

Pactolus Hungarian Property Plc

**Annual Report and Financial Statements
31 December 2010**

Pactolus Hungarian Property Plc

Annual Report and Financial Statements 2010

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Key Highlights

Pactolus Hungarian Property Plc presents its results for the year ended 31 December 2010.

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

Key Highlights for the year:

- Net asset value per share (before deferred taxation) of 57p, as at 31 December 2010 (2009: 68p), a decline of 16 per cent, mainly due to an aggregate write down in value of the portfolio of 8 per cent;
- The portfolio of properties were valued at €14.8m as at 31 December 2010 (2009: €18.6m), following disposals during the year and the aggregate write down;
- Annualised rent roll of €905,000 at 31 December 2010 (2009: €1,272,000) with a current annualised rent roll of €1,018,000;
- Rental yield on cost as at 31 December 2010 was 7 per cent (2009: 8 per cent);
- During the year, the Group has sold 8 properties for a combined value of €2.7m, at an average of €2,152 per square metre;
- The Group has continued to aggressively review costs throughout the year, reducing annual administration costs by 31 per cent to €652,000 for the year ended 31 December 2010 (2009: €944,000). Normalised annual administration costs have been reduced by 15 per cent to €631,000 as at 31 December 2010 (2009: €739,000), and have been further reduced following the year end.
- Net debt decreased from €6.0m to €4.3m, following utilisation of the proceeds of property sales and reduction in administrative expenses.

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Chairman's Statement

Last year I reported that it is important to note that as the Group sells property, the losses may well increase as the reduced revenue is countered by a relatively constant fixed cost base. In order to minimise this impact, the Company has been aggressively reviewing its costs structure. Over the year, a number of contracts for services have been renegotiated to the Company's advantage and the Group has managed to reduce its administrative costs to €652,000 from €944,000.

Net assets as at 31 December 2010 were €10.6m including cash balances of €184,000. Based on the current total issued shares, the Group's net asset value per share (before deferred tax) is 57 pence (conversion rate of €1.16 to Sterling).

Our strategy for the forthcoming year will be to continue to cut costs and sell properties and use the proceeds to buy-back the Company's shares in conjunction with reducing debts.

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

C H Bennett BA FRICS.
Chairman
Budapest

31 May 2011

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Asset Manager's Report

The Property Portfolio

The Group's portfolio has been written down as at the year-end by an aggregate 8 per cent compared to the value at 31 December 2009. The result is that the Group's properties are valued at an average of €1,844 per square metre, which the Asset Manager believes is in line with market valuations.

During the year to 31 December 2010, the Group made no further additions to the portfolio and the floor space has reduced from 9,265 square metres to 8,029 square metres, as at 31 December 2010, through the sale of 8 properties. Since the year end, a further 361 square metres of the Group's investment portfolio has been sold.

Lettings

As at 31 December 2010, the Group had 40 properties let, for an average yield against cost of approximately 7 per cent (2009: 8 per cent). As at 31 May 2011, the Group had 4 properties which were unlet and 4 properties in development.

The development of the four apartments referred to above is on hold and will remain so until market conditions are favourable.

Disposals

During the year, the Group has taken the opportunity to sell 8 properties for a total net loss of €135,000.

The properties were sold for a combined price of €2.7m, representing a price per square metre of €2,152.

Net Debt and Share Repurchase Programme

During the year, we acquired and immediately cancelled 165,000 ordinary shares at an aggregate cost representing 27 pence per share. Due to the continued lack of liquidity in the Company's shares, some shareholders continue to express their desire to divest their holdings.

We have continued with our strategy to repurchase shares and reduce debt. The level of debt has now reduced to €4.5m, a reduction of over 28 per cent to the balance outstanding of €6.2m as at 31 December 2009.

Dividend

The Company has not paid a dividend to shareholders since 30 October 2009 and will be paying no future dividends to shareholders until further reductions have been made to the debt outstanding.

Hungarian Economy

As we expected, the market in Budapest has remained tough throughout the year and there is still little sign of any current revival. We also share the concerns of the EU regarding the recent moves of the new government formed by Fidesz.

