

Management Report

At their meetings held on 26 September 2008 and 9 December 2008, the shareholders of Fotex Nyrt., Fotex Group's holding company, decided to transform Fotex Nyrt. into a European public limited company. 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 annual general meeting held on 28 April 2009 decided to move the Company's registered office to Luxembourg. The registration in the companies register of the new seat has been done on 4 June 2009. 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.

As a result of its transformation into a European public limited company, the Company's books have been carried in EUR since 1 January 2009. Accordingly, Fotex Group's consolidated financial statements for the first half of 2010 are expressed in EUR.

In the first 6 months 2010 there have not occurred any important events, which would have significant impacts on the interim financial statements.

As part of the Group's restructuring process, the scope of consolidation has changed compared to the basis period as follows:

At 1 October 2009, Europtic Kft., Domus Zrt. and Kontúr Zrt. merged into Keringatlan Kft.

List of Shareholdings

Subsidiaries	Principal Activities	Issued capital EUR		Ownership (%)	
		30/06/2010	30/06/2009	30/06/2010	30/06/2009
Ajka Kristály Üvegipari Kft.	Crystal manufacturing and retail	5,050,721	5,050,721	100.0	100.0
Balaton Bútor Kft.	Furniture manufacturer	1,325,100	1,325,100	100.0	100.0
Balaton Glas Hotel Kft.	Property management	882,922	731,853	100.0	100.0
Downington Sàrl.	Investment holding	2,050,000	2,050,000	100.0	100.0
Domus Zrt	Property management and furniture retailer	-	6,167,384	-	99.5
Europrizma Kft.	Administration services (Note 25)	35,879	35,879	100.0	100.0
Europtic	Advertising	-	2,681,471	-	100.0
Fotex Cosmetics Kft.	Cosmetics retailer	870,723	870,723	100.0	100.0
Fotexnet Kft.	Internet retail and other services	226,603	226,603	98.6	98.6
Hungaroton Music Zrt.	Music archive	480,399	480,399	99.2	99.2
Hungaroton Records Kft.	Music publishing and music retailing	1,707,078	1,707,078	99.8	99.8
Keringatlan Kft.	Property management	20,677,166	14,911,889	100.0	100.0
Kontúr Zrt	Property management	-	4,699,207	-	99.9
Fotex Netherlands B.V.	Property management	18,000	18,000	100.0	100.0
Primo Zrt.	Clothing retailing and wholesaling	1,859,657	1,859,657	100.0	100.0
Sigma Kft.	Property services	100,650	100,650	75.1	75.1
Székhely 2007 Kft.	Property management	86,109	86,109	99.1	99.1
Upington Investments Ltd.	Investment holding	1,710	1,710	100.0	100.0

The Group operates in Luxembourg, in the Netherlands and in Hungary. Mostly the Group's operations are carried out in Hungary, geographical segments are not presented in the consolidated financial statements.

The Group management categorizes the Group's business activities along the following 7 segments. In the prior year the advertising activity was taken into account as a separate segment but now this has been reported among the administration and holding activities because of its low importance.

Furniture production and sales
Investment property management
Household goods and cosmetics
Crystal and glass
Music records production and distribution
Clothing
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. The performance of each segment is based primarily on the pre-tax profit or loss of each segment. Decisions regarding financing (including financial revenues and expenses) and taxation are made at Group level and not at segment level.

Net sales per segment

Net sales:	30 June 2010			30 June 2009		
	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	1,015,495	50,363	1,065,858	1,777,338	42,990	1,820,328
Investment property	11,070,527	797,401	11,867,928	10,464,120	969,236	11,433,356
Electrical, household goods and cosmetics	379,834	232	380,066	566,893	2,313	569,206
Crystal and glass	3,457,563	125	3,457,688	1,775,555	6,335	1,781,890
Music	845,357	82,186	927,543	1,541,677	43,252	1,584,929
Clothing	320,598	–	320,598	394,918	–	394,918
Advertising*	–	–	–	59,737	231,147	290,884
Other	1,189,741	562,783	1,752,524	1,701,287	748,124	2,449,411
Inter-segment elimination	–	(1,493,090)	(1,493,090)	–	(2,043,397)	(2,043,397)
Net sales	<u>18,279,115</u>	<u>–</u>	<u>18,279,115</u>	<u>18,281,525</u>	<u>–</u>	<u>18,281,525</u>

