



Pactolus Hungarian Property Plc
Annual Report and Financial Statements
31 December 2007

Pactolus Hungarian Property Plc

Annual Report and Financial Statements 2007

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Pactolus Hungarian Property Plc

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Key Highlights

Pactolus Hungarian Property Plc, the AIM listed property company, announces results for the year ended 31 December 2007.

The principal activity of the Company and its subsidiaries is investment in the Hungarian property market, focusing on the residential freehold market in the more affluent districts of Central Budapest.

The Group invests in freehold property, which is renovated to a high standard and then either let to tenants with good covenants or sold.

Key highlights for the period:

- The portfolio of properties has grown to €24,316,845 as at 31 December 2007 from €19,709,099 as at 31 December 2006;

- Net asset value per share (before deferred taxation) of 73p (exchange rate at the year end) compared with placing price of 60p which represents a compound annualised growth rate of 13.5 per cent from the net asset value per share on admission;

- Annualised rent rolls reaches €863,280 at 31 December 2007, rising to a current €1,335,000 as at 14 May 2008;

- Dividend of 2.1p per share proposed (2006: 2.1p); and

- Profit before tax for the year is €317,580 (2006: €5,865,150).

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Chairman's Statement

I am pleased to report the results of Pactolus Hungarian Property Plc for the year ended 31 December 2007.

Income for the year under review was €1,853,185, total operating expenses amounted to €1,535,605 and net profit before tax amounted to €317,580. Net assets as at 31 December 2007 were €24,024,510 which included cash balances of €10,042,239.

At 31 December 2007 the portfolio comprised 8,735 sq. m of property with a value of €25 million (before commitments). When fully let this should produce an annual rent roll of €1.5 million representing an initial yield, including the land and residential investments, of above 6 per cent.

The main objective for the Company for 2007 was to raise loan finance and expand our estate with this facility. Due to the problems in the credit markets it was extremely difficult to raise loan finance but this was finally achieved at the end of the year. This has been a disappointing delay for us but may now present us with the ability to make more opportunistic purchases during 2008. Despite another very difficult year for the Hungarian economy the property market remained reasonably stable.

In the opinion of the board, 2008 and 2009 may well be difficult years for global property companies, but may also create some interesting investment opportunities. It is very difficult to predict the outcome for 2008 in Budapest and therefore it is our intention to proceed with caution and patience.

I would like to express my gratitude to the asset manager, directors, advisors and the Budapest team for their efforts in 2007.

C.H. Bennett, BA, FRICS,
Chairman,
Budapest.

14 May 2008

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Asset Manager's Report

The Property Portfolio

We grew the portfolio from a total of 7,068 sq. m with an annual rent roll of €0.4 million and value of €20 million to 8,735 sq. m with an annual rent roll of €0.9 million and a value of €25 million. If the vacant space was let at our average rent per sq. m of €170 per annum, we would add €0.6 million to our annual rent roll. The Group has 62 units with a total floor space of 8,735 sq. m. This represents an increase in total floor space of 376 per cent of the total floor space on admission to AIM. The portfolio is now valued at an average per square metre value of €2,882 (2006: €2,752).

2007 was predominantly a year of delay for the Group as we negotiated for a considerable amount of time regarding our loan financing which was affected by the well documented global credit squeeze. However, this delay may work in our favour as we have made three initial purchases with our loan finance at an average purchase cost of €1,121 per sq. m which is lower than our previous average purchase cost of €1,429 per sq. m. Previously our most common counterparty in property acquisitions was septuagenarian widows but we are now starting to see some selling by "buy to let" foreign investors. The volumes of these sales are not sufficient to affect the market as a whole but do offer us good opportunities if we remain patient and disciplined.

It is useful to compare and contrast property prices in Budapest to similar Accession state capitals now that a number of the other cities have seen dramatic asset price inflation over recent years. If we compare the ratio of the price per square metre of property in Hungary to the GDP per capita then Hungary's ratio of 20 per cent looks inexpensive compared to the average for the Accession States of 29 per cent (*Source: Global Property Guide May 2008, IMF April 2008*). This analysis suggests that Budapest would see an upside of 44 per cent in property prices should its property price values trade in line with its Accession state peers.

Gearing and further acquisitions

The Group is pleased to announce that since the last interim report, it has successfully completed negotiations on a finance facility (the "Facility"), provided by Investec Bank (UK) Limited (Irish Branch).

The Facility of Euro 9,025,000 is to be repaid 7 years from the date of initial drawdown, at an interest rate of Euribor plus 1.6 per cent.

These funds granted in the Facility have not yet been materially invested but the terms of the Group's loan finance stipulate that these funds are made available to assist with the cost of acquiring, developing, selling and letting of residential property in Budapest, Hungary. The Group is not allowed to use these funds to make any acquisition of shares either in the Group or in any other company.

At our current level of gearing our net interest cost of €239,550 is 5 times covered by our current annual rent roll of €1,335,000.

Lettings

The Group has 56 properties let for an average yield against cost of approximately 8.7 per cent compared to the average yield as was stated on admission to AIM of 8.2 per cent.

The Group has 2 apartments which it owned as at the year end which have not yet been let. The Group expect to let these apartments in the near future at yields not dissimilar to the average yield described above.

The Group has 7 apartments currently under development.

Disposals

This year the Group has taken the opportunity to sell one property for a total profit (after all costs) in excess of the total balance sheet values of the disposed properties of €16,955.

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Asset Manager's Report (Continued)

Hungarian Economy

The Hungarian economy has been going through a torrid time and the current government is now walking wounded. Escalating budget deficits led to fiscal reform measures and these have caused continued, well documented, social unrest. The reform measures cut the budget deficit, which had reached 9.2 per cent of GDP in 2006, to an estimated 5.5 per cent in 2007 but this effectively slowed GDP growth to approximately 1.3 per cent in 2007. In addition, the fiscal reforms, including tax rises and energy price hikes, forced inflation up to a high of 9 per cent in March. To counter this inflation, base rates have now escalated to 8.25 per cent which results in slower growth. The inevitable conclusion has been that property prices in Budapest have once again been static.

The government is now weakened and therefore will not be able to continue to drive through further material fiscal reform but there does appear to be light at the end of the tunnel as a number of forecasters are estimating 2.5 to 3 per cent GDP growth in 2008. The 3 per cent estimate looks overly optimistic but it is possible that Hungary has suffered its slowdown before the rest of the EU and we may see above EU average growth in 2008. The pick up in growth will be funded by EU contributions with the help of impending tax cuts and privatizations. Yet, if this economic growth does not show signs of reappearing soon, the real issue is whether the Hungarian National Bank will maintain its focus on inflation in a stagflationary environment or it will change tack to boost growth. A further worry is can bank rates be managed down without materially devaluing the currency? Clearly, there remain economic risks but there is a chance that the pain Hungary has borne over the last two years may lead to surprises on the upside over the next twelve months.

We remain hopeful for the prospects of the Mako Trough gas deposits in Hungary following Exxon's agreement to join MOL and Falcon Oil & Gas in attempting to access the estimated 340 bn. cu. m. of gas. Positive developments here have the highly risked potential to boost the economy in the more medium term.

It may well be that Hungary, like Germany, sees little downside in property prices because it also saw very little recent upside. We intend to proceed with caution and we are negotiating on a number of projects where we hope to buy in bulk from western vendors at reduced rates to our normal purchase prices.

For enquiries:

Midas Investment Management Ltd:
Mark Sheppard (Tel: 00 44 (0) 161 242 2895)

Hichens, Harrison & Co. plc:
Nick Hawken (Tel: 00 44 (0) 20 7382 4454)

City Financial Associates Ltd:
Liam Murray (Tel: 00 44 (0) 20 7492 4777)

Notes:

1. Forex Rates: Euro to the Pound Sterling as at 31 December 2007 was 1.3425; and
Euro to the Forint as at 31st December 2007 was 253.54.