A recent report by Budapest based economic 'think tank', GKI Economic Research Co. stated that "Assessments of residential market in Budapest and in Western Hungary were not changed significantly compared to the previous quarter. Situation assessments concerning the housing market slightly deteriorated in Eastern Hungary. For the next 12 months, responding developers and realtors do not expect an improving market situation, there is no light at the end of the tunnel yet."

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Asset manager's Report (continued)

With regard to the lending situation within Hungary, particularly in foreign currencies, ING recently pointed out that a moratorium on foreclosures, originally slated to end in April and extended to June, is masking problems, stating "The issue is not going to go away in Hungary. You've had instances of banks restructuring loans more than once. I think those loans will have to be reclassified as non-performing."

However, there is some light at the end of the tunnel in the respect that Germany is showing strong signs of recovery which is certainly feeding through into the Polish economy. We are becoming hopeful that some scraps may start to fall from Germany's table onto the Hungarian economy.

We intend to continue with our strategy of working hard to retain our tenants, selling units when we can achieve reasonable valuations, minimise costs and when possible, undertake further reductions in debt. The future is still unclear, however we remain hopeful that we will achieve our objectives.

We appreciate the continued support of the Company's shareholders.

Midas Investment Management Ltd

2nd Floor
Arthur House
Chorlton Street
Manchester
M1 3FH

Notes:

Forex Rates: Euro to the Pound Sterling as at 31 December 2010 was €1.1647;
Forint to the Euro as at 31 December 2010 was 278.33Ft.

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The Board of Directors

Christopher Heal Bennett, BA (Hons), FRICS (aged 65) – Non-executive Chairman

Chris left the College of Estate Management, University of London in 1966 and joined the Inland Revenue District Valuer and Valuation Office. He subsequently joined Montagu Evans before joining Richard Ellis in 1972, where he spent 17 years as a partner in charge of the Industrial Property business, leaving the partnership in 1988.

After a brief spell as a developer of commercial property in the London area, Chris joined Price Waterhouse in Budapest as the head of the Real Estate Group in Central & Eastern Europe with offices in Berlin, Warsaw, Prague and Moscow. In 1994, Chris joined DTZ as Chairman of their Central & Eastern Europe operations, covering Vienna, Budapest, Prague, Warsaw, Bucharest, Moscow, St Petersburg and Kiev before leaving in April 2005 to join the Stumpf group. Chris is currently Director Head of Acquisitions of Europa Capital, a company that invests for its clients in all property classes across both European Union and Non European Union Europe, in a variety of both real-estate assets and real-estate operating companies.

Chris has extensive experience of all aspects of real estate throughout the former Soviet Union and Central and Eastern Europe.

Brett Lance Miller, BA, LL.B. (aged 43) - Non-executive Director

Mr. Miller joined Nabarro Nathanson, a London-based law firm, in September 1993 where he completed his articles and practised until December 1997. Until July 2009 he was the Managing Director and key shareholder of Ruegg & Co. Limited, a London-based corporate finance boutique and member firm of the London Stock Exchange. In July 2009, Mr. Miller sold Ruegg & Co to Astaire Securities plc having built up the firm since 2000.

Currently, Mr. Miller is a General Partner of Damille Partners and an executive director of Damille Investments Limited and Damille Partners Limited. In addition to serving as a non executive director of Pactolus, Mr. Miller is an executive director of China Growth Opportunities Limited, a non executive Chairman of Globo Plc and he serves as a non-executive director of Rapid Realisations Fund Limited, EIH Limited and Loudwater Trust Limited.

Stephen Dillon Gray (aged 41) – Non-executive Director

Steve has sixteen years experience in UK and Offshore corporate and trustee administration, including ten years with Equiom Trust Company Limited (formerly Ernst & Young Trust Company Limited).

Barry Curtis Smith (aged 57) – Non-executive Director

Barry is the Legal Counsel for Equiom Trust Company Limited and has 26 years experience in the legal profession as an Attorney, Notary Public and conveyancer (South Africa), Solicitor (England) and Advocate (Isle of Man).

Sarah Joanne Ingrassia (aged 41) – Non-executive Director

Sarah is a Member of the Society of Trust & Estate Practitioners and has over 15 years experience in the offshore trust & company arena.

