property 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. The Group gradually abandoned its retail activity and has become an investment property company by leasing an increasing proportion of its real estate portfolio to third parties. Investment property is measured in the consolidated statement of financial position at historic cost less accumulated depreciation. The Group has made an internal valuation of all its investment properties as of 31 December 2010. The key valuation methodology and major assumptions used in the valuation are set out below in this note.

Movements in investment properties in 2010 were as follows:

	Investment properties
Cost:	EUR
1 January 2010	106,662,915
Additions	19,381,054
Currency loss arising from retranslation	(1,845,546)
31 December 2010	124,198,423
Accumulated depreciation:	
1 January 2010	(18,233,210)
Depreciation expense	(4,096,516)
Currency gain arising from retranslation	516,112
31 December 2010	(21,813,614)
Net book value:	
31 December 2010	102,384,809
31 December 2009	88,429,705

10. Investment properties (continued)

The fair values of investment properties at 31 December 2010 are set out below:

Category	Area	Net book value	Estimated fair value
	m^2	EUR	EUR
Retail outlets	145,716	33,883,648	163,121,683
Offices	39,008	47,879,633	65,063,516
Warehouses	97,111	3,141,146	15,138,744
Other structures	38,830	3,239,595	5,263,805
Plots of land	677,670	14,240,787	23,430,835
Total investment properties	998,335	102,384,809	272,018,583

Movements in investment properties in 2009 were as follows:

	Investment properties
	EUR
Cost:	
1 January 2009	70,981,135
Additions	37,285,200
Transfer to/from tangible assets	(36,409)
Currency loss arising from retranslation	(1,567,011)
31 December 2009	106,662,915
Accumulated depreciation:	
1 January 2009	(15,472,075)
Depreciation expense	(3,006,514)
Transfer to/from tangible assets	–
Currency gain arising from retranslation	245,379
31 December 2009	(18,233,210)
Net book value:	
31 December 2009	88,429,705
31 December 2008	55,509,060

10. Investment properties (continued)

The fair values of investment properties at 31 December 2009 are set out below:

Category	Area	Net book value	Estimated fair value
	m^2	EUR	EUR
Retail outlets	145,670	36,410,975	165,757,256
Offices	26,831	36,827,685	40,692,869
Warehouses	97,723	3,572,252	13,552,392
Other structures	38,660	3,382,039	5,182,875
Plots of land	671,816	8,236,754	22,409,604
Total investment properties	980,700	88,429,705	247,594,996

The fair value of investment properties was determined by management based on the present values of the future cash flows, determined separately for each presented property category based on the currently realised rental rates. Unbuilt plots of land were valued based on the comparable market prices method.

Key valuation assumptions for 2010

The present values have been calculated based on a market yield rate which is suitable to measure properties in the relevant markets and is based on the following assumptions:

- Fall in demand for rentable properties in the relevant markets has stopped and a gradual increase in demand is expected. Rents are not expected to fall further and stabilize followed by a gradual recovery.
- Let investment properties have been calculated based on actual earnings in the reporting period and on actual earnings in the basis period.
- The used yield rate per property item located in Hungary is 9% to 14% depending on the type and location of the property (2009: 9-14%). For the Dutch properties, the calculated yield rate is 6.5 to 8.7%. The market values identified based on these rates do not depart significantly from the costs of new properties acquired in 2009.
- The yield rate on presently vacant retail units is based on an 80% let-out rate. With respect to the unrecoverable costs of the properties that cannot be re-charged on the tenants by the owner an 80% let-out rate was also considered. This rate reflects market trends and the applicable yield rate has not increased. In the basis period, the let-out rate was 100% and the yield rate increased by an additional 2% to reflect the additional risk of vacancies.

Rents are predominantly set in EUR in the rental contracts. Where rent is set in HUF, the related yield has been calculated at a 275 HUF/EUR exchange rate.

10. Investment properties (continued)

The correlation between the most probable change in the key assumptions and the fair value of the property portfolio is illustrated by the sensitivity analysis below:

	2010	2009
	EUR	EUR
Yield rate drops by 50 bps	13,249,896	11,301,328
Rent rate drops by 5%	(2,561,137)	(1,305,724)

The value of land is typically estimated based on publicly available benchmarks as adjusted for individual circumstances (date of sale, property characteristics, selling terms etc.).

The land beneath existing buildings of a total area of 109,970 m^2 (2009: 103,718 m^2) and the unused land portion of warehouses and similar properties have not been included in the fair value assessment.

11. Intangible assets

Movements in intangible assets during 2010 were as follows:

	Media and merchandising rights	Other	Total
	EUR	EUR	EUR
Cost:			
1 January 2010	6,667,194	943,087	7,610,281
Additions	-	37,434	37,434
Disposals and write downs	-	(75,354)	(75,354)
Currency gain arising from retranslation	-	51,204	51,204
31 December 2010	6,667,194	956,371	7,623,565
Accumulated amortisation:			
1 January 2010	(4,008,798)	(757,136)	(4,765,934)
Amortisation expense	-	(19,849)	(19,849)
Impairment	-	-	-
Disposals and write downs	-	31,322	31,322
Currency loss arising from retranslation	-	(54,108)	(54,108)
31 December 2010	(4,008,798)	(799,771)	(4,808,569)
Net book value:			
31 December 2010	2,658,396	156,600	2,814,996
31 December 2009	2,658,396	185,951	2,844,347

11. Intangible assets (continued)

Movements in intangible assets during 2009 were as follows:

