

Pactolus Hungarian Property Plc

Annual Report and Financial Statements

31 December 2008

Pactolus Hungarian Property Plc

Annual Report and Financial Statements 2008

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Pactolus Hungarian Property Plc

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Key Highlights

Pactolus Hungarian Property Plc, announces results for the year ended 31 December 2008.

The principal activity of the Company and its subsidiaries (the "Group") 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:

- Net asset value per share (before deferred taxation) increased to 82p (2007: 73p);

- The portfolio of properties was valued at €23,912,668 as at 31 December 2008 (2007: €24,316,845), following a valuation write down of 11.5% during the year;

- Annualised rent roll reaches €1.5m at 31 December 2008 (2007: €0.9m) and, following the sale of the 3 properties detailed below, the annualised rent roll as at 31 March 2009 is running at €1.3 million;

- Rental yield on cost increases to 8.8 per cent (2007: 8.7 per cent);

- The Group has sold 3 properties since the year-end for a value of €1.5 million (using US\$ exchange rates at the contract date), an average of €2,970 per square metre;

- Dividend of 2.1p per share declared (2007: 2.1p);

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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 2008.

Income for the year under review was €1,296,859, total operating expenses amounted to €1,276,014 and operating profit before tax and investment activities amounted to €20,845. Net assets as at 31 December 2008 were €18,982,395 which included cash balances of €1,981,625.

At 31 December 2008 the portfolio comprised of 9,849 square metres of property with a value of €23.9 million. The Group has contracted to sell 492 square metre of the property portfolio, and the remaining 9,357 square metres when fully let, should produce an annual rent roll of €1.6 million representing a valuation yield, including all purchase costs, of approximately 7 per cent.

Following the loan finance raised at the end of 2007, we entered into 2008 with the main objective of expanding our estate with this facility. However, due to the continuing problems in the credit markets we ceased purchasing new properties in July 2008.

After the severe falls in the stock market, in November 2008 we decided that the best strategy for the Group's resources was to repurchase its own shares when trading at a material discount to net asset value per share. With this in mind, and with the approval of our shareholders, we increased the share repurchase facility in January 2009 in order to allow the Group to repurchase up to 30 per cent of its issued share capital. To date, we have utilised 11 per cent of this 30 per cent facility.

In November 2008, we also took the opportunity to repay €2.5m of the loan facility. Although our gearing ratio to net asset is relatively low at 24 per cent, our strategy continues to seek opportunities to continue to reduce our gearing ratio through the repayment of debt following further sales.

2008 was a difficult year for the Hungarian economy and the property market, yet we increased our net assets per share (before deferred tax) from 73p to 82p. In the opinion of the Board, 2009 and 2010 will continue to be difficult years for global property companies and it remains very difficult to predict the outcome for 2009 in Budapest, therefore we intend to proceed with our current plan of caution and patience.

As in the past, I would like to express my gratitude to the asset manager, directors, advisors and the Budapest team for their efforts in 2008.

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

7 May 2009

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Asset Manager's Report

The Property Portfolio

After securing funding at the end of 2007, we expanded our portfolio of properties from a total of 8,735 square metres to that of 9,849 square metres. This has been reflected in our current annual rent roll of €1.5 million, a 67 per cent increase on the €0.9 million as at 31 December 2007. If the vacant space was let (excluding contracted sales) at our average rent per square metre of €175 per annum (2007: €170 per annum), we would add €0.1 million to our annual rent roll.

The Group's portfolio has been re-valued as at 31 December 2008 at an average discount to the 2007 valuation of 11.5 per cent on a like for like basis. The result is that the Group's properties is valued at €23,912,668 as at 31 December 2008 which represents an average €2,428 per square metre compared to the previous valuation of €2,784 per square metre.

We believe the aforementioned value per square metre remains in line with current market values in central Budapest which appear to be selling in the range of €2,250 to €3,500 per square metre for renovated and refurbished properties. In addition, the Group has sold three properties since the year end for a value of €1,461,384 (using US\$ exchange rate at the contract date), an average of €2,970 per square metre.

Gearing and further acquisitions

During the year to 31 December 2008, the Group increased its portfolio floor space from 8,735 square metres to 9,849 square metres through the acquisition of a further 6 properties. These properties were acquired and refurbished and are now part of our let portfolio.

In response to the downturn of the world economy the Asset Manager ceased buying property in July 2008, and the Board decided to use the funds available from the loan facility to repurchase its own shares. In conjunction with the share repurchase programme the Group has reduced its debts with a repayment of €2,458,990 of the outstanding loan, leaving €6,566,010 outstanding as at the year end.

The level of gearing as at the year-end is 24 per cent and our net interest cost of €379,000 is approximately 4 times covered by our current annualised rent roll of €1.5m.

Share repurchase programme

To date the Company has repurchased 5,136,142 of its issued share capital at an average price of 30 pence (35 cents) per share. If the programme should be fully fulfilled the Company will need to acquire a further 4.3m of its currently issued ordinary shares.

Lettings

The Group has 58 properties let for an average yield against cost of approximately 8.8 per cent. This level of yield remained constant throughout the year. The Group, as at 31 March 2009, had 9 properties which were un-let. These include 2 properties that were held due to the sale detailed below, and of the 7 remaining properties, 4 have now let at an average yield to cost of 10 per cent.

The Group has 4 apartments currently under development.

Disposals

During the year the Group has taken the opportunity to sell one property for a total profit in excess of the balance sheet value of the disposed property of €18,026.

On 9 March 2009, the Group contracted to sell a further 3 properties (subject to mortgage release) for a total price of €1.5m, representing 8 per cent of the Group's net assets as at 31 December 2008 (based on the US\$ exchange rate at the contract date).