Katherine Sarah Ellis (aged 32) Non-executive Director

Katherine is a Chartered Certified Accountant and became fellow of the Association in 2007. Katherine has 13 years working in the offshore industry.

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Consolidated Statement of Comprehensive Income
For the year ended 31 December 2010

	Notes	2010 €	Restated 2009 €
Continuing operations			
Rental income and related fees	4	1,063,525	1,471,298
Direct operating expenses		(398,208)	(408,474)
Gross profit		665,317	1,062,824
Administrative expenses		(651,994)	(943,999)
Operating profit	5	13,323	118,825
Finance income	8	4,720	27,218
Finance costs	9	(285,375)	(356,933)
Loss on disposal of investment properties	14	(135,338)	(34,527)
Net loss on revaluation of investment properties	14	(1,340,592)	(4,005,954)
Loss before taxation		(1,743,262)	(4,251,371)
Taxation	10	62,307	367,865
Loss for the year from continuing operations		(1,680,955)	(3,883,506)
Other comprehensive loss:			
Exchange differences on translating foreign operations		(50,482)	(114,714)
Total comprehensive loss for the year		(1,731,437)	(3,998,220)
Loss attributable to equity shareholders		(1,680,955)	(3,883,506)
Total comprehensive loss attributable to equity shareholders		(1,731,437)	(3,998,220)
Loss per Ordinary Share:			
Basic	11	(10) Cents	(22) Cents
Diluted		(10) Cents	(21) Cents

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

The accompanying notes on pages 12 to 38 form an integral part of the financial statements.

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Statements of Financial Position

As at 31 December 2010

	Notes	Group 2010 €	Parent 2010 €	Group 2009 €	Parent 2009 €
Non-current Assets					
Investment properties	14	13,785,459	-	16,157,967	-
Property under development	14	361,111	-	361,111	-
Property, plant & equipment	13	514,822	-	522,966	-
Investment in subsidiaries	15	-	79,850	-	79,850
Intangible assets	16	-	-	22,678	22,678
		14,661,392	79,850	17,064,722	102,528
Current Assets					
Investment properties	14	657,600	-	2,129,901	-
Trade and other receivables	18	212,462	9,957	206,470	15,312
Loans to subsidiaries	17	-	12,375,986	-	11,477,472
Cash and cash equivalents		184,404	618	253,769	6,022
		1,054,466	12,386,561	2,590,140	11,498,806
Total Assets		15,715,858	12,466,411	19,654,862	11,601,334
Current Liabilities					
Trade and other payables	19	594,126	277,756	923,554	247,374
Secured loan	20	4,460,833	-	6,216,010	-
		5,054,959	277,756	7,139,564	247,374
Non-current liabilities					
Deferred taxation	10	99,407	-	171,149	-
Total Liabilities		5,154,366	277,756	7,310,713	247,374
Net Assets		10,561,492	12,188,655	12,344,149	11,353,960
Capital and Reserves					
Equity attributable to owners of the parent					
Share capital	21	235,133	235,133	237,536	237,536
Capital redemption reserve		137,808	137,808	135,405	135,405
Share premium		1,046,894	1,046,894	1,098,114	1,098,114
Merger reserve		(109,195)	(3,689,271)	(109,195)	(3,689,271)
Translation reserve		(971,638)	-	(921,156)	-
Retained earnings		10,222,490	14,458,091	11,903,445	13,572,176
Total equity		10,561,492	12,188,655	12,344,149	11,353,960

The financial statements were approved at a meeting of the Board of Directors held on 31 May 2011 and signed on its behalf by:

Sarah Ingrassia
Director

Katherine Sarah Ellis
Director

The accompanying notes on pages 12 to 38 form an integral part of the financial statements.