Pre-tax Profit before tax per segment

	30 June 2010	30 June 2009
	EUR	EUR
Furniture	(162,722)	246,426
Investment property	4,133,504	5,083,594
Electrical, household goods and cosmetics	(34,191)	(41,475)
Crystal and glass	486,056	(787,741)
Music	12,217	146,678
Clothing	7,960	28,641
Advertising*	–	(188,487)
Other	(444,210)	(543,578)
Pre-tax profit:	<u>3,998,614</u>	<u>3,944,058</u>

Consolidated Income Statement of the Group

		June 30	
	Notes	2010	2009
		EUR	EUR
Revenue	19	18,279,115	18,281,525
Cost of sales		<u>4,082,634</u>	<u>4,345,374</u>
Gross income		14,196,481	13,936,151
Selling, general and administration expenses	14	10,318,515	10,104,789
Interest income		695,888	276,389
Interest expense		<u>575,240</u>	<u>163,693</u>
Income before income taxes	19	3,998,614	3,944,058
Income tax expense	16	<u>786,142</u>	<u>846,356</u>
Net income		<u>3,212,472</u>	<u>3,097,702</u>
Attributable to			
Equity holders of the parent company		3,215,667	2,932,489
Minority interest		<u>(3,195)</u>	<u>165,213</u>
Net income		<u>3,212,472</u>	<u>3,097,702</u>
Earnings per share	23	<u>0.05</u>	<u>0.05</u>
Diluted earnings per share	23	<u>0.05</u>	<u>0.05</u>

Consolidated Cash Flow Statement of Fotex Group

	30 June 2010	30 June 2009
	EUR	EUR
Cash flows from operating activities	6,742,606	5,449,776
Income taxes paid	(786,142)	(846,357)
Net cash from operating activities:	5,956,464	4,603,419
Cash flows from investing activities:		
Purchase of tangible and intangible assets:	(21,078,628)	(25,897,757)
Sale of tangible and intangible assets:	6,700	76,845
Change in investments	(742,620)	913,482
Interest received	695,888	276,389
Net cash used in investing activities:	(21,118,660)	(24,631,041)
Cash flows from financing activities:		
Loans granted	199,962	21,122
Loans received	13,733,585	18,377,000
Dividend paid		(43,245)
Interest paid	(575,240)	(163,693)
Purchase of treasury shares	(83,529)	(486,206)
Change in subordinate and other long term liabilities	121,403	-
Cash received without repayment liability:	-	620
Cash given without repayment liability:	-	(1,175)
Net cash used in financing activities:	13,396,181	17,704,423
Net increase/decrease in cash and cash equivalents:	(1,766,015)	(2,323,199)
Cash and cash equivalents at beginning of year	15,266,401	18,130,262
Effect of foreign currency translation	(34,819)	174,012
Cash and cash equivalents at 30 June:	13,465,567	15,981,075

Shareholders' equity

	30 June 2010	30 June 2009
Shareholder's equity:		
Issued capital	30,543,933	30,543,933
Additional paid in capital	32,895,729	32,895,729
Goodwill write off reserve	(1,695,471)	(1,856,818)
Retained earnings	66,167,612	67,493,126
Treasury shares, at cost	(19,205,137)	(19,121,608)
Equity attributable to equity holders of the parent company	108,706,666	109,954,362
Minority interests in consolidated subsidiaries	80,320	83,613
Total shareholder's equity	108,786,986	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 30 June 2010 included 70,723,650 ordinary shares and 2,000,000 dividend preference shares (31 December 2009: 70,723,650 ordinary shares, and 2,000,000 dividend preference shares). The dividend preference shares were issued by Fotex in November 2007.