	Media and merchandising rights	Other	Total
	EUR	EUR	EUR
Cost:			
1 January 2009	6,667,194	1,490,680	8,157,874
Additions	-	26,574	26,574
Disposals and write downs	-	(514,945)	(514,945)
Currency loss arising from retranslation	-	(59,222)	(59,222)
31 December 2009	6,667,194	943,087	7,610,281
Accumulated amortisation:			
1 January 2009	(2,890,474)	(1,290,683)	(4,181,157)
Amortisation expense	-	(42,391)	(42,391)
Impairment	(1,118,324)	-	(1,118,324)
Disposals and write downs	-	480,005	480,005
Currency gain arising from retranslation	-	95,933	95,933
31 December 2009	(4,008,798)	(757,136)	(4,765,934)
Net book value:			
31 December 2009	2,658,396	185,951	2,844,347
31 December 2008	3,776,720	199,997	3,976,717

The column ’Other’ reflects property rental rights associated with subsidiaries. As part of discontinuing its ownership of FTC acquired in 2001 (at a cost of HUF 1.9 billion – ca. EUR 7 million), Fotex acquired certain merchandising rights in FTC (media and brand merchandise, distribution and promotion rights [billboards]) in 2003 for an unlimited period. By 31 December 2005, there was no indication of any impairment. In view of the cash inflows in the near future and estimated potential inflows, management calculated the fair value of these rights based on the expected cash flows discounted at 8.5%. An impairment loss of EUR 4,008,798 was recorded in previous years. Based on management’s estimates no additional impairment loss is required for 2010 (2009: EUR 1,118,324).

12. Goodwill arising on acquisition

Movements in goodwill on business combinations were as follows during 2009 and 2010:

	2010	2009
	EUR	EUR
Cost:		
1 January	20,555,398	21,025,848
Currency loss arising from retranslation	(583,294)	(470,450)
31 December	19,972,104	20,555,398
Impairment:		
1 January	(10,193,878)	(10,427,185)
Currency gain arising from retranslation	289,268	233,307
31 December	(9,904,610)	(10,193,878)
Net book value		
1 January	10,361,520	10,598,663
31 December	10,067,494	10,361,520

At the year-end, the Group considered whether there were any indicators of impairment of the value of goodwill. The Group estimated the value in use of cash generating units attributable to goodwill based on operating profits in both the reporting period and the basis period discounted at 10% interest rate. Based on this calculation, no impairment loss was recognised on goodwill.

Goodwill is allocated to the following entities:

	2010	2009
	EUR	EUR
Keringatlan Kft.	9,943,673	10,234,083
Balaton Glas Hotel Kft.**	123,821	127,437
Net book value	10,067,494	10,361,520

** At 31 December 2010, the companies court registered the merger of Balaton Glas Hotel Kft. into Keringatlan Kft. effective as of 1 January 2011.

Management estimates that goodwill is not impaired despite any potential changes in the underlying valuation model since the fair values of the investment properties, to which the goodwill relates, are significantly higher than the book value of the properties.

13. Accounts payable and other liabilities

	31.12.2010	31.12.2009
	EUR	EUR
Trade payables	2,235,663	2,194,122
Taxes payable (excluding income taxes)	948,680	858,399
Advances from customers	30,676	27,053
Accrued expenses	863,738	877,577
Deferred rental income	2,147,166	2,110,016
Remuneration approved for executive incentive scheme – dividend preference shares (see Note 14)	651,000	651,001
Amounts payable to employees	182,881	145,791
Deposits from tenants (i)	279,509	255,971
Preference shares incentive scheme liability	556,054	634,938
Other liabilities	1,017,522	1,176,951
Total accounts payable and other current liabilities	8,912,889	8,931,819
Other long term liabilities (i)	1,939,830	2,040,474

Terms and conditions of the above liabilities:

Trade payables are non-interest bearing and are typically settled on a 20 to 30-days term. Other payables are non-interest bearing and have an average term of 1 to 3 months. Payables to employees are non-interest bearing and represent one monthly salary with contributions. Rental deposits are payable typically within 30 days of the end date of the underlying rental contract.

(i) The Group has received 2 to 3 months deposits of EUR 2,212,546 (2009: EUR 2,296,445) from its tenants which are repayable if the related rental contract is terminated. Based on the historical and expected rental cancellation rate, the Group has classified as other long-term liabilities of deposit liabilities which are expected to be repayable in more than one year (EUR 1,933,037 (2009: EUR 2,040,474)), and the part which is expected within a year was classified as short-term tenant deposit liabilities (EUR 279,509 (2009: EUR 255,971)). Other long-term liabilities include car leases totalling EUR 6,793 (2009: 0 EUR) in addition to safety deposits received from customers.

Dividend preference shares incentive scheme

The general meeting of the Company on 31 August 2007 authorised the Board of Directors to increase the capital by a maximum amount of EUR 3,093,041 (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.

13. Accounts payable and other liabilities (continued)

These dividend preference shares are to be used as a remuneration and long-term incentive system for executive officers, as well as senior employees. The dividend preference shares are intended to encourage good stewardship in members of management by directly connecting remuneration entitlement of preference shareholders to enhanced performance and stock exchange rates thereby contributing to increasing shareholder value for all. Fotex has an optional redemption right on dividend preference shares which is valid up to five years. Unless Fotex exercises its redemption right within five years of the end of employment of a member of management, the holder of such dividend preference shares may retain its shareholder rights. 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 double of the European central bank twelve months base interest rate relevant for the 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 profit after taxes minus minority interests. The total preference dividend payable is subject to approval of the general meeting of the Company. Given the nature of the employee preference shares, the amount of shares in issue is treated as a short-term liability and any dividend payable will be treated as employee expense.