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Group Statements of Changes in Equity

	Share capital €	Capital redemption reserve €	Share premium €	Merger reserve €	Translation reserve €	Retained earnings €	Total €
Balance as at 1 January 2010	237,536	135,405	1,098,114	(109,195)	(921,156)	11,903,445	12,344,149
Changes in equity for 2010							
Loss for the year	-	-	-	-	-	(1,680,955)	(1,680,955)
Exchange differences on translating foreign operations	-	-	-	-	(50,482)	-	(50,482)
Redemption and cancellation of ordinary shares	(2,403)	2,403	(51,220)	-	-	-	(51,220)
Balance as at 31 December 2010	235,133	137,808	1,046,894	(109,195)	(971,638)	10,222,490	10,561,492

	Share capital €	Capital redemption reserve €	Share premium €	Merger reserve €	Translation reserve €	Retained earnings €	Total €
Balance at 1 January 2009	335,647	37,294	3,340,631	(109,195)	(806,442)	16,184,460	18,982,395
Changes in equity for 2009							
Loss for the year	-	-	-	-	-	(3,883,506)	(3,883,506)
Dividend paid	-	-	-	-	-	(397,509)	(397,509)
Exchange differences on translating foreign operations	-	-	-	-	(114,714)	-	(114,714)
Redemption and cancellation of ordinary shares	(98,111)	98,111	(2,242,517)	-	-	-	(2,242,517)
Balance as at 31 December 2009	237,536	135,405	1,098,114	(109,195)	(921,156)	11,903,445	12,344,149

The accompanying notes on pages 12 to 38 form an integral part of the financial statements.

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Company Statements of Changes in Equity

	Share capital €	Capital redemption reserve €	Share premium €	Merger reserve €	Retained earnings €	Total €
Balance as at 1 January 2010	237,536	135,405	1,098,114	(3,689,271)	13,572,176	11,353,960
Changes in equity for 2010						
Profit for the year	-	-	-	-	885,915	885,915
Redemption and cancellation of ordinary shares	(2,403)	2,403	(51,220)	-	-	(51,220)
Balance as at 31 December 2010	235,133	137,808	1,046,894	(3,689,271)	14,458,091	12,188,655

	Share capital €	Capital redemption reserve €	Share premium €	Merger reserve €	Retained earnings €	Total €
Balance at 1 January 2009	335,647	37,294	3,340,631	(3,689,271)	13,562,880	13,587,181
Changes in equity for 2009						
Loss for the year	-	-	-	-	406,805	406,805
Redemption and cancellation of ordinary shares	(98,111)	98,111	(2,242,517)	-	-	(2,242,517)
Dividends paid	-	-	-	-	(397,509)	(397,509)
Balance as at 31 December 2009	237,536	135,405	1,098,114	(3,689,271)	13,572,176	11,353,960

The accompanying notes on pages 12 to 38 form an integral part of the financial statements.

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Statements of Cash Flows
For the year ended 31 December 2010

	Notes	Group 2010 €	Parent 2010 €	Restated Group 2009 €	Parent 2009 €
Cash flow from operating activities					
Cash received from lessees		946,686	438,202	1,692,843	-
Cash paid to suppliers		(984,736)	(420,848)	(1,008,612)	(462,411)
Cash (outflow)/inflow from operations		(38,050)	17,354	684,231	(462,411)
Bank interest paid		(287,305)	-	(358,036)	-
Income tax paid		(6,608)	-	(8,280)	-
Net cash (used in)/generated from operating activities	23	(331,963)	17,354	317,915	(462,411)
Cash flow from investing activities					
Purchase and renovation of properties		(78,786)	-	(320,975)	-
Receipt from sale of investment properties		2,225,929	-	1,578,373	-
Purchase of furniture and fittings		(32,386)	-	(257,500)	-
Net loans from subsidiary undertakings		-	28,459	-	3,103,655
Bank interest received		4,720	3	27,218	67
Net cash generated from investing activities		2,119,477	28,462	1,027,116	3,103,722
Cash flow from financing activities					
Purchase of own shares		(51,220)	(51,220)	(2,242,517)	(2,242,517)
Loan repayment		(1,755,177)	-	(350,000)	-
Dividends paid		-	-	(397,509)	(397,509)
Net cash used in financing activities		(1,806,397)	(51,220)	(2,990,026)	(2,640,026)
Net (decrease)/increase in cash and cash equivalents					
Effect of exchange movement		(18,883)	(5,404)	(1,644,995)	1,285
Cash and cash equivalents as at 1 January		(50,482)	-	(82,861)	-
Cash and cash equivalents as at 1 January		253,769	6,022	1,981,625	4,737
Cash and cash equivalents as at 31 December		184,404	618	253,769	6,022

The accompanying notes on pages 12 to 38 form an integral part of the financial statements.