Treasury Shares

The 2,000,000 dividend preference shares issued by the Company which are shown as part of "Issued Capital" on 30 June 2010 EUR 840,000; (31 December 2009: EUR 840,000) are also shown in "Treasury Shares". As of 30 June 2010, the Company has sold 1,550,000 (2009 EUR 2,000,000) dividend preference shares to some of its employees. These shares are still shown within "Treasury Shares" but also as liability (preference shares incentive scheme liability)

The Company's treasury shares (including dividend preference shares) are 12,632,549, totalling EUR 19,205,137 at 30 June 2010 (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 shares) at a cost of EUR 83,529 (2009: EUR 348,039). The Company has not purchased back any dividend preference shares from senior officers (31 December 2009: 450,000 shares totalling EUR 161,082) so it has not decreased the dividend preference shares incentive scheme liability compared to previous year.

Major Shareholders

Gábor Várszegi, the Chairman of the Board of Fotex, through direct and indirect ownership controls Blackburn International Inc., a Panamanian company ("Blackburn"), as well as Blackburn International S.à r.l., a Luxembourg registered company ("Blackburn Luxembourg"), as well as the British Virgin Island registered Zürich Investments Inc. ("Zürich") through which he exercises his voting rights. Blackburn Luxembourg is the majority shareholder of Fotex Ingatlankezelő LLC ("Fotex Ingatlan") and of Plaza Park LLC ("Plaza Park"). At 30 June 2010, Blackburn controlled 16.9 % (30 June 2009: 16.9%), Zürich controlled 14.1% (30 June 2009: 14.1%), Fotex Ingatlan controlled 17.6 % (30 June 2009: 17.6%), and Plaza Park controlled 1.6% (30 June 2009: 1.6%) of the Company's shares. These entities are all considered 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 Nyrt. and its subsidiaries renegotiated rental contracts and extended them until 31 December 2011. The rental fees are adjusted with the harmonized customer price index (EU27) reported by the European Union's Statistical Office (Eurostat). Rental agreements with Fotex Ingatlan Kft. were modified to an indefinite rent period.

Rental fees are increased annually by the average of the general CPI announced by the EU's Statistical Office. Rental and other related fees paid to Fotex Ingatlan for 2010 were EUR 181,688 for January to June (I-VI months of 2009: 170,734 EUR) and to Plaza Park EUR 317,099 for January to June 2010 (I-VI months of 2009: EUR 334,966). Based on the aircraft leasing contract concluded between Blackburn International Inc. and Fotex Holding SE the value of the fees for aircraft leasing and connected services invoiced by Blackburn International Inc. were EUR 63,140 in 2010 I-VI month (2009 I-VI month EUR 10,500)

Appointment and Replacement of Board Members

The members of the Board of Directors were appointed at the extraordinary general meeting of the Company held on 1 October 2009 for a period of 3 years until the 2012 Annual General Meeting of the Company. There was no personal change in the members of Board of Directors and Audit Committee since the reporting of the last financial statement.

Significant events after the Reporting date

According to the decision of the parent company as an owner the Balaton Glashotel Kft – owned by Keringatlan Kft in 100 % - merges in the Keringatlan Kft. The merge is in process, the planned date of Court of Registration of the merge is 30 November 2010.

There were not any other 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.

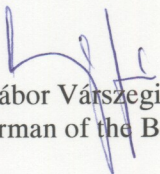
There are no significant agreements to which the Company is party and which would take effect, alter or terminate upon change of control following a public offering or takeover bid.

Future prospects

The financial position of the Company is stable; it will continue seeking for favorable investment opportunities taking into account the market conditions given and the stable cash flow of the Group.

In the remaining forthcoming 6 months it is not expected to be any principal risks and uncertainties, which would have significant impact on the financial statements.

19 October 2010, Capellen


Gábor Várszegi
Chairman of the Board