In November 2007, Fotex issued 2,000,000 dividend preference shares with a face value of EUR 840,000 (HUF 200 million). These dividend preference shares were presented in the consolidated statement of financial position as treasury shares. Group management purchased the dividend preference shares on 28 April 2008. On that date the dividend preference shares were shown as a liability (preference shares incentive scheme liability). Fotex granted arm's length loans to members of management to buy these shares.

On 13 May 2009, the Company's CEO exercised his redemption right under the approved incentive scheme and redeemed the dividend preference shares of the managers of certain subsidiaries where annual profits fell short of their budget. The shares were redeemed at the rates set out in the underlying sale-purchase contracts (120% of the face value). Fotex set off the redemption price payable against the loans and interest receivable from the affected persons under the loan agreements for the purchase of the dividend preference shares. No dividend was paid on the redeemed shares. No dividend preference shares were redeemed in 2010; the change in dividend preference shares is due to the year-end foreign exchange revaluation.

The shareholders' meeting of 26 April 2010, upon approval of the consolidated financial statements for 2009, decided to pay a dividend of EUR 0.42 per preference share. The total amount of preference dividends due to members of management of EUR 651,000 is presented among payments to personnel in the consolidated financial statements in 2009.

At their meeting of 7 April 2011, the Board of Directors approved to pay dividends on the preference shares equal to their face value. This dividend payment is subject to formal approval by the shareholders' meeting. The total amount of preference dividends due to members of management of EUR 651,000 is presented among payments to personnel in the consolidated financial statements in 2010.

14. Share capital and reserves

Share capital

The Company's approved and issued share capital totals EUR 30,543,933 consisting of shares with face value of EUR 0.42 each. At 31 December 2010, the Company's issued share capital included 70,723,650 ordinary shares and 2,000,000 dividend preference shares (2009: 70,723,650 ordinary shares and 2,000,000 dividend preference shares).

Treasury shares

The 2,000,000 dividend preference shares issued by the Company which are shown as part of "Issued capital" (2010: EUR 840,000; 2009: EUR 840,000) are also shown in "Treasury shares". As at 31 December 2010 1,550,000 (2009: 1,550,000 shares) dividend preference shares are held by certain employees. These shares are shown within "Treasury shares" and as a liability (preference shares incentive scheme liability) as further disclosed in Note 13.

As of 31 December 2010, the Company holds 12,632,549 treasury shares (including dividend preference shares) for a total amount of EUR 19,266,955 (2009: 12,579,779 shares at a cost of EUR 19,121,608). During 2010, the Company purchased 52,770 shares (2009: 466,510 shares) on an arm's length basis. In 2010, no dividend preference shares from senior officers were redeemed (2009: 450,000 dividend preference shares totalling EUR 161,082).

Goodwill write-off reserve

In 1990, in connection with the transformation of the Company to an Rt. (public limited company) and associated increase in share capital, certain intangible assets of Fotex (principally the "Fotex" name) were valued by an independent appraiser at approximately EUR 7.7 million. This amount is shown as an intangible asset in the Company's local statutory financial statements and is amortised over 24 years. This amount is shown as a deduction from shareholders' equity in these consolidated financial statements of EUR 1,534,125 (2009: EUR 1,856,818).

15. Operating expenses

	2010	2009
	EUR	EUR
Payments to personnel	(7,135,067)	(7,813,445)
Material-type expenses	(16,796,410)	(17,271,099)
Other expenses, net	(2,997,117)	(5,485,074)
Depreciation charges	(5,156,519)	(4,094,204)
Total operating expenses	(32,085,113)	(34,663,822)

15. Operating expenses (continued)

Other expenses include the following:

	2010 EUR	2009 EUR
Impairment of intangibles (Note 11)	–	(1,118,324)
Impairment of loans granted (Note 6)	(156,345)	(751,679)
Impairment of inventories	(41,386)	(278,238)
Impairment of debtors (Note 7)	(583,117)	(128,851)
Realised FX gain/loss (net)	127,698	(84,782)
Unrealised FX gain/loss (net)	184,440	(227,825)
Taxes paid	(1,238,278)	(964,948)
Donations	(647,196)	(738,423)
Other expenses	(642,933)	(1,192,004)
Total other expenses, net	(2,997,117)	(5,485,074)

16. Interest-bearing loans

The Group’s Dutch subsidiary, Fotex Netherlands B.V. obtained the following mortgage loans from FGH Bank N.V. in 2009 and in 2010:

Item	Start date	End date	Loan EUR	Interest	Long-term portion at 31 Dec 2010 EUR	Short-term portion at 31 Dec 2010 EUR	Long-term portion at 31 Dec 2009 EUR	Short-ter portion a 31 Dec 2009 EUR
I. mortgage	16/4/2009	1/5/2016	18,400,000	One month Euribor + 2.7% (rounding +0.05) on two working days prior to the start date of the interest period*	17,425,958	346,158	17,744,477	276,0
II. mortgage	1/11/2009	1/11/2016	3,800,000	Three-month Euribor + 2.26% (rounding +0.05) on two working days prior to the start date of the interest period*	3,460,587	87,412	3,516,159	75,9
III. mortgage	18/12/2009	1/1/2015	3,750,000	Three-month Euribor + 2.20% (rounding +0.05) on two working days prior to the start date of the interest period	3,550,054	85,443	3,620,844	75,0
IV. mortgage	21/5/2010	1/5/2015	14,000,000	fixed 4.32 % p.a	13,416,094	329,812	–	
Total			**39,950,000**		**37,852,693**	**848,825**	**24,881,480**	**426,9**

*See note 21 interest risk for further details of interest rate of mortgage loan I and II.