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Notes to the Financial Statements

For the year ended 31 December 2010

Accounting policies

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated and parent company 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 generated net profit of €885,915 (2009: €406,805).

Consolidation

The consolidated financial statements incorporate the financial statements of the Company and all of its subsidiaries.

Subsidiaries are fully consolidated from the date on which control is transferred to the group.

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 cash equivalents

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;
- 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.

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Notes to the Financial Statements (continued)

For the year ended 31 December 2010

Deferred taxation (continued)

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 end of the reporting period 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.

Adoption of standards effective in 2010

The following standards are in place, but are not yet effective:

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments - Disclosures
- IFRS 8 Operating Segments
- IFRS 9 Financial Instruments - Classification and Measurement
- IAS 1 Presentation of the Financial Statements
- IAS 24 Related Party Disclosures
- IAS 27 Consolidated and Separate Financial Statements
- IAS 32 Financial Instruments - Presentation

These standards did not have a significant impact on the financial statements.

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.

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Notes to the Financial Statements (continued)

For the year ended 31 December 2010

Income

Interest, fees and rental income are included in the financial statements on an accruals basis. Rental income is recognised on a straight line basis.

The aggregate cost of lease incentives are recognised on a straight line basis as a reduction of rental income over the lease term.

Property sales are included in the financial statements on an unconditional exchange basis. The profit on disposal of investment properties is the difference between the sales proceeds and the carrying value of the assets at the date of disposal, less selling costs.

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 end of the reporting period. All differences are taken to profit or loss.

Group entities that have a functional currency different from the presentation currency are translated at the closing rate at the end of the reporting period 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 closing rate at the end of the reporting period) and all resulting exchange differences are recognised as a separate component of equity.

Investment properties

Investment properties are completed properties which are held for their investment potential.

Investment properties are carried at fair value. Fair value is based on active market prices. Gains and losses arising from changes in the fair value of investment property are included in the statement of comprehensive income for the period in which they arise.

Properties under development are classified under non-current assets and are stated at the fair value less any impairment.

Investment properties held for sale are classified under current assets and are stated at the fair value less any impairment.

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Notes to the Financial Statements (continued)

For the year ended 31 December 2010

Impairment of assets

At the end of each reporting period, 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.

Property, plant and equipment

All furniture and equipment are stated at 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 profit or loss during the financial period in which they incurred.

Depreciation, based on component approach, is calculated using the straight line method to allocate the cost over the assets 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 the carrying amount. These are included in the statement of comprehensive income.

Investment in subsidiary companies

The investments in subsidiary companies are included in the Statement of Financial Position at cost less any provisions for diminution in value.

Intangible assets

Goodwill arising on the acquisition of subsidiaries is accounted for under the purchase method rule. This is allocated to the relevant cash-generating units of the Group expected to benefit from the synergies of the business combination. Cash-generating units on which goodwill is allocated are tested for impairment annually with any impairment losses taken to profit or loss. Any impairment loss recognised for goodwill is not reversed in any subsequent periods.

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Notes to the Financial Statements (continued)

For the year ended 31 December 2010

Loans to subsidiary companies

The unsecured subordinated loan made to Midas Property Kft. has been accounted for under loans and receivables and is measured at cost. 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 profit or loss.

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.

Borrowing costs

All borrowing costs are recognised in the profit or loss amortised over the period of the loan.

Critical judgment in applying the Group's accounting policies

The Group prepares its consolidated financial statements in accordance with IFRS as adopted by the European Union, the application of which often requires judgements to be made by the board when formulating the Group's financial position and results. The key sources of estimation uncertainty of the Group are the fair value of investment properties.

Investment properties represent a significant proportion of the Group's asset, being 94% (2009: 95%) of the Group's total assets. Therefore, the estimates and assumptions made to determine their fair value are critical to the Group's financial position and performance.

In determining the fair value of investment properties, the Group uses historical, current market data, and existing lease agreements to determine the fair value of each property.

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Notes to the Financial Statements (continued)

For the year ended 31 December 2010

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 2009 to 31 December 2012.