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Management and Administration

Directors:

Christopher Bennett
Brett Miller
Christina Rawlinson
Stephen Gray
Barry Smith
Katherine Ellis
Sarah Ingrassia

Company Secretary:

Christina Rawlinson

Registered Office:

Jubilee Buildings
Victoria Street
Douglas
Isle of Man
IM1 2SH

Asset Manager:

Midas Investment Management Ltd
2nd Floor
Arthur House
Chorlton Street
Manchester
M1 3FH

Administrators:

Equiom Trust Company Ltd
Jubilee Buildings
Victoria Street
Douglas
Isle of Man
IM1 2SH

Stockbrokers:

Hichens, Harrison & Co. Plc
Bell Court House
11 Blomfield Street
London
EC2M 1LB

Tax Advisors:

BDO Stoy Hayward LLP
Commercial Buildings
11-15 Cross Street
Manchester
M2 1WE

Independent Property Valuer:

King Sturge
Rakoczi ut 70
1074 Budapest
Hungary

Principal Bankers:

Anglo Irish Bank Plc
10 Old Jewry,
London
EC2R 8DN

Raiffeissen Bank Rt.
H-1054 Budapest
Akadémia utca 6
Hungary

Investec (UK) Limited
The Harcourt Building
Harcourt Street
Dublin 2
Ireland

Legal Advisors:

Dickinson Cruickshank - Advocates & Notaries
33 Athol Street
Douglas
Isle of Man
IM1 1LB

Ruttkai Marczel Ruttkai
Attila utca 133
1012 Budapest
Hungary

Auditors:

PKF (Isle of Man) LLC
Analyst House
20-26 Peel Rd
Douglas
Isle of Man
IM99 1AP

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Report of the Directors

The directors of Pactolus Hungarian Property Plc ("the Company") are pleased to submit the Audited Consolidated Financial Statements of the Group for the year ended 31 December 2007, which show the state of the Group and Parent Company affairs.

Share Issue and Conversion

Following a private placement through our broker in May 2007, the Company placed 4,666,584 new ordinary shares at 60p each that were admitted to trading on AIM on 4 June 2007. The new ordinary shares are ranked pari passu to the existing ordinary shares.

In June 2007 the Company converted 60 per cent of the Performance Fee due to its Asset Manager into 393,180 new ordinary shares that were approved to trade on AIM on 20 June 2007. The conversion was done based on the terms of the management agreement entered into by the Asset Manager and the Company subject to the changes now stated:

The conversion price as per the management agreement was 48.575 pence. This would then result in the issue of 485,657 new ordinary shares. However, the Asset Manager took into account the private placement that was undertaken in May 2007 at 60 pence, and hence waived the difference in the placement and conversion price.

A total of 92,477 new ordinary shares which were due to Midas Investment Management Ltd under the performance fee arrangement were waived subject to the following scenarios:

- (a) The management agreement is terminated within the next twenty four months. The period remaining as at 31 December 2007 is eighteen months.
- (b) A takeover of the Company, a capital payback representing greater than 10 per cent of the net assets of the Group (not being ordinary dividend).
- (c) A tender offer for more than 10 per cent of the shares in issue.

Results

The results for the year are shown in the Consolidated Income Statement on page 12.

Dividend

During the year the Company has declared and paid a dividend of 2.1 pence per ordinary shares. This was paid on 20,551,651 ordinary shares for the period ended 31 December 2006.

A dividend of 2.1p per ordinary share is being considered for proposal by the Board, for the year ended 31 December 2007.

Directors' Interests

	As at 31 December 2007	As at 31 December 2006
	Ordinary Shares of 1p each	Ordinary Shares of 1p each
Chris Bennett	-	-
Brett Miller	61,666	61,666
Christina Rawlinson	-	-
Stephen Gray	-	-
Barry Smith	-	-
Katherine Ellis	-	-
Sarah Ingrassia	-	-

A total of 41,666 Ordinary shares are held under option by Chris Bennett (16,666) and Brett Miller (25,000).

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Report of the Directors (Continued)

Corporate Governance

The Directors recognise the importance of sound corporate governance and intend that the Company will comply with all the provisions of the Combined Code insofar as they are appropriate given the Company's size, the nature of its business and the stage of its development.

Going Concern

The Directors believe it is appropriate to adopt the going concern basis in preparing the financial statements as there are adequate resources within the Group to continue its operational activities for the foreseeable future.

Substantial Shareholdings

At 14 May 2008, the Directors were aware that the following shareholders owned 3 per cent or more of the issued Ordinary Shares of the Company.

	Number of Ordinary Shares	% of Ordinary Shares
Vidacos Nominees Ltd	4,100,000	16.0
Pershing Keen Nominees Ltd	3,199,701	12.5
J M Finn Nominees Ltd	2,438,419	9.5
Barnard Nominees Ltd	1,750,000	6.8
Deutsche Bank Aktiengesellschaft London	1,750,000	6.8
HSBC Global Custody Nominees (UK) Ltd	1,333,333	5.2
Chase Nominees Limited	1,041,666	4.1
Goldman Sachs Securities (Nominees) Ltd	822,526	3.2

The Asset Manager, Midas Investment Management Ltd and its associated companies own 1,741,206 (6.8 per cent) of the issued share capital as at 14 May 2008. This forms part of the holdings in Pershing Keen Nominees Ltd.

Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. The financial statements are required to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Isle of Man Companies Acts 1931 to 2004. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the directors has confirmed that so far as he is aware, there is no relevant audit information of which the Group's auditors are unaware, and that he has taken all steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and establish that the Group's auditors are aware of that information.

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Report of the Directors (Continued)

Status of Taxation

The Company is subject to Isle of Man income tax at zero per cent.

Midasz Property Kft., the Hungarian subsidiary which owns the Group's property portfolio, is subject to a corporate rate of tax of 16 per cent (2006: 16 per cent) on profits in Hungary. Profits include capital gains arising on the sale of properties. The United Kingdom subsidiaries are subject to UK corporation tax on profits.

Asset Manager

In the Directors' opinion the continuing appointment of the Asset Manager is in the best interests of the shareholders in view of the satisfactory performance of the Group.

Auditors

PKF (Isle of Man) LLC have indicated their willingness to continue in office.

C.H. Bennett, BA, FRICS
Chairman

14 May 2008

Pactolus Hungarian Property Plc

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Independent Auditors' Report

To the members of Pactolus Hungarian Property Plc

We have audited the group and parent company financial statements ('the financial statements') of Pactolus Hungarian Property Plc for the year ended 31 December 2007 which comprise the consolidated income statement, the consolidated and company balance sheets, the consolidated statement of changes in equity, the company statement of equity, the consolidated cash flow statement, the company cashflow statement and the related notes. The financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 15 of the Companies Act 1982. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Isle of Man Companies Acts 1931 to 2004. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the directors' report, the chairman's statement and the asset manager's report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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Independent Auditors' Report

To the members of Pactolus Hungarian Property Plc (continued)

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Isle of Man Companies Acts 1931 to 2004, of the state of the parent company's affairs as at 31 December 2007;
- the financial statements have been properly prepared in accordance with the Isle of Man Companies Acts 1931 to 2004; and
- the information given in the directors' report is consistent with the financial statements.

PKF (Isle of Man) LLC
Douglas, Isle of Man

14 May 2008

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Consolidated Income Statement
For the year ended 31 December 2007

	Notes	2007 €	21 Dec '05 to 31 Dec 06 €
Income			
Net movement in unrealised gain on revaluation of properties	12	890,142	7,496,721
Rental income and related fees		826,822	318,844
Realised gain on the sale of investment properties	12	16,955	115,086
Bank and other interest	6	119,266	150,693
Total income		1,853,185	8,081,344
Expenses			
		<i>Non Recurring</i>	
Interest payable	7	17,203	-
Asset manager's fees	2(i)	543,948	325,654
Legal and professional fees		44,325	220,543
Property management fees		42,312	145,820
Loss on derivative financial instrument	8	-	316,497
Performance fee	3	-	832,491
Administrator's costs		58,755	43,672
Agency fees		99,932	71,303
Audit fees		38,567	22,000
Administrative costs		17,174	41,889
Directors' emoluments	5	45,041	36,414
Insurance		8,290	12,650
Advertising, PR and marketing		22,037	24,599
Depreciation and impairment		318,158	73,034
Currency exchange (gain)/loss		(4,717)	4,515
Bank charges		17,824	45,113
Total operating expenses		<i>125,848</i>	2,216,194
Net profit before tax		317,580	5,865,150
Taxation	9	(30,179)	(1,051,873)
Profit attributable to equity shareholders		287,401	4,813,277
Earnings per Ordinary Share:			
	Basic	1 Cent	28 Cents
	Diluted	1 Cent	28 Cents
	11		

All items in the above statement are derived from continuing operations.