Hungarian Economy

With loans from Western banks representing 88.3 per cent of GDP and a good proportion of these in a foreign currency, it is no surprise that Hungary has joined the ranks of what is now known as "submerging" Europe. Household budgets will be squeezed further by increasing repayments on foreign currency loans as the forint remains weak.

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Asset Manager's Report (Continued)

Central Europe has positioned itself as an exporter of cheap manufacturing and services to Western Europe and, like a number of similarly structured countries, has seen a sharp drop in output and GDP. With exports falling by 17 per cent, the economy looks set to shrink by at least 4.5 per cent in 2009. Better news is that Hungary's budget deficit is forecast to fall well within the Maastricht criterion of 3 per cent of GDP.

There remains the strong likelihood that the region requires financial support from the IMF or the EU/Germany. To some extent, Hungary may well have been lucky to have been forced into the hands of the IMF early when funds were more available. The EU/Germany/IMF have been forced to step in to save the region to control the risk of a contagious Lehman-esque credit default wave sweeping via Austria into the EU due to the exposure of a number of EU based banks to the region.

The situation is certainly extremely precarious and worrying but there may be some outcomes from this crisis that stand Hungary in good stead for the more medium term. As Erik Berglof, The ERBD's chief economist, recently said: "Despite the crisis, the long term integration of central and eastern Europe with western Europe will go on. The development model is the right one." In addition, other economists have argued the situation will lead to a quicker and forced integration of a number of EU (but non-Euro) member states into the Euro, so we may well end up at our desired position of Euro integration albeit not via the ideal route. Most interestingly, is the attitude of a number of professional Hungarians whom have become so disillusioned with the political parties in Hungary that they believe the economic and fiscal constraints placed on Hungary may well end up being Hungary's saviour.

On a more positive note we have retained our rent roll at close to €1.5m per annum and we have managed to sell some units at a discount to net assets of less than nine per cent. Our tenants have so far been resilient and we hope this remains the case. We would remind shareholders that of our tenants 16 per cent are sovereign nations, 5 per cent are worldwide charities or causes and 50 per cent are Fortune 500 or established multinational companies.

The strategy going forward is to work hard to retain our tenants, sell units when we can achieve reasonable valuations, minimise costs and reduce gearing. The future is by no means clear but we remain hopeful we will achieve our objectives. We appreciate your support.

Notes:

1. Forex Rates: Euro to the Pound Sterling as at 31 December 2008 was 1.0374; and Euro to the Forint as at 31 December 2008 was 267.04.

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Management and Administration

Directors:

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

Company Secretary:

Barry Smith

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:

Religare Hichens, Harrison Plc
Bell Court House
11 Blomfield Street
London
EC2M 1LB

Auditors:

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

Tax Advisors:

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

Independent Property Valuer:

King Sturge
Rakoczi utca 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 Bank Plc (Irish Branch)
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

Nominated Advisors

Dowgate Capital Advisors Ltd
46 Worship Street
London
EC2 2EA

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Report of the Directors

The Directors of Pactolus Hungarian Property Plc ("the Group") are pleased to submit the Audited Consolidated Financial Statements of the Group for the year ended 31 December 2008, which show the state of the Group and Parent Company affairs.

Principal activity

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 AIM on 23 March 2006. These financial statements cover the year ended 31 December 2008.

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.

Share Issue, Conversion and Repurchase

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 not terminated within the next twenty four months. The period remaining as at 31 December 2008 is six months.
- (b) A takeover of the Company, a capital payback representing greater than 10% of the net assets of the Group (not being ordinary dividend).
- (c) A tender offer for more than 10% of the shares in issue.

On 19 November 2008, the Company conducted a share buy back for the maximum then authorised 10% of the existing holdings as empowered by the Shareholders on 3 July 2008. The Company bought 2,561,142 shares at a value of €859,407 representing a price of 28.21 pence per share. These shares were cancelled upon settlement.

On 5 January 2009, the shareholders approved the Board's proposal to repurchase up to 6,915,082 ordinary shares of the Company representing up to 30% of the existing ordinary shares as at 31 December 2008. The purpose of the buy back programme is to reduce the Company's issued ordinary shares, therefore, all shares acquired will be cancelled upon settlement.

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Report of the Directors (Continued)

Share Issue, Conversion and Repurchase (continued)

The Share Purchase facility will expire at the conclusion of the Company's Annual General Meeting in 2010 or, if earlier, on 5 July 2010. The shares will be bought at a price of not less than £0.01 and not more than the offer price in the market on the day of any share repurchase.

Since the Share Repurchase facility commenced, the Company has acquired for cancellation 5,136,142 ordinary shares for a total value of £1,549,753 at an average price of 30 pence per share.

Results

The results for the year are shown in the Consolidated Income Statement on page 13.

The net amount transferred to profit and loss reserve is €11,721,189 (2007: €(350,006)). This amount includes €15,412,576 transferred from distributable reserve.

Dividend

During the year the Company declared and paid a dividend of 2.1 pence per ordinary share. This was paid on 25,611,415 ordinary shares for the period ended 31 December 2007.

A dividend of 2.1p per ordinary share for the year ended 31 December 2008 has been declared by the Board. The AGM to approve the dividend and the payment date will be announced in due course.

Directors' Interests

	As at 31 December 2008	As at 31 December 2007
	Ordinary Shares of 1p each	Ordinary Shares of 1p each
Chris Bennett	-	-
Brett Miller	61,666	61,666
Stephen Gray	-	-
Barry Smith	-	-
Katherine Ellis	-	-
Sarah Ingrassia	-	-
Christina Rawlinson (Resigned 23 July 2008)	-	-

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

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.