16. Interest bearing loans (continued)

The above loans are secured by mortgage rights on the Fotex properties in The Netherlands.

The pledged properties and their year-end book values are as follows:

2719 EP Zoetermeer, Einsteinlaan 20	EUR 10,301,688
Gorichem, Stadhuisplein 1a, 70 and 70a	EUR 13,613,721
Haarlem, Schipholpoort 20	EUR 5,274,699
3012 BL Rotterdam, Witte de Withstraat 25	EUR 5,859,581
8017 JV Zwolle, Zuiderzeelaan 43-51	EUR 18,363,067

The scheduled maturity of long-term loans at 31 December 2010 and 2009 is set out in Euro in the table below:

Due in	between 1-2 years	between 2-3 years	between 3-4 years	after 4 years	Total
2010	706,996	706,996	4,081,996	32,356,705	37,852,693
2009	426,994	426,994	426,994	23,600,498	24,881,480

17. Income tax

Income tax receivable:	2010	2009
	EUR	EUR
Opening income tax receivable	1,116,079	273,503
Income tax payable	(794,803)	(1,193,503)
Settlement of income tax	119,325	2,036,079
Closing income tax receivable	440,601	1,116,079

Income tax expense:	2010	2009
	EUR	EUR
Tax expense	794,803	1,193,503
Deferred tax	(131,139)	(165,430)
Income tax expense	663,664	1,028,073

17. Income tax (continued)

The actual corporate income tax rate departs from the rate specified in the tax law due to the following:

	2010	2009
	EUR	EUR
Income before minority interests and income taxes	7,050,770	3,335,434
Tax at statutory rate*	1,198,781	667,087
Effect of tax losses for which no corresponding deferred tax asset recognized	1,195,545	973,682
Effect of tax rate changes	1,440	(98,573)
Differences arising from Dutch and Luxembourg tax rates	(851,935)	(86,863)
Effect of one-off tax relief	(485,683)	(668,291)
Effect of permanent differences	(456,636)	(347,687)
Effect of tax adjustment for previous years	(25,362)	21,411
Local business tax and innovation contribution	550,924	567,307
Tax losses used during the year on unrecognised deferred tax assets	(463,410)	-
Income tax	663,664	1,028,073

*During 2010 the Hungarian tax authority (APEH) enacted certain changes to the corporate income tax rate for 2010 and future years. Prior to the change the corporate income tax rate was 20%. From 1 January 2010 the tax rate for the first half of the year was 19%, the rate for the second half of the year was 10% on the first HUF 250 million of taxable profit and was 19% above this amount. From 1 January 2011 the tax rate on the first HUF 500 million of taxable profit will be 10% and above this amount 19%. From 1 January 2013 the tax rate for all taxable profit will be 10%. As a result, for the purposes of the tax rate reconciliation Fotex has used a blended tax rate of 17% based on the tax rates used in Keringatlan.

The Group is subject to periodic audit by the Hungarian, Dutch and Luxembourg Tax Authorities. As the application of tax laws and regulations for many types of transactions are susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date upon final determination by the relevant Tax Authority.

The income tax rate applicable to Fotex Holding SE’s and Uppington Investments S.à r.l.’s income earned in Luxembourg is 22.05%, which results in a total tax of 30.84% (2009: 30.84%) as increased by Capellen’s municipal tax; the income tax rate for Fotex Netherlands BV is 20% (2009: 20%).

17. Income tax (continued)

Deferred tax assets and liabilities for 2010 were calculated as follows:

The tax rates used in the deferred tax calculation differ from company to company based on its expected tax position. For Keringatlan a tax rate of 15% has been applied whilst for the remaining Hungarian companies a rate of 10% has been used based on expected profitability.

For the Luxembourg and Dutch entities: at the applicable income tax rates described above.

Deferred tax assets and deferred tax liabilities as at 31 December 2010 and 2009 are attributable to the items detailed in the tables below. In the below schedule, statement of financial position items denominated in currencies other than the presentation currency were revalued at the applicable year-end foreign exchange rates; the income statement items were determined based on average foreign exchange rates for Q4 2010:

	Consolidated statement of financial position		Consolidated income statement	
	2010	2009	2010	2009
	EUR	EUR	EUR	EUR
Deferred tax liability				
Accumulated depreciation for tax purposes	(175,397)	(518,111)	331,401	(15,392)
Offset related party transactions	(7,569)	(28,047)	19,886	71,082
Capitalisations of small value assets	(103,461)	(141,975)	34,842	1,526
Difference from loan transaction charges	(126,530)	–	(127,837)	–
Deferred tax related to rental discount	(138,024)	–	(139,450)	–
Gross deferred income tax liabilities	(550,981)	(688,133)	118,842	57,216
Deferred income tax assets				
Provisions	21,415	90,164	(66,874)	51,940
Deferred tax of FTC rights impairment	-	241,471	(237,042)	241,471
Impairment of debtors	195,335	87,601	111,359	87,601
Tax losses carried forward	198,545	–	200,596	(272,798)
Difference from capitalised foundation /restructuring costs	4,215	–	4,258	–
Gross deferred income tax assets	419,510	419,236	12,297	108,214
Deferred income tax			131,139	165,430
Net deferred income tax liability	(131,471)	(268,897)		

17. Income tax (continued)

The Group has carried forward losses of EUR 1,136,887 which can be written off from taxable income of the Group members. Furthermore the Group carries forward losses of EUR 13,994,153 which have arisen at subsidiaries that have been loss-making for some time and, in view of the current economic trends, are not expected to generate profits in the foreseeable future against which any such carried forward loss could be written off. As a result of the above, carried forward losses of EUR 13,994,153 (2009: EUR 7,057,122) were not considered in the consolidated financial statements as basis for deferred tax assets of which EUR 13,994,153 (2009: EUR 6,994,945) can be rolled forward for an indefinite period.