Non recurring costs are various one-off payments incurred in the daily operation of the Group during the current year.

The accompanying notes on pages 17 to 35 form an integral part of the financial statements.

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Consolidated and Company Balance Sheet

As at 31 December 2007

	Notes	Group 2007 €	Parent 2007 €	Group 2006 €	Parent 2006 €
Non-current Assets					
Investment properties	12	23,535,717	-	18,287,807	-
Property under development	12	781,128	-	1,421,292	-
Furniture and equipment	12	78,609	-	52,844	-
Investment in subsidiaries	13	-	79,850	-	68,250
Goodwill	14	22,678	22,678	22,678	22,678
		24,418,132	102,528	19,784,621	90,928
Current Assets					
Cash and short term deposits		10,042,239	911,026	2,529,827	521,976
Debtors	16	389,133	14,122	284,348	11,744
Loans to subsidiaries	15	-	13,828,265	-	10,901,762
		10,431,372	14,753,413	2,814,175	11,435,482
Total Assets		34,849,504	14,855,941	22,598,796	11,526,410
Current Liabilities					
Creditors	17	730,845	295,697	1,071,078	759,303
Current borrowings	18	350,000	-	-	-
		1,080,845	295,697	1,071,078	759,303
Non-current Liabilities					
Long term loan	18	8,675,000	-	-	-
Deferred taxation	9	1,069,149	-	1,042,825	-
		9,744,149	-	1,042,825	-
Total Liabilities		10,824,994	295,697	2,113,903	759,303
Net Assets		24,024,510	14,560,244	20,484,893	10,767,107
Represented by:					
Capital and Reserve					
Share capital	19	372,941	372,941	298,185	298,185
Share premium	20	4,203,816	4,203,816	-	-
Distributable reserve	21	15,412,576	15,412,576	15,412,576	15,412,576
Merger reserve	22	(109,195)	(3,689,271)	(109,195)	(3,689,271)
Translation reserve	23	(318,899)	(110,176)	70,050	-
Profit and loss reserve	24	4,463,271	(1,629,642)	4,813,277	(1,254,383)
		24,024,510	14,560,244	20,484,893	10,767,107

The financial statements on pages 12 to 34 were approved at a meeting of the Board of Directors held on 14 May 2008 and signed on its behalf by:

Tina Rawlinson
Director

Stephen Gray
Director

The accompanying notes on pages 17 to 35 form an integral part of the financial statements.

Pactolus Hungarian Property Plc
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Consolidated Statement of Changes in Equity

	Share Capital €	Share Premium €	Distributable Reserve €	Merger Reserve €	Translation Reserve €
As at 1 January 2007	298,185	-	15,412,576	(109,195)	70,050
Issue of ordinary shares	74,756	4,203,816	-	-	-
Group merger & reorganisation	-	-	-	-	-
Assets in foreign currency	-	-	-	-	(388,949)
Retained profit for the period	-	-	-	-	-
As at 31 December 2007	372,941	4,203,816	15,412,576	(109,195)	(318,899)
				Retained Earnings €	Total €
As at 1 January 2007				4,813,277	20,484,893
Issue of ordinary shares				-	4,278,572
Group merger & reorganisation				-	-
Assets in foreign currency				-	(388,949)
Retained profit for the period				(350,006)	(350,006)
As at 31 December 2007				4,463,271	24,024,510
	Share Capital €	Share Premium €	Distributable Reserve €	Merger Reserve €	Translation Reserve €
Issue of ordinary shares	217,815	11,780,995	-	-	-
Group merger & reorganisation	80,370	3,631,581	-	(109,195)	-
Assets in foreign currency	-	-	-	-	70,050
Reserve reclassification	-	(15,412,576)	15,412,576	-	-
Retained profit for the period	-	-	-	-	-
As at 31 December 2006	298,185	-	15,412,576	(109,195)	70,050
				Retained Earnings €	Total €
Issue of ordinary shares				-	11,998,810
Group merger & reorganisation				-	3,602,756
Assets in foreign currency				-	70,050
Reserve reclassification				-	-
Retained profit for the period				4,813,277	4,813,277
As at 31 December 2006				4,813,277	20,484,893

The accompanying notes on pages 17 to 35 form an integral part of the financial statements.

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Company Statement of Changes in Equity

	Share Capital €	Share Premium €	Distributable Reserve €	Merger Reserve €	Translation Reserve €
As at 1 January 2007	298,185	-	15,412,576	(3,689,271)	-
Issue of ordinary shares	74,756	4,203,816	-	-	-
Group merger and reorganisation	-	-	-	-	-
Assets in foreign currency	-	-	-	-	(110,176)
Reserve reclassification	-	-	-	-	-
Retained profit for the period	-	-	-	-	-
As at 31 December 2007	372,941	4,203,816	15,412,576	(3,689,271)	(110,176)
				Retained Earnings €	Total €
As at 1 January 2007				(1,254,383)	10,767,107
Issue of ordinary shares				-	4,278,572
Group merger and reorganisation				-	-
Assets in foreign currency				-	(110,176)
Reserve reclassification				-	-
Retained profit for the period				(375,259)	(375,259)
As at 31 December 2007				(1,629,642)	14,560,244
	Share Capital €	Share Premium €	Distributable Reserve €	Merger Reserve €	Translation Reserve €
Issue of ordinary shares	217,815	11,780,995	-	-	-
Group merger and reorganisation	80,370	3,631,581	-	(3,689,271)	-
Assets in foreign currency	-	-	-	-	-
Reserve reclassification	-	(15,412,576)	15,412,576	-	-
Retained profit for the period	-	-	-	-	-
As at 31 December 2006	298,185	-	15,412,576	(3,689,271)	-
				Retained Earnings €	Total €
Issue of ordinary shares				-	11,998,810
Group merger and reorganisation				-	22,680
Assets in foreign currency				-	-
Reserve reclassification				-	-
Retained profit for the period				(1,254,383)	(1,254,383)
As at 31 December 2006				(1,254,383)	10,767,107

The accompanying notes on pages 17 to 35 form an integral part of the financial statements.

Pactolus Hungarian Property Plc
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Consolidated and Company Cash Flow Statement
For the year ended 31 December 2007

Notes	Group 2007 €	Parent 2007 €	Group 21-Dec-05 to 31-Dec-06 €	Parent 21-Dec-05 to 31-Dec-06 €
Operating Activities				
Rent and fees received	787,095	-	381,415	-
Bank interest received	102,922	84,238	150,693	133,065
Expenses paid	(1,367,977)	(895,722)	(1,129,711)	(973,731)
Net cash outflow from operating activities	(477,960)	(811,484)	(597,603)	(840,666)
26				
Investing Activities				
Purchase of subsidiary	-	(11,600)	-	-
Purchase of investment properties	(4,894,862)	-	(9,496,973)	-
Receipt from sale of investment properties	1,190,278	-	872,128	-
Purchase of fixed assets	(343,923)	-	(119,849)	-
Net movement on unrealised provision	(293,357)	(110,175)	-	-
Net investment of derivative financial instruments	-	-	(332,044)	(332,044)
Net loans advanced to subsidiary undertakings	-	(1,968,768)	-	(10,852,075)
Net cash outflow from investing activities	(4,341,864)	(2,090,543)	(9,076,738)	(11,184,119)
Financing Activities				
Issue of Ordinary Shares	4,135,246	4,135,246	13,068,753	13,068,753
Issue costs paid on issuance of Ordinary Shares	(206,762)	(206,762)	(1,069,943)	(1,069,943)
Drawdown of term loan	9,025,000	-	-	-
Dividends paid	(637,407)	(637,407)	-	-
Net cash inflow from financing activities	12,316,077	3,291,077	11,998,810	11,998,810
Taxation	16,159	-	(16,159)	-
Increase in cash and short term deposits	7,512,412	389,050	2,308,310	(25,975)
Cash acquired on business merger	-	-	221,517	547,951
Cash and short term deposits as at 1 January	2,529,827	521,976	-	-
Cash and short term deposits as at 31 December	10,042,239	911,026	2,529,827	521,976

The accompanying notes on pages 17 to 35 form an integral part of the financial statements.