Financial Instruments

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. The impact of these risks on the Company's state of affairs are detailed within the notes to the financial statements.

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.

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Report of the Directors (Continued)

Substantial Shareholdings

At 7 May 2009, 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
Pershing Keen Nominees Ltd	6,381,251	33.1
Bank of New York (Nominees) Limited	2,050,000	10.6
Barnard Nominees Ltd	2,225,000	11.5
Chase Nominees Limited	1,041,666	5.4
J M Finn Nominees Ltd	944,518	4.9

The Asset Manager, Midas Investment Management Ltd and its associated companies own 5,072,341 (26.3%) of the issued share capital as at 7 May 2009. This forms part of the holding 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, as required by the AIM Rules of the London Stock Exchange, prepared the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and have also elected to prepare the Company financial statements in accordance with those standards. 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Status of Taxation

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

The Company's Hungarian subsidiaries which owns the Group's property portfolio, are subject to a corporate rate of tax of 16 per cent (2007: 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.

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Report of the Directors (Continued)

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.

By order of the board

Barry Smith
Company Secretary

7 May 2009

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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 2008 which comprise the consolidated income statement, the consolidated and company balance sheets, the statements of changes in equity, the cash flow statements, 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 2008 and of its loss 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 2008;
- 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

7 May 2009

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Consolidated Income Statement
For the year ended 31 December 2008

	Notes	2008 €	2007 €
Income			
Rental income and related fees		1,278,833	826,822
Realised gain on the sale of investment properties	10	18,026	16,955
Total income		1,296,859	843,777
Expenses			
Property management fees		283,584	189,380
Agency fees		66,352	99,932
Asset manager's fees	2	477,553	543,948
Directors' emoluments	4	40,746	45,041
Legal and professional fees		62,077	125,654
Administrator's costs		41,497	58,755
Audit remuneration		29,018	38,567
Administrative costs		31,950	33,116
Insurance		19,762	8,290
Advertising, PR and marketing		36,610	44,454
Currency exchange loss/(gain)		3,036	(4,717)
Bank charges		6,842	17,824
Depreciation and impairment		135,867	318,158
Amortisation of borrowing costs		41,120	-
Total operating expenses		1,276,014	1,518,402
Operating profit/(loss) before investment activities			
		20,845	(674,625)
Net movement in unrealised (loss)/gain on revaluation of properties	10	(3,358,190)	890,142
Bank and other interest	5	339,226	119,266
Interest payable	6	(536,981)	(17,203)
Net (loss)/profit before tax		(3,535,100)	317,580
Taxation	7	520,584	(30,179)
(Loss)/Profit attributable to equity shareholders		(3,014,516)	287,401
(Loss)/Earnings per Ordinary Share:			
	Basic	-12 Cents	1 Cent
	Diluted	-12 Cents	1 Cent
	9		

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

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 2008

	Notes	Group 2008 €	Parent 2008 €	Group 2007 €	Parent 2007 €
Non-current Assets					
Investment properties	10	22,158,589	-	23,535,717	-
Property under development	10	432,704	-	781,128	-
Furniture and equipment	10	423,150	-	78,609	-
Investment in subsidiaries	11	-	79,850	-	79,850
Goodwill	12	22,678	22,678	22,678	22,678
		23,037,121	102,528	24,418,132	102,528
Current Assets					
Investment properties	10	1,321,375	-	-	-
Trade receivables	14	341,334	19,311	389,133	14,122
Loans to subsidiaries	13	-	13,601,236	-	13,828,265
Cash and short term deposits		1,981,625	4,737	10,042,239	911,026
		3,644,334	13,625,284	10,431,372	14,753,413
Total Assets		26,681,455	13,727,812	34,849,504	14,855,941
Current Liabilities					
Trade and other payables	15	588,421	140,631	730,845	295,697
Current borrowings	16	350,000	-	350,000	-
		938,421	140,631	1,080,845	295,697
Non-current Liabilities					
Long term loan	16	6,216,010	-	8,675,000	-
Deferred taxation	7	544,629	-	1,069,149	-
		6,760,639	-	9,744,149	-
Total Liabilities		7,699,060	140,631	10,824,994	295,697
Net Assets		18,982,395	13,587,181	24,024,510	14,560,244
Represented by:					
Capital and Reserve					
Share capital	17	335,647	335,647	372,941	372,941
Capital redemption reserve	18	37,294	37,294	-	-
Share premium	19	3,340,631	3,340,631	4,203,816	4,203,816
Distributable reserve	20	-	-	15,412,576	15,412,576
Merger reserve	21	(109,195)	(3,689,271)	(109,195)	(3,689,271)
Translation reserve	22	(806,442)	-	(318,899)	(110,176)
Profit and loss reserve	23	16,184,460	13,562,880	4,463,271	(1,629,642)
		18,982,395	13,587,181	24,024,510	14,560,244

The financial statements on pages 13 to 35 were approved at a meeting of the Board of Directors held on 7 May 2009 and signed on its behalf by:

Stephen Gray
Director

Barry Smith
Director

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

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Statement of Changes in Equity