18. Discontinuing operations

The Group had no discontinuing operations in either 2009 or in 2010.

19. Other comprehensive income components

Foreign exchange differences arising on the translation of the functional currencies to EUR of subsidiaries whose functional currency is other than EUR are presented through other comprehensive income. Such foreign exchange differences arise from the fluctuations between EUR and the functional currency of the subsidiaries during the year.

20. Segment information

For management purposes, the Group is divided into 8 business lines:

Furniture production and sales
Investment property management
Household goods and cosmetics
Crystal and glass
Music records production and distribution
Clothing
Advertising
Other – administration and holding activities

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

20. Segment information (continued)

The profit or loss of each business segment contains revenues and expenses directly attributable to the segment and revenues and expenses that can be reasonably allocated to the segment from the Group's total profit or loss attributable to transactions with third parties or with other Group segments. The transfer prices applied in inter-segment transactions are based on the cost of the transactions as increased by the margins set out in the underlying Group policies. Profit is distributed among the segments before adjustment for non-controlling interests.

The Group has operations in The Netherlands, in Luxembourg and in Hungary. More than 90% of the Group's operations are carried out in Hungary. Geographical segments are not presented in the consolidated financial statements as the costs of producing such information would exceed its merits.

Segment assets and liabilities reflect operating assets and liabilities directly or reasonably attributable to each segment. Assets attributable to each segment are presented at cost less any impairment loss in the Group consolidated statement of financial position.

Corporate and other items include primarily general overhead and administrative costs that relate to the Group as a whole and assets that are not directly attributable to any of the segments, for example short-term and long-term investments and liabilities that serve financing rather than operating purposes.

Capital expenditures in the reporting year reflect the total cost of segment assets that are expected to be used for more than one period (properties, equipment, fittings).

	2010	2010	2010	2009	2009	2009
Net sales:	Net Sales external EUR	Net Sales inter-segment EUR	Net sales EUR	Net Sales external EUR	Net Sales inter-segment EUR	Net sales EUR
Furniture	2,633,290	90,874	2,724,164	3,398,571	112,478	3,511,049
Investment property	23,111,138	1,351,162	24,462,300	22,889,976	1,432,431	24,322,407
Household goods and cosmetics	809,758	457	810,215	1,042,531	424	1,042,955
Crystal and glass	7,291,681	160	7,291,841	4,250,165	10,981	4,261,146
Music	1,898,344	52,615	1,950,959	2,310,324	160,990	2,471,314
Clothing	692,236	524	692,760	879,959	57	880,016
Advertising	–	–	–	3,091	260,388	263,479
Other	2,559,231	1,565,029	4,124,260	2,495,952	1,581,065	4,077,017
Inter-segment elimination	–	(3,060,821)	(3,060,821)	–	(3,558,814)	(3,558,814)
Net sales	38,995,678	–	38,995,678	37,270,569	–	37,270,569

20. Segment information (continued)

Crystal and glass sales mainly reflect export sales realised in foreign currencies. Nearly half of furniture sales is export. Other sales mainly reflect domestic sales realised in HUF.

Income before income taxes:	2010 EUR	2009 EUR
Furniture	78,483	(189,762)
Investment property	7,618,141	8,761,116
Household goods and cosmetics	99,038	(6,641)
Crystal and glass	661,378	(1,901,166)
Music	357,757	251,850
Clothing	(19,402)	53,128
Advertising	-	(189,424)
Other	(1,744,625)	(3,443,667)
Income before income taxes:	7,050,770	3,335,434

Assets:	2010 Consolidated assets EUR	2010 Intra-business line assets EUR	2010 Total assets EUR	2009 Consolidated assets EUR	2009 Intra-business line assets EUR	2009 Total assets EUR
Furniture	3,844,151	80,331	3,924,482	3,779,498	56,565	3,836,063
Investment property	134,961,026	1,481,723	136,442,749	121,911,947	675,238	122,587,185
Household goods and cosmetics	1,600,316	7,780	1,608,096	2,309,278	103,977	2,413,255
Crystal and glass	9,768,298	–	9,768,298	6,391,881	2,944,620	9,336,501
Music	1,580,732	13	1,580,745	1,387,029	48,524	1,435,553
Clothing	1,531,372	273,498	1,804,870	1,764,776	12,661	1,777,437
Advertising	–	–	–	163,792	517	164,309
Other	11,404,464	18,625,210	30,029,674	9,773,216	778,043	10,551,259
Balances among business lines set off	–	(20,468,555)	(20,468,555)	–	(4,620,145)	(4,620,145)
Total assets	164,690,359	–	164,690,359	147,481,417	–	147,481,417