Pactolus Hungarian Property Plc

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Notes to the Financial Statements

For the year ended 31 December 2007

General information

The Group's activity throughout the year continued to be that of buying, selling, developing and making available for rent apartments in Budapest, Hungary.

Pactolus Hungarian Property Plc was incorporated in the Isle of Man on 21 December 2005. The address of the registered office is Jubilee Buildings, Victoria Street, Douglas, Isle of Man. IM1 2SH.

The company was listed on the Alternative Investment Market (AIM) on 23 March 2006. These financial statements cover the year ended 31 December 2007.

Pactolus Hungarian Property Plc and its subsidiaries (together the Group) is an investment group concentrating on properties in Budapest, Hungary. It is principally involved in acquiring, developing, selling and letting investment property under short to medium term contracts.

The functional currency of the group is the Hungarian Forint because that is the currency of the primary economic environment in which the group operates. The Directors have chosen to present these financial statements in Euros due to the international exposure and stakeholders of the entity.

1 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the Isle of Man Companies Acts 1931 to 2004 applicable to companies reporting under IFRS.

Consolidation

The Company produces consolidated financial statements incorporating all of its subsidiaries.

Presentational currency

The Directors have adopted the use of the Euro in presenting the financial statements due to the international exposure and stakeholders of the Company.

Cash and short term deposits

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs to its tax base, except for differences arising on:

- the initial recognition of goodwill;
- goodwill for which amortisation is not tax deductible;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investment in subsidiaries where the group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

Pactolus Hungarian Property Plc

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Notes to the Financial Statements (Continued)

For the year ended 31 December 2007

Deferred taxation (continued)

The amount of the asset or liability is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered). Deferred tax balances are not discounted.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Segmental reporting

The Directors are of the opinion that the Group is engaged in a single segment of business, being primarily investment in properties and related services. The Group invests in properties situated in Budapest, Hungary.

Impact of revisions to International Financial Reporting Standards

The IASB and IFRIC have issued the following standards and interpretations with effective date after the date of these financial statements:

		Effective date
•	IFRS 8 Operating segments	1 January 2009
•	IAS 23 Borrowing costs	1 January 2009
•	IFRIC 12 Service concession arrangements	1 January 2008
•	IFRIC 13 Customer loyalty programmes	1 July 2008
•	IFRIC 14 IAS19 - The limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008
•	IAS 27 Consolidated and separate financial statements	1 July 2009
•	IFRS 2 Share-based payments	1 January 2009
•	IFRS 3 Business combinations	1 July 2009
•	IAS 1 Presentation of financial statements	1 January 2009
•	IAS14 Segmental reporting	10 January 2008
•	IAS 32 Puttable financial instruments and obligations arising on liquidation	1 January 2009

The revised standards have not had an impact on the Group's equity.

Income

Interest, fees and rental income are included in the financial statements on an accruals basis. Property sales are included in the financial statements on an unconditional exchange basis.

Expenses

All expenses are accounted for on an accruals basis.

Issue costs

The share issue costs incurred in the placing of the Company's shares are written off in full against the share premium account at the date of placing.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Pactolus Hungarian Property Plc

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Notes to the Financial Statements (Continued)

For the year ended 31 December 2007

Foreign currencies (continued)

Group entities that have a functional currency different from the presentation currency are translated at the closing rate of the balance sheet date for assets and liabilities. Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the average exchange rate) and all resulting exchange differences are recognised as separate component of equity.

Investment property

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment property is carried at fair value. Fair value is based on active market prices determined by independent property valuers.

Properties under development held for investment are classified under property, and are stated at fair value.

Properties under development held for sale are classified under current assets and are stated at the fair value less any impairments.

Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Any impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Furniture and equipment

All furniture and equipment are stated at the lower of cost less depreciation and net realisable value. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation, based on component approach, is calculated using the straight-line method to allocate the cost over the asset's estimated useful lives, as follows:

Furniture and equipment - 5 - 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate at each financial year-end.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Investment in subsidiary companies

The investments in subsidiary companies are included in the Company Balance Sheet at cost less any provisions for diminution in value.

Pactolus Hungarian Property Plc

Annual Report and Financial Statements 2007

Notes to the Financial Statements (Continued)

For the year ended 31 December 2007

Goodwill

Goodwill arising on the acquisition of subsidiaries is under the combination of business assets rule.

Derivative financial instruments and hedging activities

The Group uses derivative financial instruments, in the form of currency hedge, to dilute its risks associated with currency rate fluctuations. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

Derivatives are carried as current assets when the fair value is positive and as current liabilities when the fair value is negative.

Loans to subsidiary companies

The unsecured subordinated loan made to Midasz Property Kft. has been accounted for as an originated loan under IFRS. This loan carries interest under the effective rate method. The loans are reviewed regularly for impairment.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of provisions is the difference between the asset's carrying amount and the present value of estimated future cash flow, discounted at the effective interest rate. The provision is recognised in the income statement.

Trade payables

Trade payables are stated at their original invoice value.

Interest-bearing borrowings

Interest-bearing borrowings are stated at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments throughout the expected life of the financial liability.

Share based payments

Options are measured at fair value at grant date using the Black-Scholes model. The fair value is expensed on a straight line basis over the vesting period, based on the number of options that will eventually vest.

Cash settled share based payment transactions result in recognition of a liability at its current fair value.

Critical judgement in applying the Group's accounting policies

In determining the carrying value of property, plant and equipment. The Group has adopted the policy of relying on the judgement of the appointed independent property consultant in assessing the value of the Group's property portfolio. The assessment is based on the use of assumptions such as discount rates and risk adjustment to cash flows.

Comparatives

The comparatives figures are based on the period from incorporation to 31 December 2006.

2 Material agreements

- (i) Midas Investment Management Ltd ("MIM") was appointed the Company's Investment Manager on 17 March 2006. The Investment Manager is paid an aggregate annual management fee of 2% of the net asset value of the Group payable quarterly in arrears. In addition MIM is entitled to receive a performance fee of 20% of the amount by which the adjusted net assets exceed a benchmark set at 9% per annum adjusting for all further share issues, redemptions and capital and income distributions.

Pactolus Hungarian Property Plc
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Notes to the Financial Statements (Continued)

For the year ended 31 December 2007

2 Material agreements (continued)

The Investment Management Agreement is terminable by the Company on 12 months notice, such notice to be given on or after the second anniversary of the Investment Manager's Agreement.

- (ii) Equiom Trust Company Limited (formerly Anglo Irish Trust Company Limited) were appointed as Administrator to the Company, pursuant to the terms of a Letter of Engagement dated 21 December 2005. As part of its engagement, Equiom Trust Company Limited ("Equiom") agrees, as required, for a number of its senior staff members to accept the appointment as directors. Equiom also agrees to arrange for a suitable person to be appointed as Company Secretary

3 Performance fee

	2007 €	2006 €
Fees crystallised on Admission to AIM	-	249,012
Fees based on the net asset value as at 31 December	-	583,479
	<u>-</u>	<u>832,491</u>

4 Group operating profit is stated after charging

	2007 €	21 December 2005 to 31 December 2006 €
Directors emoluments	45,041	36,414
Investment Manager's fees	543,948	325,654
Bank charges	17,824	45,113
Auditors' remuneration	38,567	22,000
Depreciation	80,969	73,034
Impairment losses on furniture and equipment	237,189	-
	<u></u>	<u></u>

The Investment Manager's fee calculated and payable for the year ended 31 December 2007 and the preceding period all relates to Midas Investment Management Ltd. As at 31 December 2007 management fees due to Midas Investment Management Ltd were €261,798 (2006: €111,300).

5 Directors' emoluments

	2007 €	21 December 2005 to 31 December 2006 €
(i) Directors' fees:		
Total fees	7,991	7,032
	<u></u>	<u></u>

There were no employee costs, other than the Directors listed below.

The Directors fees for all other directors, for both reporting periods, were paid to Equiom Trust Company Ltd in accordance with the Letter of Engagement referred to in Note 2 (ii).