	Group 2008 €	Parent 2008 €	Group 2007 €	Parent 2007 €
Share capital				
As at 1 January	372,941	372,941	298,185	298,185
Issue of ordinary shares	-	-	74,756	74,756
Cancellation of ordinary shares	(37,294)	(37,294)	-	-
As at 31 December	335,647	335,647	372,941	372,941
Capital redemption reserve				
Cancellation of ordinary shares	37,294	37,294	-	-
As at 31 December	37,294	37,294	-	-
Share premium				
As at 1 January	4,203,816	4,203,816	-	-
Issue of ordinary shares	-	-	4,203,816	4,203,816
Cancellation of ordinary shares	(863,185)	(863,185)	-	-
As at 31 December	3,340,631	3,340,631	4,203,816	4,203,816
Distributable reserve				
As at 1 January	15,412,576	15,412,576	15,412,576	15,412,576
Transferred to profit and loss reserve	(15,412,576)	(15,412,576)	-	-
As at 31 December	-	-	15,412,576	15,412,576
Merger reserve				
As at 1 January and 31 December	(109,195)	(3,689,271)	(109,195)	(3,689,271)
Translation reserve				
As at 1 January	(318,899)	(110,176)	70,050	-
Movements during the year	(487,543)	110,176	(388,949)	(110,176)
As at 31 December	(806,442)	-	(318,899)	(110,176)
Profit and loss reserve				
As at 1 January	4,463,271	(1,629,642)	4,813,277	(1,254,383)
Net (loss)/profit for the year	(3,014,516)	456,817	287,401	262,148
Transfer from distributable reserve	15,412,576	15,412,576	-	-
Dividends paid	(676,871)	(676,871)	(637,407)	(637,407)
As at 31 December	16,184,460	13,562,880	4,463,271	(1,629,642)

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

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Consolidated and Company Cash Flow Statement
For the year ended 31 December 2008

Notes	Group 2008 €	Parent 2008 €	Group 2007 €	Parent 2007 €
Cash flow from operating activities				
Cash received from lessees	1,487,807	-	787,095	-
Cash paid to suppliers and employees	(1,469,698)	(873,402)	(1,367,977)	(895,722)
Cash inflow/(outflow) from operations	18,109	(873,402)	(580,882)	(895,722)
Bank interest paid	(543,679)	-	-	-
Corporation tax paid/refunded	(3,932)	-	16,159	-
Net cash used in operating activities	25 (529,502)	(873,402)	(564,723)	(895,722)
Cash flow from investing activities				
Acquisition of subsidiary	-	-	-	(11,600)
Purchase of properties under development	(3,658,674)	-	(4,894,862)	-
Receipt from sale of investment properties	262,000	-	1,190,278	-
Purchase of fixed assets	(487,927)	-	(343,923)	-
Net movement on unrealised provision	-	-	(293,357)	(110,175)
Net loans advanced to/from subsidiary undertakings	-	1,495,429	-	(1,968,768)
Bank interest received	355,570	11,740	102,922	84,238
Net cash from/(used in) investing activities	(3,529,031)	1,507,169	(4,238,942)	(2,006,305)
Cash flow from financing activities				
Issue of Ordinary Shares	-	-	4,135,246	4,135,246
Issue costs paid on issuance of Ordinary Shares	-	-	(206,762)	(206,762)
Purchase of own shares	(863,184)	(863,185)	-	-
Proceeds from long term borrowings	-	-	9,025,000	-
Loan repayment	(2,458,990)	-	-	-
Dividends paid	(676,871)	(676,871)	(637,407)	(637,407)
Net cash (Outflow)/inflow from financing activities	(3,999,045)	(1,540,056)	12,316,077	3,291,077
(Decrease)/Increase in cash & short term deposits	(8,057,578)	(906,289)	7,512,412	389,050
Effect of exchange movement	(3,036)	-	-	-
Cash and short term deposits as at 1 January	10,042,239	911,026	2,529,827	521,976
Cash and short term deposits as at 31 December	1,981,625	4,737	10,042,239	911,026

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 2008

Accounting policies

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.

A separate income statement for the parent company has not been presented as permitted by the Isle of Man Companies Acts 1931 to 2004. The parent company earned a profit of €456,817 (2007: €262,148).

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 and 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.

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.

Pactolus Hungarian Property Plc

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Notes to the Financial Statements (Continued)

For the year ended 31 December 2008

Impact of revisions and new requirements not yet effective to International Financial Reporting Standards

The financial statements are prepared in accordance with International Financial Reporting Standards and Interpretations in force at the reporting date. The Group has not adopted any standards or interpretations in advance of the required implementation dates. It is not expected that adoption of standards or interpretations which have been issued by the International Accounting Standards Board but have not been adopted will have a material impact on the financial statements.

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 and redemption costs

All costs incurred in the placing and repurchase of the Company's shares are written off in full against the share premium account.

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.

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 a 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. Gains and losses arising from changes in the fair value of investment property are included in the income statement for the period in which they arise.

Properties under development are held at cost and investment properties 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.

Pactolus Hungarian Property Plc

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Notes to the Financial Statements (Continued)

For the year ended 31 December 2008

Furniture and equipment

All furniture and equipment are stated at the lower of cost less impairment. 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
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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 the 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.

Goodwill

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

Goodwill is allocated to the relevant cash-generating units of the Group expected to benefit from the synergies of the business combination. Cash-generating units of which goodwill are allocated and are tested for impairment annually with any impairment losses taken to the income statement. Any impairment loss recognised for goodwill is not reversed in any subsequent periods.

Derivative financial instruments and hedging activities

The Group uses derivative financial instruments, in the form of currency hedges, 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 measured 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 under loans and receivables and is measured at fair value. 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.

Pactolus Hungarian Property Plc

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Notes to the Financial Statements (Continued)

For the year ended 31 December 2008

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.

2 Material agreements

- (i) Midas Investment Management Ltd ("MIM") was appointed the Group's Asset 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.

On 5 January 2009 the agreement was amended via a side letter to incorporate changes to both the management and performance fees.