20. Segment information (continued)

Liabilities and accruals:	2010 Consolidated liabilities EUR	2010 Intra-business line payables EUR	2010 Total liabilities EUR	2009 Consolidated liabilities EUR	2009 Intra-business line payables EUR	2009 Total liabilities EUR
Furniture	371,710	348,905	720,615	320,473	56,760	377,233
Investment property	44,722,545	11,088,046	55,810,591	31,710,526	11,512,361	43,222,887
Household goods and cosmetics	157,638	188,618	346,256	200,855	104,237	305,092
Crystal and glass	2,228,255	6,930,572	9,158,827	2,386,778	6,233,581	8,620,359
Music	224,558	10,915	235,473	239,925	15,334	255,259
Clothing	51,380	587,347	638,727	55,405	12,738	68,143
Advertising	–	–	–	30	517	547
Other	2,566,505	1,300,008	3,866,513	2,529,450	615,022	3,144,472
Balances among business lines set off	–	(20,454,411)	(20,454,411)	–	(18,550,550)	(18,550,550)
Liabilities and accruals	50,322,591	–	50,322,591	37,443,442	–	37,443,442

Tangible and intangible asset additions:	2010 EUR	2009 EUR
Furniture	77,721	895
Investment property	20,659,443	37,704,336
Household goods and cosmetics	475	11,731
Crystal and glass	36,366	144,922
Music	15,628	13,238
Clothing	153,204	7,217
Advertising	-	-
Other	275,702	84,643
Tangible asset additions:	21,218,539	37,966,982

Depreciation and amortisation:	2010 EUR	2009 EUR
Furniture	(93,381)	(69,907)
Investment property	(4,479,428)	(3,456,272)
Household goods and cosmetics	(35,633)	(50,388)
Crystal and glass	(246,295)	(279,702)
Music	(38,357)	(39,579)
Clothing	(18,881)	(10,558)
Advertising	-	-
Other	(244,544)	(187,798)
Depreciation and amortisation:	(5,156,519)	(4,094,204)

21. Financial risks, management objectives and policies

The Group's primary financial liabilities, other than derivatives, include creditors, operating lease contracts and loans taken to purchase properties. The Group's various financial receivables include debtors, cash and short-term deposits and loan receivables. The Group's liquid assets are held in larger banks in Hungary, The Netherlands and Luxembourg. Financial liabilities and receivables are directly attributable to the Group's operations.

The Group entered into a small number of derivative contracts in 2010, mainly FX forwards to manage FX risks related to the Group's operations. The Group had no open derivatives at 31 December 2010.

The highest risks related to the Group's financial instruments are FX risk, lending risk and interest risk. Management monitors all these risks and applies the following risk management procedures.

Interest risk

The Group entered into EUR loans to buy properties in The Netherlands for the period between 2009 and 2016. The loan interests vary between one month EURO-LIBOR + 2.2-2.7% and one is at a fixed rate of 4.32%. The interest risk of the variable interest mortgage loans, except for the smaller loan of EUR 3.75m is limited between 3.3 to 3.64%. In order to reduce interest risk, the lending banks charge a 0.7% interest guarantee with respect to mortgage loans I and II as described in note 16.

Foreign currency ("FX") risk

Financial instruments that potentially represent risk for the Group include debtors in foreign currency, creditors in foreign currency and deposits in foreign currency other than in EUR. The Group's rental contracts are stipulated in EUR or on EUR basis thus mitigating any FX risk associated with non-EUR revenues. Many EUR-based rental contracts are billed in HUF based on the applicable daily spot rate. In order to mitigate the risk of FX losses from any potential unbeneficial EUR/HUF rate fluctuations, the Group normally sets out a minimum EUR/HUF rate in its rental contracts.

The Group also has a FX risk on transactions – which occurs when the Group buys or sells in a currency other than its functional currency. Nearly 33% of the Group's revenues (2009: 48 %) and 70% of costs (2009: 87 %) are from transactions made in other than the functional currency of the Group.

The effect of EUR rate fluctuations with respect to other currencies on the Group's pre-tax profit in terms of unrealised revenues and expenses are as follows (all other variables are considered constant):

21. Financial risks, management objectives and policies (continued)

		Increase (stronger EUR)/decrease (weaker EUR) in HUF/EUR rate	Impact on the pre-tax profit
			EUR
2010	revenues	+10%	-1,299,721
		-10%	+1,299,721
	costs and expenses	+10%	+2,255,545
		-10%	-2,255,545
2009	revenues	+10%	-2,000,085
		-10%	+2,000,085
	costs and expenses	+10%	+3,115,543
		-10%	-3,115,543

According to management, beyond the Group's FX risk, the risk associated with the actual profit or loss position stems from the volume or orders and market demand which depends on global market trends rather than on FX rate fluctuations.

Certain of the Group's financial assets and liabilities are denominated in other currencies than the functional currency of Fotex SE and are affected by EUR rate fluctuations as follows:

		Increase/decrease in HUF/EUR rate	Impact on the book value of financial assets and liabilities
			EUR
2010		+10%	-912,153
		-10%	+912,153
2009		+10%	-1,607,494
		-10%	+1,607,494

Lending risk

The Group aims to mitigate lending risk by its careful and continuous debtor portfolio monitoring process and by requiring bank guarantees and collateral. In addition, the Group regularly follows up information about the main creditors in the market.

Liquidity risk

Liquidity risk is monitored as follows:

- Monitoring daily available deposited and free cash by entity
- Monitoring weekly cash flows by entity
- As part of the management information system, the Group monitors the operations of each entity on a monthly basis.

21. Financial risks, management objectives and policies (continued)

The Group's liabilities based on contracted not discounted payments at 31 December 2010 and 2009 are presented below according to maturity.