Pactolus Hungarian Property Plc
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Notes to the Financial Statements (Continued)
For the year ended 31 December 2007

5 Directors' emoluments (continued)

(ii) Remuneration of Directors:

	2007	21 December 2005 to 31 December 2006
	€	€
Mr C Bennett (Chairman)	22,050	17,487
Mr B Miller	15,000	11,895

6 Finance income

	2007	21 December 2005 to 31 December 2006
	€	€
Bank and short term deposits interest	119,266	150,693

7 Finance costs

	2007	21 December 2005 to 31 December 2006
	€	€
Interest on borrowings	17,203	-

8 Derivative financial instruments

The Company did not transact in any derivatives during the year ended 31 December 2007. During the period to 31 December 2006, the Company entered into a nine month currency hedge Euro against the Hungarian Forint at an average rate of €285.99 to the Ft. All contracts were sold during the period at an average rate of €277.42 to the Ft. resulting in a loss of €316,497.

9 Taxation

	2007	2006
	€	€
Current tax		
UK corporation tax and income tax of overseas operations on profits for the period	3,855	9,048
Deferred tax expense		
Origination and reversal of temporary differences	26,324	1,042,825
Total tax charge	30,179	1,051,873

The reasons for the difference between the actual tax charge for the period and the applicable rate of corporate income tax in Hungary, the principal country of business, applied to profits for the period are as follows:

Pactolus Hungarian Property Plc
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Notes to the Financial Statements (Continued)

For the year ended 31 December 2007

9 Taxation (continued)

	2007	2006
	€	€
Profit before tax	317,580	5,865,150
Expected tax charge based on the applicable rate of 16%	50,813	938,424
Local business tax in Hungary	3,855	8,947
Gains on disposal of investments	-	2,494
Different tax rates applied on overseas jurisdictions	(40,329)	255,197
Income not subject to tax	(10,484)	(1,199,475)
Excess of allowable losses over taxable income	-	3,461
Current tax charge	3,855	9,048

Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 16%.

The movement on the deferred tax account is as shown below:

	2007	2006
	€	€
As at 1 January	1,042,825	-
Profit and loss charge	26,324	1,042,825
As at 31 December	1,069,149	1,042,825

Deferred tax assets have been recognised in respect of all tax losses giving rise to deferred tax assets because it is probable that these assets will be recovered.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS12) during the period are shown below.

The Company is subject to Isle of Man income tax at zero per cent.

Deferred tax liability and amounts charged/(credited) to the consolidated income statement are as follows:

	2007	2006
	€	€
Revaluations of investment properties	114,639	1,102,994
Available losses in Hungary	(88,315)	(60,169)
	26,324	1,042,825
Available losses in the UK	(35,368)	(31,391)

10 Dividends

	2007	2006
	€	€
Dividend paid on 20,551,651 shares at 2.1 pence per share	637,407	-

A dividend of 2.1p per Ordinary Share for the year ended 31 December 2007 is currently under consideration by the Board for proposal to shareholders. If accepted, this will be paid on total issued share capital of 25,611,415 shares amounting to €722,050 using exchange rate at the year end.

Pactolus Hungarian Property Plc
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Notes to the Financial Statements (Continued)

For the year ended 31 December 2007

11 Earnings per share

The calculation of the earnings per share is based on the following:

			As at 31 December 2007
	Distributable profits	Ordinary Shares	Per Share
	€	numberβ	€
Basic earnings per share	287,401	23,170,288	0.01
Option conversion*	-	165,902	-
	<u>287,401</u>	<u>23,336,190</u>	<u>0.01</u>
Adjusted earnings per share for the year ended 31 December 2007			
	Distributable profits	Ordinary Shares	Per Share
	€	numberβ	€
Basic earnings per share	287,401	23,170,288	0.01
Adjustment to remove:			
Deferred tax charge	26,324	-	-
Net valuation gains	(890,142)	-	-
	<u>(576,417)</u>	<u>23,170,288</u>	<u>(0.02)</u>
Option conversion*	-	165,902	-
Diluted earnings per share	<u>(576,417)</u>	<u>23,336,190</u>	<u>(0.02)</u>

			As at 31 December 2006
	Distributable profits	Ordinary Shares	Per Share
	€	numberβ	€
Basic earnings per share	4,813,277	16,902,425	0.28
Option conversion*	-	165,902	-
	<u>4,813,277</u>	<u>17,068,327</u>	<u>0.28</u>

Adjusted earnings per share for the period 21 December 2005 to 31 December 2006

	Distributable profits	Ordinary Shares	Per Share
	€	numberβ	€
Basic earnings per share	4,813,277	16,902,425	0.28
Adjustment to remove:			
Deferred tax charge	1,042,825	-	-
Net valuation gains	(7,496,721)	-	-
	<u>(1,640,619)</u>	<u>16,902,425</u>	<u>(0.10)</u>
Option conversion*	-	165,902	-
Adjusted diluted earnings per share	<u>(1,640,619)</u>	<u>17,068,327</u>	<u>(0.10)</u>

β Weighted average number of Ordinary Shares in issue during the period.

* Excess of the total number of potential Shares on option exercise over the number that could be issued at fair value as calculated in accordance with International Accounting Standard No. 33: Earnings per share.

Pactolus Hungarian Property Plc
Annual Report and Financial Statements 2007

Notes to the Financial Statements (Continued)
For the year ended 31 December 2007

12 Investment properties, furniture and equipment

	Investment Properties €	Properties Under Development €	Furniture and Equipment €	Total €
As at 1 January 2007	18,287,807	1,421,292	52,844	19,761,943
Additions at cost/valuation on business combination	-	-	-	-
Additions at cost for the period	-	5,003,268	343,923	5,347,191
Disposal during the period	(1,285,664)	-	-	(1,285,664)
Transfer to investment properties	5,474,748	(5,474,748)	-	-
Unrealised profit/(loss) on revaluation	1,058,826	(168,684)	-	890,142
Impairment of furniture and equipment	-	-	(237,189)	(237,189)
Depreciation for the period	-	-	(80,969)	(80,969)
As at 31 December 2007	23,535,717	781,128	78,609	24,395,454
Additions at cost/valuation on business combination	2,910,000	612,000	4,787	3,526,787
Additions at cost for the period	-	9,335,076	121,091	9,456,167
Disposal during the period	(644,701)	-	-	(644,701)
Transfer to investment properties	9,321,216	(9,321,216)	-	-
Unrealised profit on revaluation	6,701,292	795,432	-	7,496,724
Depreciation for the period	-	-	(73,034)	(73,034)
As at 31 December 2006	18,287,807	1,421,292	52,844	19,761,943

Properties have been independently valued during the year by King Sturge ("KS"), chartered surveyors and valuers, as at the Balance Sheet date. KS confirm that they have valued the properties in accordance with the Practice Statements in the RICS Appraisal Valuation Standards. The Valuers are appropriately qualified and have sufficient market knowledge and relevant experience of the location of investment properties and have full regards to market evidence when determining the values.

Impairment losses relates to small value furniture and equipment acquired as part of the service to supply furnished lettings. These assets although individually quantifiable, are recognised by the Group as replaceable within one year after the balance sheet date.

Property disposals during the period	2007 €	2006 €
Proceeds of sale of investment properties	1,302,619	759,788
Less: carrying cost/value	(1,285,664)	(644,701)
Realised gain on disposal of property	16,955	115,086

Pactolus Hungarian Property Plc

Annual Report and Financial Statements 2007

Notes to the Financial Statements (Continued)

For the year ended 31 December 2007

13 Investments in Subsidiary Companies

The subsidiaries of the Company are stated below:

Subsidiary	Principal activity	Country of Registration	Proportion of voting rights and shares held
Pactolus (IOM) Limited	Holding company	Isle of Man	100%
Pactolus Eastern European Property Ltd	Property investment	UK	100%
Pactolus (UK) Limited	Property investment	UK	100%
Midasz Property Kft.	Property investment	Hungary	100%
Midasz Property Two Kft	Dormant	Hungary	100%

All of the subsidiaries are directly held with the exception of Midasz Property Kft. and Midasz Property Two Kft. which are held 97% by the parent (Pactolus Hungarian Property Plc) and 3% by Pactolus (IOM) Limited.