As from 1 December 2008, the management fee will be calculated at a general discount applied to the Group's property value. This discount is based on 60p per share on a constant exchange rate basis from admission to AIM. The performance fee will now be based on cash returned to shareholders attributable to the period from 1 December 2008 to 31 December 2011.

Performance fee to cash returns is paid as follows:

- (a) Cash returns up to €13.6m, an incentive fee of 2.5% payable after a €12.2m threshold is reached;
- (b) Cash returns on reaching €13.6m, an incentive fee of 5% is payable net of (a) above;
- (c) Cash returns between €13.6m and €19m, an incentive fee of 7.5% is payable;
- (d) Cash returns above €19m, an incentive fee of 15% is payable.

The Investment Management Agreement can only be terminated, other than for cause after 31 December 2011 by the Company on 3 months notice.

- (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.

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Notes to the Financial Statements (Continued)

For the year ended 31 December 2008

3 Group operating (loss)/profit is stated after charging

	2008	2007
	€	€
Directors' emoluments	40,746	45,041
Investment Manager's fees	477,553	543,948
Bank charges	6,842	17,824
Auditors' remuneration	29,018	38,567
Depreciation	135,867	80,969
Impairment losses on furniture and equipment	-	237,189

The Investment Manager's fee calculated and payable for the year ended 31 December 2008 and the preceding period all relates to Midas Investment Management Ltd. As at 31 December 2008 management fees due to Midas Investment Management Ltd were €106,894 (2007: €261,798).

4 Directors' emoluments

	2008	2007
	€	€
(i) Directors' fees:		
Total fees	8,246	7,991

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).

(ii) Remuneration of Directors:

	2008	2007
	€	€
Mr C Bennett (Chairman)	19,500	22,050
Mr B Miller	13,000	15,000

5 Finance income

	2008	2007
	€	€
Bank and short term deposits interest	339,226	119,266

6 Finance costs

	2008	2007
	€	€
Interest on borrowings	536,981	17,203

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

For the year ended 31 December 2008

7 Taxation	2008 €	2007 €
Current tax		
UK corporation tax and income tax of overseas operations on profits for the year	3,936	3,855
Deferred tax expense		
Origination and reversal of temporary differences	(524,520)	26,324
Total tax (credit)/charge	<u>(520,584)</u>	<u>30,179</u>

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

	2008 €	2007 €
(Loss)/profit before tax	(3,535,100)	317,580
Expected tax charge based on the applicable rate of 16%	(565,616)	50,813
Local business tax in Hungary	3,936	3,855
Different tax rates applied on overseas jurisdictions	(71,874)	(40,329)
Income not subject to tax	-	(10,484)
Losses not relieviable against taxable profit	637,490	-
Deferred tax credit - Revaluation of investment properties	(396,591)	114,639
Deferred tax credit - Increase in available losses in Hungary	(127,929)	(88,315)
Total tax (credit)/charge	<u>(520,584)</u>	<u>30,179</u>

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:

	2008 €	2007 €
As at 1 January	1,069,149	1,042,825
Profit and loss charge	(524,520)	26,324
As at 31 December	<u>544,629</u>	<u>1,069,149</u>

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 Income Taxes) during the year 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:

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Notes to the Financial Statements (Continued)

For the year ended 31 December 2008

7 Taxation (continued)

	2008	2007
	€	€
Revaluations of investment properties	(396,591)	114,639
Increase in available losses in Hungary	(127,929)	(88,315)
	<u>(524,520)</u>	<u>26,324</u>
Available losses in the UK	<u>(32,518)</u>	<u>(35,368)</u>

8 Dividends

	2008	2007		
	No. of shares	€	No. of shares	€
Dividend of 2.1 pence per share paid	25,611,415	676,871	20,551,651	637,407

The dividend payment was converted at an exchange rate of €1.2585 (2007: €1.4769) to the Pound Sterling.

A dividend of 2.1p per Ordinary Share for the year ended 31 December 2008 has been declared by the Board. Based on the current issued share capital this will be paid on 19,270,273 shares amounting to €458,012 (exchange rate €1.1318 to Sterling).

The AGM to approve the dividend and the payment date will be announced in due course.

9 Earnings per share

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

	Loss for the year	Ordinary Shares	As at 31 December 2008
	€	number^β	Per Share
			€
Basic loss per share	(3,014,516)	25,386,877	(0.12)
Option conversion*	-	165,902	-
Diluted loss per share	<u>(3,014,516)</u>	<u>25,552,779</u>	<u>(0.12)</u>
Adjusted earnings per share for the year ended 31 December 2008			
	Loss for the year	Ordinary Shares	Per Share
	€	number^β	€
Basic loss per share	(3,014,516)	25,386,877	(0.12)
Adjustment to remove:			
Deferred tax credit	(524,520)	-	-
Net valuation loss	3,358,190	-	-
Adjusted basic loss	<u>(180,846)</u>	<u>25,386,877</u>	<u>(0.01)</u>
Option conversion*	-	165,902	-
Diluted loss per share	<u>(180,846)</u>	<u>25,552,779</u>	<u>(0.01)</u>

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Notes to the Financial Statements (Continued)

For the year ended 31 December 2008

9 Earnings per share (continued)

	Distributable profits €	Ordinary Shares number β	As at 31 December 2007 Per Share €
Basic earnings per share	287,401	23,170,288	0.01
Option conversion*	-	165,902	-
Diluted earnings per share	<u>287,401</u>	<u>23,336,190</u>	<u>0.01</u>

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

	Distributable profits €	Ordinary Shares number β	Per Share €
Basic earnings per share	287,401	23,170,288	0.01
Adjustment to remove:			
Deferred tax charge	26,324	-	-
Net valuation gains	(890,142)	-	-
Adjusted basic loss	<u>(576,417)</u>	<u>23,170,288</u>	<u>(0.02)</u>
Option conversion*	-	165,902	-
Adjusted diluted loss per share	<u>(576,417)</u>	<u>23,336,190</u>	<u>(0.02)</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.