31 December 2010	Due	within 3 months	3 - 12 months	1 - 5 years	>5 year	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Trade payables	728,061	1,019,160	59,042	429,400	–	2,235,663
Taxes payable (excluding income taxes)	10,371	816,926	23,320	98,063	–	948,680
Advances from customers	–	30,676	–	–	–	30,676
Accrued expenses	–	630,500	156,689	–	–	787,189
Dividends approved for executive incentive scheme – dividend preference shares (Note 14)	–		651,000	–	–	651,000
Amounts payable to employees	–	182,881	–	–	–	182,881
Deposits from tenants	–	–	279,509	–	–	279,509
Other liabilities	74	227,541	1,184,670	161,291	–	1,573,576
Total short-term liabilities	738,506	2,907,684	2,354,230	688,754	–	6,689,174
Loans received	–	562,796	1,625,070	23,753,661	20,319,752	46,261,279
Other long-term liabilities	–	–	–	1,939,830	–	1,939,830
Total	738,506	3,470,480	3,979,300	26,382,245	20,319,752	54,890,283

31 December 2009	Due	within 3 months	3 - 12 months	1 - 5 years	>5 year	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Trade payables	654,785	961,442	25,244	552,651	–	2,194,122
Taxes payable (excluding income taxes)	2,720	690,216	80,752	84,711	–	858,399
Advances from customers	–	27,053	–	–	–	27,053
Accrued expenses	94,399	708,525	36,863	25,790	–	865,577
Dividends approved for executive incentive scheme – dividend preference shares (Note 14)	–	651,001	–	–	–	651,001
Amounts payable to employees	–	145,791	–	–	–	145,791
Deposits from tenants	–	27,131	228,840	–	–	255,971
Other liabilities	–	427,332	1,152,546	232,011	–	1,811,889
Total short-term liabilities	751,904	3,638,491	1,524,245	895,163	–	6,809,803
Loans received		354,526	926,220	8,511,315	21,389,014	31,181,075
Other long-term liabilities	–	–	–	2,040,474	–	2,040,474
Total	751,904	3,993,017	2,450,465	11,446,952	21,389,014	40,031,352

Included in the balance of liabilities aged 1-5 years are amounts of EUR 688,499 (2009: EUR 895,070) that relate to Ajka which whilst current, may be settled at any time up to 30 June 2012 being the end of the creditors protection period connected to the former bankruptcy procedure of Ajka.

21. Financial risks, management objectives and policies (continued)

Capital management

The Group has significant amounts of cash which is used for intra-group financing as necessary. In 2006, the Group switched from bank loans to intra-group financing and financing costs and risks have significantly diminished as a result across the Group. As described in note 16, the Group has taken mortgage loans in 2009 and in 2010 in connection with its office building purchase transactions in The Netherlands. The managements evaluates the level of indebtness of the Group as healthy, bearing low risks.

Fair value

At 31 December 2010 and 2009, the carrying values of liquid assets, short-term investment, receivables, liabilities and accruals approximated their fair values owing to their short-term nature. Receivables are presented in the consolidated statement of financial position at cost less impairment loss on doubtful debts. Certain bonds are fair valued as disclosed in note 6. Bank loans having variable market interest rate approximated their fair values.

22. Investments in subsidiaries

During 2010, Fotex Group entered into the following transactions and mergers:

- At 31 December 2010, the companies court registered the merger of Balaton Glas Hotel Kft. into Keringatlan Kft. effective as of 1 January 2011.

During 2009, Fotex Group entered into the following transactions and mergers:

- On 5 February 2009, Upington Investments Ltd. moved its headquarters from Cyprus to Luxembourg.
- At 29 February 2009, KONT-VESZ Kft. merged into Kontúr Zrt.
- At 4 March 2009, Keringatlan Kft. established a subsidiary in The Netherlands - Fotex Netherlands B.V., to create, develop and manage a property portfolio in The Netherlands.
- Effective 1 October 2009, Europtic Kft., Domus Zrt. and Kontúr Zrt. merged into Keringatlan Kft.

23. Operating Leases

Group as lessee

The Group leases retail sites within the shopping centres “MOM Park” and “Csepel Plaza” located in Budapest and at four other locations in Budapest and six in Győr based on non-cancellable operating lease agreements.

Since September 2001, the Group has been leasing retail sites within “MOM Park”, the relating contract has a term of 7 years. In March 2007, the Group announced its intention to use its option on the outlets rented in “MOM Park”, whereby the rental contracts were extended for further five years until 19 September 2013. After 1 January 2008, the Group decreased the rented area by 2,056 m^2 from 5,374 m^2 to a 3,318 m^2 rented area. Another 134 m^2 were added to this area in August 2010 to a total of 3,452 m^2.

23. Operating Leases (Continued)

The rental contract on retail outlets in the shopping centre “Csepel Plaza” expired on 2 December 2010 and was not prolonged. The contracts on the four retail outlets in Budapest classified as other centres and shops expired in September 2010, respectively expire in mid-November 2013, December 2013, and in February 2016. The rents of the six outlets in Győr expired in December 2010, respectively expire in December 2022 and in December 2023. The expired rental contracts were not prolonged.