Subsidiaries	2007 €	2006 €
Pactolus Eastern European Property Ltd	18,561	18,561
Pactolus (UK) Limited	1	1
Midasz Property Kft	49,687	49,687
Pactolus (IOM) Limited	1	1
Midasz Property Two Kft	11,600	-
	79,850	68,250

All the above subsidiaries with the exception of Midasz Property Two Kft. were acquired on 17 January 2006 and accounted for under IFRS 3 business combination. See note 26.

Midasz Property Two Kft. was acquired on incorporation on 18 December 2007.

14 Goodwill	2007 €	2006 €
Arising on acquisition within subsidiary	22,678	22,678

See note 26 business combination.

15 Loans to subsidiaries	Parent 2007 €	Parent 2006 €
Pactolus Eastern European Property Ltd	65,270	59,770
Midasz Property Kft	13,737,590	10,833,104
Pactolus (IOM) Limited	25,405	8,888
	13,828,265	10,901,762

These comprise unsecured subordinated loans issued in support of property acquisitions. The loans provided by the parent company to Midasz Property Kft currently charged at 8.49% (2006: 8.49%).

Pactolus Hungarian Property Plc
Annual Report and Financial Statements 2007

Notes to the Financial Statements (Continued)

For the year ended 31 December 2007

16 Debtors	Group	Parent	Group	Parent
	2007	2007	2006	2006
	€	€	€	€
Rent and fees receivable	211,844	-	39,313	-
Property purchase deposits	44,975	-	223,336	-
Other debtors	7,386	-	7,111	-
Prepayments and accrued income	124,928	14,122	14,588	11,744
	389,133	14,122	284,348	11,744
17 Creditors	Group	Parent	Group	Parent
	€	€	€	€
	2007	2007	2006	2006
Trade creditors and accruals	464,614	295,697	845,390	759,303
Other creditors	685	-	1	-
Rent received in advance	104,710	-	43,016	-
Deposits held	139,778	-	173,623	-
Taxation	3,855	-	9,048	-
Interest payable and similar charges	17,203	-	-	-
	730,845	295,697	1,071,078	759,303
18 Long term loan	Group	Parent	Group	Parent
	€	€	€	€
	2007	2007	2006	2006
Fixed interest at 6.25% p.a. including margin				
- Current	350,000	-	-	-
- Non current	4,162,500	-	-	-
Variable interest at 4.65% excluding margin	4,512,500	-	-	-
	9,025,000	-	-	-
Loan issue cost				
Total cost on drawdown of loan	143,978	-	-	-
Amortisation of loan issue costs	-	-	-	-

The Group has a loan facility agreement with Investec Bank (UK) Limited for €9,025,000. As at 31 December 2007, the Group through its subsidiary Midasz Property Kft. had drawn down the entire available funds. This loan is due for repayment on 21 December 2014.

The loan is secured by a fixed and floating charge over the assets of Midasz Property Kft (the subsidiary), and a parental Guarantee and Indemnity from Pactolus Hungarian Property Plc (the Parent Company).

The variable interest rate loan carries a margin of 1.65% and therefore exposes the Group to cash flow risk.

The fair value of the loan as at 31 December 2007 was €9,025,000.

During the year, the Group's bank borrowings were subject to the following financial covenants:

- (a) Loan to net asset ratio - the aggregate outstanding loan to current net asset value of the group should not exceed 50%.
- (b) Minimum loan repayment of €350,000 should be done for each year.

The Group has been in compliance with the financial covenants throughout the period since drawdown.

Pactolus Hungarian Property Plc
Annual Report and Financial Statements 2007

Notes to the Financial Statements (Continued)

For the year ended 31 December 2007

19 Share capital

Authorised share capital - Ordinary shares

Share capital	Number of shares	2007 €	Number of shares	2006 €
Authorised Ordinary Shares of 1p each	70,000,000	939,750	70,000,000	1,038,800

Ordinary Shares of 1p each issued and fully paid

	Number of shares	2007 €	Number of shares	2006 €
Balance as at 1 January	-	-	-	-
Share issue on incorporation	20,551,651	298,185	200	3
Acquisition of the subsidiary (See note 27 business combination).	-	-	5,519,532	80,370
Placing issue during the year	4,666,584	68,921	15,031,919	217,812
Performance fees paid in shares	393,180	5,835	-	-
As at 31 December	25,611,415	372,941	20,551,651	298,185

Ordinary Shareholders are entitled to vote at all general meetings.

The currency rates used to convert the authorised share capital is €1.3425 (2006: €1.4840).

20 Share premium

	2007 €	2006 €
As at 1 January	-	-
Proceeds arising on issue of Ordinary Shares	4,066,326	12,850,938
Allocation of issue costs	(206,762)	(1,069,943)
Group merger on a share for share basis (See note 22)	-	3,631,581
Capital restructure (See note 21)	-	(15,412,576)
Performance fee paid in shares	344,252	-
As at 31 December	4,203,816	-

The Company raised €4,135,247 from a private placing on 30 May 2007 at a placement price of 60 pence per share. The shares were admitted to trading on AIM on 4 June 2007.

Pursuant to the term of the management agreement between the Company and Midas Investment Management Ltd, 60% of the Performance fee for 2006 was taken in shares.

On 23 March 2006, the Company raised €13,068,753 from the Placement of 15,031,919 Ordinary Shares at 60 pence each. The Company was subsequently listed on the Alternative Investment Market ("AIM").

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Notes to the Financial Statements (Continued)

For the year ended 31 December 2007

21 Distributable reserve	2007	2006
	€	€
As at 1 January	15,412,576	-
Capital restructure	-	15,412,576
As at 31 December	15,412,576	15,412,576

The Company has been granted permission pursuant to Section 59(4) of the Isle of Man Companies Act 1931, to restructure its share capital. The Company has now restated its share premium reserve to that of a distributable reserve as at 22 December 2006.

22 Merger Reserve	Group	Parent	Group	Parent
	2007	2007	2006	2006
	€	€	€	€
As at 1 January	(109,195)	(3,689,271)	-	-
Arising during the period	-	-	(109,195)	(3,689,271)
As at 31 December	(109,195)	(3,689,271)	(109,195)	(3,689,271)

See note 27 on business combination.

23 Translation reserve	Group	Parent	Group	Parent
	2007	2007	2006	2006
	€	€	€	€
As at 1 January	70,050	-	-	-
Currency translation	(388,949)	(110,176)	70,050	-
As at 31 December	(318,899)	(110,176)	70,050	-

24 Profit and loss reserve	Group	Parent	Group	Parent
	2007	2007	2006	2006
	€	€	€	€
As at 1 January	4,813,277	(1,254,383)	-	-
Profit attributable to equity holders	287,401	262,148	4,813,277	(1,254,383)
Dividends paid on ordinary shares	(637,407)	(637,407)	-	-
As at 31 December	4,463,271	(1,629,642)	4,813,277	(1,254,383)

25 Net Asset Value per Ordinary Share

The net asset value per Ordinary Share is based on the net assets attributable to the ordinary shareholders of €24,024,510 (2006: €20,484,893) and on 23,170,288 (2006: 16,902,425) Ordinary Shares being the weighted average shares in issue during the period.

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Notes to the Financial Statements (Continued)

For the year ended 31 December 2007

26 Notes to the Consolidated Cash Flow Statement

	Group 2007 €	Parent 2007 €	Group 2006 €	Parent 2006 €
Reconciliation of net profit before investment result to net cash outflow from operating activities:				
Net profit before taxation	317,580	262,148	5,865,150	(1,254,383)
Loss on derivative financial instrument	-	-	316,497	316,497
Realised gains on sale of investment properties	(16,955)	-	(115,086)	-
Commission charges on derivative investments	-	-	15,547	15,547
Other interest income	-	(957,735)	-	(326,436)
Adjustment for non-cash items:				
Depreciation	318,158	-	73,034	-
Decrease/(increase) in debtors	(290,257)	(2,378)	6,256	(11,744)
Increase in creditors	83,656	(113,519)	737,720	419,852
Unrealised gains on investment valuation	(890,142)	-	(7,496,721)	-
Net cash outflow from operating activities	<u>(477,960)</u>	<u>(811,484)</u>	<u>(597,603)</u>	<u>(840,666)</u>

27 Business combinations

There were no transaction under business combinations during the year ended 31 December 2007.