10 Investment properties, furniture and equipment

	Investment Properties €	Properties Under Development €	Furniture and Equipment €	Total €
As at 1 January 2008	23,535,717	781,128	78,609	24,395,454
Additions at cost for the period	-	3,190,468	487,927	3,678,395
Disposal during the period	(236,455)	-	(7,519)	(243,974)
Unrealised profit/(loss) on revaluation	(3,358,190)	-	-	(3,358,190)
Transfer to investment properties	3,538,892	(3,538,892)	-	-
Impairment of furniture and equipment	-	-	-	-
Depreciation for the period	-	-	(135,867)	(135,867)
Transfer to properties held for resale	(1,321,375)	-	-	(1,321,375)
As at 31 December 2008	<u>22,158,589</u>	<u>432,704</u>	<u>423,150</u>	<u>23,014,443</u>

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Notes to the Financial Statements (Continued)

For the year ended 31 December 2008

10 Investment properties, furniture and equipment (continued)

	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 for the period	-	5,003,268	343,923	5,347,191
Disposal during the period	(1,285,664)	-	-	(1,285,664)
Unrealised profit on revaluation	1,058,826	(168,684)	-	890,142
Transfer to investment properties	5,474,748	(5,474,748)	-	-
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

Investment Properties	2008 €	2007 €
Investment properties	22,158,589	23,535,717
Properties held for resale	1,321,375	-
	23,479,964	23,535,717

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.

Property disposals during the period	2008 €	2007 €
Proceeds from the sale of investment properties	262,000	1,302,619
Less: carrying cost/value	(243,974)	(1,285,664)
Realised gain on disposal of property	18,026	16,955

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Notes to the Financial Statements (Continued)

For the year ended 31 December 2008

11 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.	Property investment	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	2008 €	2007 €
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	11,600
	79,850	79,850

All the above subsidiaries with the exception of Midasz Property Two Kft. were acquired and accounted for under IFRS 3 business combination.

12 Goodwill

	2008 €	2007 €
Arising on acquisition of subsidiary	22,678	22,678

13 Loans to subsidiaries

	Parent 2008 €	Parent 2007 €
Pactolus Eastern European Property Ltd	65,270	65,270
Midasz Property Kft.	13,501,162	13,737,590
Pactolus (IOM) Limited	34,803	25,405
Pactolus (UK) Limited	1	-
	13,601,236	13,828,265

These comprise of unsecured subordinated loans issued in support of property acquisitions. The loans provided by the parent company to Midasz Property Kft. are currently charged at interest of 8.49% (2007: 8.49%).

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Notes to the Financial Statements (Continued)

For the year ended 31 December 2008

14 Trade receivables	Group 2008 €	Parent 2008 €	Group 2007 €	Parent 2007 €
Rent and fees receivable	159,668	-	211,844	-
Property purchase deposits	-	-	44,975	-
Other debtors	-	-	7,386	-
Prepayments and accrued income	181,666	19,311	124,928	14,122
	341,334	19,311	389,133	14,122
15 Trade and other payables	Group € 2008	Parent € 2008	Group € 2007	Parent € 2007
Trade creditors and accruals	180,157	140,631	464,614	295,697
Other creditors	-	-	685	-
Rent received in advance	168,130	-	104,710	-
Deposits held	225,770	-	139,778	-
Taxation	3,859	-	3,855	-
Interest payable and similar charges	10,505	-	17,203	-
	588,421	140,631	730,845	295,697
16 Long term loan	Group € 2008	Parent € 2008	Group € 2007	Parent € 2007
Variable at 4.68% p.a including margin				
- Current	350,000	-	350,000	-
- Non current	1,703,510	-	4,162,500	-
Fixed at 6.25% p.a. including margin	4,512,500	-	4,512,500	-
	6,566,010	-	9,025,000	-
Loan issue cost				
Total cost on drawdown of loan	143,978	-	143,978	-
Amortisation of loan issue costs	41,120	-	-	-

The Group's loan facility with Investec Bank Plc (Irish Branch), was amended on 14 November 2008 from €9,025,000 to €8,766,000. The amended agreement granted the Group permission to acquire its own shares from funds within the loan facility. 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 1.6% and therefore exposes the Group to cash flow risk.

The fair value of the loan as at 31 December 2008 was €6,566,010 (2007: €9,025,000).

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

- (a) The aggregate outstanding loan to current net asset value of the Group should not exceed 50%;
- (b) Minimum capital reduction of the loan of €350,000 per annum.

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

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Notes to the Financial Statements (Continued)

For the year ended 31 December 2008

17 Share capital

Authorised share capital - Ordinary shares

Share capital	Number of shares	2008 €	Number of shares	2007 €
Authorised Ordinary Shares of 1p each	70,000,000	726,180	70,000,000	939,750
Ordinary Shares of 1p each issued and fully paid	Number of shares	2008 €	Number of shares	2007 €
Balance as at 1 January	25,611,415	372,941	20,551,651	298,185
Placing issue during the year	-	-	4,666,584	68,921
Performance fees paid in shares	-	-	393,180	5,835
Cancellation of ordinary shares	(2,561,142)	(37,294)	-	-
As at 31 December	23,050,273	335,647	25,611,415	372,941

On 19 November 2008, the Company conducted a share buy back for the maximum then authorised 10% of the existing holdings as empowered by the Shareholders on 3 July 2008. The Company bought 2,561,142 shares at a price of 28.21 pence per share. These shares were cancelled upon settlement.