The leasing fees are denominated in Euro and are increased by the customer price index reported by the European Union’s Statistical Office commencing from 1 January 2002 in the case of “MOM Park” and from 1 January 2000 or 2001 in the case of other centres. In the case of the outlets in Győr, the rents are specified in HUF. Accordingly, increases are effected based on the official CPI published by the Hungarian Central Statistical Office. The Group also leases office space in Fotex Plaza as described in Note 25. At 31 December 2010, the Group is committed to pay the following minimum leasing fees:

	Fotex Plaza	MOM Park	Other centres and shops	Total
Operating lease commitment	EUR	EUR	EUR	EUR
2011	592,990	738,482	101,970	1,433,442
2012	–	755,399	106,668	862,067
2013	–	563,147	111,590	674,737
Thereafter	–	–	1,241,905	1,241,905
Total	592,990	2,057,028	1,562,133	4,212,151

At 31 December 2009, the Group was commited to pay the following minimum leasing fees:

	Fotex Plaza	MOM Park	Other centres and shops	Total
Operating lease commitment	EUR	EUR	EUR	EUR
2010	665,739	700,337	264,710	1,630,786
2011	672,395	707,340	235,177	1,614,912
2012	–	714,413	245,008	959,421
2013	–	518,920	253,344	772,264
Thereafter	–	–	2,320,074	2,320,074
Total	1,338,134	2,641,010	3,318,313	7,297,457

In 2010, operating lease payments in relation to a non-cancellable rental contract with MOM Park for January to December totalled EUR 704,160 (2009 Jan-Dec: EUR 693,403), and EUR 262,752 (2009 Jan-Dec: EUR 276,054) for January to December in relation to other shops and outlets.

23. Operating Leases (Continued)

Some of the 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. The rent relates to a total area of 303 m^2 at a rental cost of EUR 24,977 for January to December 2010 (2009: 53,185 EUR).

Under certain circumstances the Group has the right to acquire the premises at a value mutually agreed with the relevant municipality. As in 2009, the Group did not exercise any such right in 2010.

Group as lessor

The Group leases property to third parties consisting mainly of retail outlets, offices, warehouses and other structures. Rents are predominantly set in EUR in the rental contracts. The rental agreements give the opportunity to cancel the contract in 2 to 3 months by either party.

The Group acquired four office buildings in 2009 and a further building in 2010 in The Netherlands which are leased to tenants on fixed long-term rental agreements. Based on these agreements the contracted revenue is as described in the table below.

The Group's fixed rental fee revenue as of 31 December 2010 (EUR):

Due in	2011	2012	2013	After 2013	Total
	4,021,945	4,460,146	4,500,174	21,606,936	34,589,201

The Group's fixed rental fee revenue as of 31 December 2009 (EUR):

Due in	2010	2011	2012	After 2012	Total
	2,696,406	2,696,406	2,718,756	21,347,719	29,459,287

24. Earnings Per Share

Basic earnings per share is calculated based on the weighted average number of ordinary shares in issue during the year less treasury shares held by the Company. Similarly, total diluted earnings per share is also calculated based on the weighted average number of ordinary shares in issue during the year as adjusted by the estimated value of an issue of potentially convertible securities. For the calculation of total diluted earnings per share, net earnings are adjusted with any gains and expenses that relate to potentially convertible 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:

24. Earnings Per Share (continued)

	2010	2009
	EUR	EUR
Net profit attributable to equity holders from continuing operations	6,375,028	2,224,780
Net profit attributable to shareholders	6,375,028	2,224,780
Weighted average number of shares in issue during the year	60,102,089	60,229,294
Basic earnings/(deficit) per share (EUR)	0.11	0.04

The diluted earnings per share agree with basic earnings per share in 2010 and 2009 as there is no dilution effect in these years.

25. Related Party Transactions

Principal related parties

Gábor Várszegi, Chairman of the Board of Fotex, directly or indirectly controls a part of the voting shares of Blackburn International Inc. ("Blackburn"), a Panama company and Blackburn International S.à.r.l. ("Blackburn Luxembourg"), a Luxembourg company and Zurich Investments Inc. ("Zurich"), a British Virgin Islands company. Blackburn Luxembourg has a controlling interest in Fotex Ingatlan Kft. ("Fotex Ingatlan") and Plaza Park Kft. ("Plaza Park"). As at 31 December 2010, Blackburn controls 16.9 % (2009: 16.9%) of the Company's share capital, Zurich controls 14.1% (2009: 14.1%), Fotex Ingatlan controls 17.6 % (2009: 17.6%), and Plaza Park 1.6% (2009: 1.6%). These companies are considered to be related parties.

Related party rental transactions

In case of Plaza Park office accommodation agreements were modified in December 2000, and were extended until 31 December 2006. Based on their options, Fotex and certain of its subsidiaries renegotiated rental contracts and extended them until 31 December 2011. The rental agreements are for an indefinite period and rental fees are adjusted with the harmonized customer price index (EU25) reported by the European Union's Statistical Office (Eurostat).

Rental and other related fees paid to Fotex Ingatlan for 2010 were EUR 367,311 (2009: 343,156 EUR) and to Plaza Park EUR 615,342 (2009: EUR 685,863).

Further to a helicopter rental agreement between Plaza Park and Keringatlan Kft., the total amount of rent plus related services invoiced by Plaza Park for 2010 was EUR 15,279 EUR (2009: EUR 967).

25. Related Party Transactions (continued)

Further to an airplane rental agreement between Blackburn Inc. and Fotex Holding SE, the total amount of rent plus related services invoiced by Blackburn Inc. for 2010 was EUR 116,620 (2009: EUR 93,090).

During 2010, Fotex Ingatlan granted a loan to Fotex Cosmetics Kft. and charged interest totalling EUR 2,914 for 2010.

Fotex granted arm's length loans to senior officers to purchase dividend preference shares: The balance of officers' loan amounts to EUR 92,393 at 31 December 2010 (2009: EUR 265,755) (details see Note 14).

Remuneration of Group management

Management, directors and members of the supervisory board of the Group received a total remuneration of EUR 603,391 in 2010 (2009: EUR 837,101) as increased by dividends of EUR 651,000 upon approval of the annual shareholders' meeting.