Name of business acquired	Principal activity	Date of acquisition	Proportion of shares acquired %	2006
				Cost of Acquisitions €
Pactolus Eastern European Property Ltd ("PEEP Ltd")	Property investment	17-Jan-06	100	3,673,162
Pactolus (UK) Limited ("PUK")	Holding company	17-Jan-06	100	1
Midasz Property Kft. ("Midasz Kft.")	Property investment	17-Jan-06	100	50,987
				<u>3,724,150</u>

As a result of the group restructuring which involved Pactolus Eastern European Property Ltd becoming a wholly owned subsidiary of the company, the UK operations have substantially reduced.

Components of the cost of acquisition	Midasz Kft. €	PUK €	PEEP Ltd €
Cash and short term deposits	50,987	1	-
Equity instruments issued (1)	-	-	3,673,162
	<u>50,987</u>	<u>1</u>	<u>3,673,162</u>

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Notes to the Financial Statements (Continued)

For the year ended 31 December 2007

27 Business combinations (continued)

Acquiree's net assets	Midasz Kft.	PUK	PEEP Ltd
<i>Net assets acquired</i>	Book and fair value pre-acquisition		
	€	€	€
Current assets:			
Cash	128,521	-	92,995
Receivables	79,724	1	71,044
Loans	-	-	3,602,801
Non-current assets:			
Investments	-	-	12,199
Goodwill (2)	-	-	22,678
Investment properties	2,910,000	-	-
Property under development	612,000	-	-
Furniture and equipment	4,787	-	-
Current liabilities:			
Payables	(81,244)	-	(128,555)
Loans	(3,602,801)	-	-
Net assets acquired	<u>50,987</u>	<u>1</u>	<u>3,673,162</u>

The net assets used to determined fair value were considered equal to the open market value.

- (1) In the acquisition of PEEP Ltd 5,519,532 ordinary shares were issued on a share for share basis. The fair value was determined by the net assets of the company as at the acquisition date.
- (2) The goodwill acquired is the difference between the value and amount paid by PEEP Ltd for Midasz Property Kft. on 8 December 2004.

28 Share based payments

Pursuant to a Option Agreement dated 16 March 2006, there are 165,902 Options available to be exercised at any time between 23 March 2006 and 22 March 2011 at a price of 60 pence per Ordinary Share. No options have been exercised as at 31 December 2007.

	2007		2006	
	Options €	Weighted Avg. Exercise price	Options €	Weighted Avg. Exercise price
As at 1 January	165,902	60p	-	-
Granted during the period	-	-	165,902	60p
	<u>165,902</u>	<u>60p</u>	<u>165,902</u>	<u>60p</u>

The weighted average contracted life remaining for these outstanding options is 3.25 years.

The aggregate fair value of the outstanding options granted is €Nil (2006: €Nil) determined according to the Black Scholes model.

The inputs into the Black Scholes model are as follows:

	2007	2006
Bid price of share	34.5p	49.5p
Weighted average exercise price	60p	60p
Expected volatility	23.9%	17.5%
Expected life	3.2 years	4.2 years
Risk free rate	5.00%	5.75%

Pactolus Hungarian Property Plc

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Notes to the Financial Statements (Continued)

For the year ended 31 December 2007

28 Share based payments (continued)

The expected volatility was determined by calculating the historical volatility of the Company's share price from the date of trading on AIM, and comparison with the volatilities of similar companies over the same period. The expected life is the remaining period for the option from the year end date.

29 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

Risk management is carried out by a treasury committee under policies approved by the Board of Directors. The committee identifies and evaluates financial risks in close co-operation with the company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of financial instruments, and investing excess liquidity.

Fair value of financial instruments:

	2007 Carrying Value €	2007 Fair Value €	2006 Carrying Value €	2006 Fair Value €
Financial assets				
Other current assets	256,819	256,819	262,649	262,649
Cash and short term deposits	10,042,239	10,042,239	2,529,827	2,529,827
Financial liabilities				
Other payables	730,845	730,845	1,071,078	1,071,078
Current borrowings	350,000	350,000	-	-
Non current borrowings	8,675,000	8,675,000	-	-

Credit risk

The Group currently has significant surplus cash that it invests in high quality liquid market instruments. It has policies in place to ensure that rental contracts are made with customers with an appropriate credit history. The Company has policies that limit the amount of credit exposure to any financial institution.

The Group's maximum exposure to credit risk:

	2007 €	2006 €
Financial assets		
Rent and fees receivable	211,844	39,313
Other current assets	44,975	223,336
Cash and short term deposits	10,042,239	2,529,827

The Group holds no collateral as securities against any of the above assets.

The debtors' age analysis is also evaluated on a regular basis for potential doubtful debts. It is management's opinion that no provision for doubtful debts is required.

An analysis of rent and fees receivables:

2007	Carrying Amount €	Neither impaired nor past due €	Past due but not impaired		
			61 - 90 days €	91 - 120 days €	More than 121 days €
Rent and fees receivables	211,844	211,844	-	-	-

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Notes to the Financial Statements (Continued)

For the year ended 31 December 2007

29 Financial risk factors

An analysis of rent and fees receivables (continued):

2006

	Carrying Amount €	Neither impaired nor past due €	Past due but not impaired		
			61 - 90 days €	91 - 120 days €	More than 121 days €
Rent and fees receivables	39,313	35,382	3,931	-	-

The Group allows an average debtors period of 60 days after invoice date.

Market risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the UK Pound, Hungarian Forint and the Euro. Foreign exchange risk arises from future commercial transactions, recognised monetary assets and liabilities and net investments in foreign operations. Interest rate risk arises from the Group's borrowing exposure.

Net interest income from cash and short term deposits for the year totalled €119,266 (2006: €150,693). Net interest payment on long term borrowings for the year totalled €17,203 (2006: €Nil).

2007	Total Increase/ (Decrease) €	Financial Assets		Financial Liabilities	
		Cash & Short Term Deposits €	Rent & fees Receivable €	Trade Payable €	Long Term Loan €
Carrying amount		10,042,239	211,844	604,392	9,025,000
Interest rate risk					
Profit (change of -1%)	(31,301)	(34,076)	-	-	2,775
Equity (change of -1%)	-	-	-	-	-
Profit (change of +1%)	31,301	34,076	-	-	(2,775)
Equity (change of +1%)	-	-	-	-	-
Foreign exchange rate risk					
Profit (change of -10%)	-	-	-	-	-
Equity (change of -10%)	(13,978)	-	-	(13,978)	-
Profit (change of +10%)	-	-	-	-	-
Equity (change of +10%)	13,978	-	-	13,978	-

2006	Total Increase/ (Decrease) €	Financial Assets		Financial Liabilities	
		Cash & Short Term Deposits €	Rent & fees Receivable €	Trade Payable €	Long Term Loan €
Carrying amount		2,529,827	39,313	1,019,013	-
Interest rate risk					
Profit (change of -1%)	(43,055)	(43,055)	-	-	-
Equity (change of -1%)	-	-	-	-	-
Profit (change of +1%)	43,055	43,055	-	-	-
Equity (change of +1%)	-	-	-	-	-
Foreign exchange rate risk					
Profit (change of -10%)	-	-	-	-	-
Equity (change of -10%)	(17,362)	-	-	(17,362)	-
Profit (change of +10%)	-	-	-	-	-
Equity (change of +10%)	17,362	-	-	17,362	-

Pactolus Hungarian Property Plc
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Notes to the Financial Statements (Continued)

For the year ended 31 December 2007

29 Financial risk factors (continued)

Market risk (continued)

The average rate is calculated as the weighted average effective interest rate. Rate on cash at bank balances represents average rate earned on cash balances.