Ordinary Shareholders are entitled to vote at all general meetings.

The currency rate used to convert the authorised share capital is €1.0374 (2007: €1.3425).

18 Capital redemption reserve	2008 €	2007 €
Cancellation of ordinary shares	37,294	-
As at 31 December	37,294	-

19 Share premium	2008 €	2007 €
As at 1 January	4,203,816	-
Proceeds arising on issue of Ordinary Shares	-	4,066,326
Allocation of issue costs	-	(206,762)
Performance fee paid in shares	-	344,252
Ordinary share repurchased	(863,185)	-
As at 31 December	3,340,631	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.

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20 Distributable reserve	2008	2007
	€	€
As at 1 January	15,412,576	15,412,576
Transfer to profit and loss reserve	(15,412,576)	-
As at 31 December	-	15,412,576

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

The Company has now merged both its distributable reserve accounts.

21 Merger Reserve	Group	Parent	Group	Parent
	2008	2008	2007	2007
	€	€	€	€
As at 1 January and 31 December	(109,195)	(3,689,271)	(109,195)	(3,689,271)

22 Translation reserve	Group	Parent	Group	Parent
	2008	2008	2007	2007
	€	€	€	€
As at 1 January	(318,899)	(110,176)	70,050	-
Movement for the year	(487,543)	110,176	(388,949)	(110,176)
As at 31 December	(806,442)	-	(318,899)	(110,176)

23 Profit and loss reserve	Group	Parent	Group	Parent
	2008	2008	2007	2007
	€	€	€	€
As at 1 January	4,463,271	(1,629,642)	4,813,277	(1,254,383)
(Loss)/profit attributable to equity holders	(3,014,516)	456,817	287,401	262,148
Transfer from distributable reserve	15,412,576	15,412,576	-	-
Dividends paid on ordinary shares	(676,871)	(676,871)	(637,407)	(637,407)
As at 31 December	16,184,460	13,562,880	4,463,271	(1,629,642)

24 Net Asset Value per Ordinary Share	2008	2007
Net asset value as at 31 December	€18,982,395	€24,024,510
Weighted average number of shares in issue during the year	25,386,877	23,170,288
Number of shares in issue as at 31 December	23,050,273	25,611,415
Net asset value per ordinary share (weighted average)	€0.75	€1.04
Net asset value per share pre deferred tax (Euro to the Sterling exchange rate at the year end €1.0374 (2007: €1.3425))	£0.82	£0.73

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For the year ended 31 December 2008

25 Notes to the Consolidated Cash Flow Statement

	Group 2008 €	Parent 2008 €	Group 2007 €	Parent 2007 €
Reconciliation of net profit before investment result to net cash outflow from operating activities:				
Net (loss)/profit before taxation	(3,535,100)	456,817	317,580	262,148
Realised gains on sale of investment properties	(18,026)	-	(16,955)	-
Other interest income	-	(1,158,224)	-	(957,735)
Bank interest received	(355,570)	(11,740)	(102,922)	(84,238)
Corporation tax paid	(3,932)	-	16,159	-
Adjustment for non-cash items:				
Depreciation	135,867	-	318,158	-
Decrease/(increase) in debtors	2,824	(5,189)	(290,257)	(2,378)
(Decrease)/Increase in creditors	(116,791)	(155,066)	83,656	(113,519)
Unrealised currency movement	3,036	-	-	-
Unrealised loss on investment property valuation	3,358,190	-	(890,142)	-
Net cash outflow from operating activities	(529,502)	(873,402)	(564,723)	(895,722)

26 Share based payments

Pursuant to an 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 2008. The exchange rate at the option date was €1.4492 to Sterling.

	2008		2007	
	Options	Weighted Avg. Exercise price	Options	Weighted Avg. Exercise price
As at 1 January	165,902	60p	165,902	60p
Granted during the period	-	-	-	-
As at 31 December	165,902	60p	165,902	60p

The weighted average contracted life remaining for these outstanding options is 2.25 years.

The aggregate fair value of the outstanding options granted is €9 (2007: €Nil) determined according to the Black Scholes model.

The inputs into the Black Scholes model are as follows:

	2008	2007
Bid price of share	31.0p	34.5p
Weighted average exercise price	60p	60p
Expected volatility	14.3%	23.9%
Expected life	2.2 years	3.2 years
Risk free rate	2.00%	5.00%

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For the year ended 31 December 2008

26 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.

27 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 Group's operating units. The Board provides principles for overall risk management, as well as 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:

	2008	2008	2007	2007
	Carrying	Fair	Carrying	Fair
	Value	Value	Value	Value
	€	€	€	€
Financial assets				
Other current assets	155,809	155,809	256,819	256,819
Cash and short term deposits	1,981,625	1,981,625	10,042,239	10,042,239
Financial liabilities				
Other payables	588,421	588,421	730,845	730,845
Current borrowings	350,000	350,000	350,000	350,000
Non current borrowings	6,216,010	6,216,010	8,675,000	8,675,000

It is the Directors' opinion that the Group's carrying and fair value of its financial instruments are the same.

Credit risk

The Group places surplus cash with third parties and therefore potentially at risk from the failure of any such third party of which it is a creditor. It is the Group's policy to place excess cash funds on short-term basis only and spread the risk over a number of different providers.

The Group's principal credit risk is that of cash and short-term deposits. The Board in conjunction with the Asset Manager has a credit policy in place and this exposure is monitored on an ongoing basis.

Within the Group's credit risk policies are measure to ensure that rental contracts are made with customers with an appropriate credit history to minimise the exposure on any outstanding debts from lessees.