The tables above show the effect on profit and equity after tax if interest rates at 31 December 2007 and 2006 had been 1% higher or lower with all other variable held constant, taking into account all underlying exposures. A sensitivity of 1% has been selected as this is considered reasonable given the current level of both short-term and long-term interest rates. The Group's sensitivity to interest rates has not changed significantly from the prior year.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to finance the company's operations. Due to the dynamic nature of the underlying business, the Company aims to maintain flexibility in funding by keeping committed credit lines available. The average creditor payment period is 30 days (2006: 42 days)

Contractual maturity analysis for financial liabilities:

2007						
	Due within 1 month €	Due between 1 to 3 months €	Due between 3 months to 1 year €	Due between 1 to 5 years €	Due after 5 years €	Total €
Financial liabilities						
Other payables	482,502	104,710	3,855	139,778	-	730,845
Current borrowings	-	-	350,000	-	-	350,000
Non current borrowings	-	-	-	1,750,000	6,925,000	8,675,000
	482,502	104,710	353,855	1,889,778	6,925,000	9,755,845

2006						
	Due within 1 month €	Due between 1 to 3 months €	Due between 3 months to 1 year €	Due between 1 to 5 years €	Due after 5 years €	Total €
Financial liabilities						
Other payables	845,391	43,016	9,048	173,623	-	1,071,078
Current borrowings	-	-	-	-	-	-
Non current borrowings	-	-	-	-	-	-
	845,391	43,016	9,048	173,623	-	1,071,078

Pactolus Hungarian Property Plc
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Notes to the Financial Statements (Continued)

For the year ended 31 December 2007

30 Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while achieving maximisation of equity holders return. Consistently with others in the industry, the Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debt less cash and short term deposits. Adjusted capital comprises all components of equity.

The gearing ratio at the year end is as follows:

	2007	2006
	€	€
Debt	9,025,000	-
Cash and short term deposits	(10,042,239)	(2,529,827)
Net debt	(1,017,239)	(2,529,827)
Equity	24,024,510	20,484,893
Net debt to equity ratio	-4%	-12%

Debt is defined as long and short term borrowings (see note 18).

31 Commitments

At the year end the Group had commitments to invest a further €871,424 (2006: €1,164,801) in its portfolio of investment property. The Company had no commitments as at the period end.

32 Related parties

The Company was charged fees by Equiom Trust Company Ltd of €58,755 (2006: €43,672) in accordance with the Letter of Engagement referred to in Note 2 (ii). The amount outstanding as at 31 December 2007 is €7,715 (2006: €7,436).

All the directors apart from Christopher Bennett and Brett Miller are current staff of Equiom Trust Company Ltd.

Investment management and performance fees amounting to €543,948 (2006: €1,158,145) were charged by Midas Investment Management Ltd. Midas Investment Management Ltd is controlled by Mark Sheppard, who is also a director of the Pactolus Group's United Kingdom subsidiaries. As at 31 December 2007 the amount outstanding to Midas Investment Management Ltd was €261,798 (2006: €694,779).

PACTOLUS HUNGARIAN PROPERTY PLC

NOTICE OF ANNUAL GENERAL MEETING

(incorporated in the Isle of Man under the Isle of Man Companies Acts 1931 - 2004 with registered number 115148C)

Notice is hereby given that the second Annual General Meeting of Pactolus Hungarian Property plc (the “Company”) will be held at 11.00am on Wednesday 23 July 2008 at Jubilee Buildings, Victoria Street, Douglas, Isle of Man, IM1 2SH, for the following purposes:

1. To approve the payment of a dividend of 2.1p per ordinary share to shareholders on the Company’s register of members at the close of business on 27 June 2008.
2. To receive and adopt the Report of the Directors and audited Accounts for the year ended 31 December 2007.
3. To re-appoint PKF as Auditors to the Company and its subsidiaries (the “Group”).
4. To authorise the Directors to fix the remuneration of the Auditors.
5. To renew the authority for the Company to purchase its own shares.
6. To re-elect Christina Lillian Rawlinson as a director of the Company.
7. To re-elect Barry Curtis Smith as a director of the Company.
8. To re-elect Katherine Sarah Ellis as a director of the Company.
9. To renew the authority to issue shares up to an aggregate nominal value equal to 100 per cent of the issued Ordinary Share capital as at the 23 July 2008 (“AGM date”).
10. To transact any other ordinary business of the Company.

By Order of the Board:
Christina Lillian Rawlinson
Company Secretary

Registered Office:
Jubilee Buildings,
Victoria Street,
Douglas,
Isle of Man,
IM1 2SH.

Dated: 13 June 2008

Notes:

1. A member entitled to attend and vote at the Annual General Meeting may appoint one or more proxies to attend and, on a poll, vote instead on their behalf. A proxy need not be a member of the Company;
2. A Form of Proxy for use at the Annual General Meeting is enclosed with this document. To be effective, a Form of Proxy (together with the power of attorney or other authority, if any, under which it is executed, or a notarially certified copy of such power of attorney of authority) must be completed, signed and lodged with Equiom Trust Company Limited not later than 48 hours before the time for holding the Annual General Meeting. Deposit of a Form of Proxy will not preclude a member from attending the Annual General Meeting and voting in person should they so wish;
3. Pursuant to Regulation 22 of the Uncertificated Securities Regulations 2005, the Company has specified that to be entitled to attend and vote at the Annual General Meeting (and for the purposes of determination by the Company of the number of votes they may cast), members must be entered on the Company’s register of members by 6.00pm on 27 June 2008. Changes to entries on the register of members after 6.00pm on that date shall be disregarded in determining the rights of any person to attend and vote at the Annual General Meeting; and
4. The quorum required for the Annual General Meeting is two members present in person or by proxy and entitled to vote thereat.

PACTOLUS HUNGARIAN PROPERTY PLC
Annual General Meeting Wednesday 23 July 2008
Form of Proxy

I/We, the undersigned, being (a) Member(s) of Pactolus Hungarian Property plc, hereby appoint the Chairman of the Meeting or

(please print name of Proxy): _____

To act as my/our Proxy at the second Annual General Meeting of the Company to be held on 23 July 2008 at 11.00am, and at any adjournment thereof, and to vote in accordance with my/our instructions as indicated below:

Please mark the relevant box to indicate how you wish your vote to be cast for each resolution with an 'X' in black ink.

In the absence of a mark against any resolution, and in relation to any other business which may properly come before the Meeting, the proxy may vote or abstain from voting at his/her discretion.

Resolution	For	Against
1. To approve the payment of a dividend of 2.1p per ordinary share to shareholders on the Company's register of members at the close of business on 27 June 2008.		
2. To adopt the Report of the Directors and audited Accounts for the year ended 31 December 2007.		
3. To re-appoint PKF as Auditors to the Company and its subsidiaries (the "Group").		
4. To authorise the Directors to fix the remuneration of the Auditors.		
5. To renew the authority for the Company to purchase its own shares.		
6. To re-appoint Christina Lillian Rawlinson as a Director of the Company.		
7. To re-appoint Barry Curtis Smith as a Director of the Company.		
8. To re-appoint Katherine Sarah Ellis as a Director of the Company.		
9. To renew the authority to issue shares up to an aggregate nominal value equal to 100 per cent of the issued Ordinary Share capital as at the 23 July 2008 ("AGM date").		
10. To transact any other ordinary business of the Company.		

Signed: _____ day of _____ 2008

Signature: _____

Name (print): _____

Address: _____

In the case of joint holders, the signature of any one holder is sufficient.

Notes:

1. A proxy need not be a member of the Company but must attend the meeting in person to represent a member. If you wish to appoint a proxy other than the Chairman of the Meeting, insert their full name and address, strike out the words "Chairman of the Meeting" and initial the alteration.
2. In the case of joint holders, the signature of any one of the holders will be valid but the names of all joint holders should be stated. The vote of the senior who tends a vote in person or by proxy will be accepted to the exclusion of the votes of other joint holder(s). For this purpose seniority is determined by the order in which the names appear in the register of members.
3. In the case of a corporation, the proxy form must be executed under its common seal or signed on its behalf by a duly authorised officer or attorney.
4. Any alterations to this proxy form should be initialled by the person(s) signing it.
5. To be valid, this proxy must be completed and sent, together with any power of attorney or other authority under which it is signed, to the address overleaf so as to arrive not less than 48 hours before the meeting, ie before 11.00am on 21 July 2008.
6. If you prefer to return this proxy in an envelope then please do so using the following address: Equiom Trust Company Limited, Jubilee House, Victoria Street, Douglas, Isle of Man, IM1 2SH.
7. Completion of this form will not preclude you from attending and voting at the meeting if you wish.

2nd FOLD

BUSINESS REPLY SERVICE
Licence No DO81



The Secretary
Pactolus Hungarian Property plc
c/o Equiom Trust Company Ltd
1st Floor
Jubilee Buildings
Victoria Street
Douglas
ISLE OF MAN
IM86 2AL

1st FOLD

3rd FOLD AND TUCK IN