The Group's maximum exposure to credit risk:

	2008	2,007
	€	€
Financial assets		
Rent and fees receivable	159,668	211,844
Other current assets	-	44,975
Cash and short term deposits	1,981,625	10,042,239

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

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Notes to the Financial Statements (Continued)

For the year ended 31 December 2008

27 Financial risk factors

An analysis of rent and fees receivables:

2008	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	159,668	159,668	-	-	-

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	-	-	-

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

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.

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 €339,226 (2007: €119,266). Net interest payment on long term borrowings for the year totalled €536,981 (2007: €17,203).

In light of the current volatility with both interest and currency exchange rates the Board decided that being prudent the relevant risk factors should be taken into account when assessing the Group's exposure to the market risk. The sensitivity test is based on the following:

- (a) Interest rate change of -4% and +1% from the average rate of 4.8% earned in 2008. 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;
- (b) Foreign exchange rate change of -10% and +15% from €1.0374 to the Pound Sterling and 267.04 Forint to the Euro, being the rate as at 31 December 2008.

The tables below show the effect on profit and equity after tax if interest rates as stated in (a) above and all other variables held constant, are used as a sensitivity test on the Group's market risk exposures. The Group's sensitivity to interest rates has not changed significantly from the previous year.

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27 Financial risk factors (continued)

Market risk (continued)

2008	Financial Assets			Financial Liabilities	
	Total Increase/ (Decrease) €	Cash & Short Term Deposits €	Rent & fees Receivable €	Trade Payable €	Long Term Loan €
Carrying amount	-	1,981,625	159,668	405,927	6,566,010
Interest rate risk					
Profit (change of -4%)	(170,996)	(282,688)	-	-	111,692
Profit (change of +1%)	(15,245)	70,672	-	-	(85,917)
Foreign exchange rate risk					
Equity (change of -10%)	(18,181)	(40,758)	-	22,577	-
Equity (change of +15%)	27,272	61,137	-	(33,866)	-

2007	Financial Assets			Financial Liabilities	
	Total Increase/ (Decrease) €	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
Profit (change of +1%)	31,301	34,076	-	-	(2,775)
Foreign exchange rate risk					
Equity (change of -10%)	(13,978)	-	-	(13,978)	-
Equity (change of +10%)	13,978	-	-	13,978	-

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to finance the Group's operations. Due to the dynamic nature of the underlying business, the Group aims to maintain flexibility in funding by keeping committed credit lines available. The average creditor payment period is 30 days (2007: 30 days)

Contractual maturity analysis for financial liabilities:

2008	Due within	Due between	Due between	Due between	Due after 5	Total
	1 month	1 to 3 months	3 months to 1 year	1 to 5 years	years	
	€	€	€	€	€	€
Financial liabilities						
Other payables	318,193	10,505	33,953	225,770	-	588,421
Current borrowings	-	-	350,000	-	-	350,000
Non current borrowings	-	-	-	6,216,010	-	6,216,010
	318,193	10,505	383,953	6,441,780	-	7,154,431

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Notes to the Financial Statements (Continued)

For the year ended 31 December 2008

27 Financial risk factors (continued)

Liquidity risk (continued)

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

28 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:

	2008 €	2007 €
Debt	6,566,010	9,025,000
Cash and short term deposits	(1,981,625)	(10,042,239)
Net debt	4,584,385	(1,017,239)
Equity	18,982,395	24,024,510
Net debt to equity ratio	24%	-

The Group's Asset Manager reviews the debt structure on a quarterly basis in conjunction with the Board. The cost of capital and the associated risks are considered and appropriate measures are taken to reduce the Group's exposure. Debt is defined as long and short term borrowings (see note 16).

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For the year ended 31 December 2008

29 Leasing

Operating leases with tenants

The Group leases out all of its investment properties under operating leases for an average lease term of 1.6 years. The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

	2008 €	2007 €
Less than one year	829,920	729,930
Between two and five years	699,888	252,000
	1,529,808	981,930

There were no contingent rental income recognised in the year (2007: €Nil).

30 Commitments

At the year end the Group had no capital commitments (2007: €871,424) in its portfolio of investment property. The Company had no commitments as at the period end.

31 Related parties

The Company was charged fees by Equiom Trust Company Ltd of €41,497 (2007: €58,755) in accordance with the Letter of Engagement referred to in Note 2 (ii). The amount outstanding as at 31 December 2007 is €8,610 (2007: €7,715).

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

Investment management fees amounting to €477,553 (2007: €543,948), and share acquisition commission charges of €735 (2007: €Nil) 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 2008 the amount outstanding to Midas Investment Management Ltd was €106,894 (2007: €261,798).

32 Post balance sheet events

On 5 January 2009, the shareholders approved the Board's proposal to repurchase up to 6,915,082 ordinary shares of the Company representing up to 30% of the existing ordinary shares as at 31 December 2008. The purpose of the buy back programme is to reduce the Company's issued ordinary shares, therefore, all shares acquired will be cancelled upon settlement.

The Share Repurchase facility will expire at the conclusion of the Company's Annual General Meeting in 2010 or, if earlier, on 5 July 2010. The shares will be bought at a price of not less than £0.01 and not more than the offer price in the market on the day of any share repurchase.

Since the Share Repurchase facility commenced, the Company has acquired and cancelled 6,341,142 ordinary shares for a total value of £1,875,755 at an average price of 30 pence per share.

On 9 March 2009, the Group sold three properties (subject to mortgage release) for a total price of €1.5m, representing 8% of the Company's net assets as at 31 December 2008 (based on the US\$ exchange rate at the contract date).

33 Domiciled

Pactolus Hungarian Property Plc is registered and domiciled in the Isle of Man.