The performance fee earned on cash returns is paid as follows:

- Once cumulative cash returns have reached €12.2m during the Performance Fee Period, an incentive fee of 2.5 per cent of €12.2m (part of the "Advance Incentive Fees") will be paid to the Asset Manager;
- For cash returns between €12.2m and €13.6m an incentive fee of 2.5 per cent would be payable on cash returns between €12.2 and €13.6m (also part of the "Advance Incentive Fees");
- On reaching cash returns of €13.6m an incentive fee of 5 per cent of €13.6m would be payable, net of any Advance Incentive Fees already paid;
- For cash returns between €13.6m and €19m an incentive fee of 7.5 per cent would be payable on cash returns between €13.6m and €19m; and
- For cash returns above €19m an incentive fee of 15 per cent would be payable on cash returns in excess of €19m.

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 was 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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3. Operating segments

The Group operates in a single reporting segment under the classification of its properties held for investment. The entire Group's revenue and property assets are derived from and located in a single geographical location, Hungary.

The loss for the year €1,680,955 (2009: €3,883,506) all derived from operations of managing the Group's investment properties. The Group's principal activity is to acquire, renovate and let properties located in Central Budapest.

The Group defines turnover from any one customer representing five per cent or more of the Group's annualised rent roll as a major customer for disclosure purposes. Throughout the year, the Group invoiced one major customer for rental income totalling €121,092 (2009: €236,400) being 13 per cent (2009: 19 per cent) of the Group's annualised rent roll.

4. Rental income and related fees

Analysis of the Group's revenue is as follows:

	2010 €	2009 €
Rental income from investment properties	992,779	1,384,467
Service charge	70,746	86,831
	<u>1,063,525</u>	<u>1,471,298</u>

5. Group operating profit is stated after charging

	2010 €	Restated 2009 €
Administrative expenses		
Directors' emoluments	32,730	35,249
Investment Manager's fees	326,064	359,745
Agency fee	56,956	49,280
Legal and professional fees	52,035	165,787
Administrator's costs	30,339	52,857
Auditor's remuneration	26,114	34,081
Administrative costs	25,812	47,360
Insurance	11,529	15,995
Advertising, PR and marketing	5,167	37,854
Currency exchange gains	(3,781)	(16,841)
Bank charges	7,513	7,566
Depreciation and impairments	49,944	123,494
Amortisation of costs of raising loan finance	31,572	31,572
	<u>651,994</u>	<u>943,999</u>

The Investment Manager's fee calculated and payable for the year ended 31 December 2010 and the preceding period all relates to Midas Investment Management Ltd. As at 31 December 2010 management fees due to Midas Investment Management Ltd was €239,465 (2009: €188,184).

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6. Auditor's remuneration

	2010	2009
	€	€
Fees payable to the group's auditors	14,614	23,281
The audit of the group's trading subsidiaries	10,300	10,800
Taxation services	1,200	-
	<u> </u>	<u> </u>

7. Directors' emoluments

	2010	2009
	€	€
(i) Directors' fees:		
Total fees	4,734	7,253
	<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) Remuneration of Directors:

	2010	2009
	€	€
Mr. C Bennett (Chairman)	16,800	16,800
Mr. B Miller	11,196	11,196
	<u> </u>	<u> </u>

8. Finance income

	2010	2009
	€	€
Bank and cash equivalents interest	4,720	27,218
	<u> </u>	<u> </u>

9. Finance costs

	2010	2009
	€	€
Interest on borrowings	285,375	356,933
	<u> </u>	<u> </u>

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10. Taxation

	2010	2009
	€	€
Current tax		
UK corporation tax and income tax of overseas operations on profits for the year	9,435	5,615
Deferred tax expense		
Origination and reversal of temporary differences	(71,742)	(373,480)
Total tax credit	<u>(62,307)</u>	<u>(367,865)</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:

	2010	2009
	€	€
Loss before tax	<u>(1,743,262)</u>	<u>(4,251,371)</u>
Expected tax charge based on the applicable rate of 14.5% (2009: 16%)	(252,773)	(680,219)
Local business tax in Hungary	9,435	5,615
Different tax rates applied on overseas jurisdictions	(174,741)	(78,447)
Expenses that are not deductible for tax	370,099	-
Losses not relievable against taxable profit	57,415	758,666
Deferred tax credit on the Revaluation of investment properties	(99,168)	(556,069)
Deferred tax credit on the increase in available losses in Hungary	-	182,589
Deferred tax asset recognised	27,426	-
Total tax credit	<u>(62,307)</u>	<u>(367,865)</u>

Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 14.5% (2009: 16%). The movement on the deferred tax account is as shown below:

	2010	2009
	€	€
As at 1 January	171,149	544,629
Profit and loss charge	(71,742)	(373,480)
As at 31 December	<u>99,407</u>	<u>171,149</u>

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Taxation (Continued)

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 credited to the consolidated income statement are as follows:

	2010	2009
	€	€
Revaluations of investment properties	(99,168)	(556,069)
Increase in available losses in Hungary	-	182,589
Available losses in the UK	27,426	-
	<u>(71,742)</u>	<u>(373,480)</u>

Available losses in the UK of £112,130 is now recognised as a deferred tax asset. The amount is converted at the year end at a rate of exchange of €1.1647 to the pound sterling.

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11. 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 2010
	€	number^β	Per Share
			€
Basic loss per share	(1,680,955)	16,163,007	(0.10)
Option conversion*	-	165,902	-
Diluted loss per share	<u>(1,680,955)</u>	<u>16,328,909</u>	<u>(0.10)</u>
Adjusted earnings per share for the year ended 31 December 2010			
	Loss for the year	Ordinary Shares	Per Share
	€	number^β	€
Basic loss per share	(1,680,955)	16,163,007	(0.10)
Adjustment to remove:			
Deferred tax credit	(71,742)	-	-
Net valuation loss	1,340,592	-	-
Adjusted basic loss	<u>(412,105)</u>	<u>16,163,007</u>	<u>(0.03)</u>
Option conversion*	-	165,902	-
Diluted loss per share	<u>(412,105)</u>	<u>16,328,909</u>	<u>(0.03)</u>

	Loss for the year	Ordinary Shares	As at 31 December 2009
	€	number^β	Per Share
			€
Basic loss per share	(3,883,506)	18,013,112	(0.22)
Option conversion*	-	165,902	-
Diluted loss per share	<u>(3,883,506)</u>	<u>18,179,014</u>	<u>(0.21)</u>
Adjusted earnings per share for the year ended 31 December 2009			
	Loss for the year	Ordinary Shares	Per Share
	€	Number^β	€
Basic loss per share	(3,883,506)	18,013,112	(0.22)
Adjustment to remove:			
Deferred tax credit	(373,480)	-	-
Net valuation loss	4,005,954	-	-
Adjusted basic loss	<u>(251,032)</u>	<u>18,013,112</u>	<u>(0.01)</u>
Option conversion*	-	165,902	-
Diluted loss per share	<u>(251,032)</u>	<u>18,179,014</u>	<u>(0.01)</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.

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12. Dividends

	2010		2009
	No. of Shares	€	No. of Shares
			€
Dividend of nil pence (2009: 2.1 pence) per share paid	16,147,582	-	16,947,582
			397,509

The Company has not paid a dividend to shareholders since 30 October 2009 and will be paying no future dividends to shareholders until further reductions has been made to the debt outstanding.

The dividend payment in 2009 for the year ended 31 December 2008 was converted at an exchange rate of €1.1169 to the Pound Sterling.

13. Property, plant and equipment

Furniture and equipment

	2010	2009
	€	€
Cost		
As at 1 January	591,657	470,688
Additions	32,386	257,500
Exchange differences	6,566	(6,003)
Disposals	(25,332)	(130,528)
As at 31 December	605,277	591,657
Accumulated depreciation/impairment		
As at 1 January	68,691	47,538
Depreciation	27,266	23,893
Disposal	(3,928)	(102,341)
Exchange differences	(1,574)	-
Impairment loss	-	99,601
As at 31 December	90,455	68,691
Opening net book value as at 1 January	522,966	423,150
Closing net book value as at 31 December	514,822	522,966

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14. Investment properties

Investment properties at 31 December 2010 was subjected to a management valuation review based on the active market indicative prices. This review has resulted in the investment property being written down by an aggregate 8 per cent compared to 31 December 2009.

At 31 December 2009, investment properties were independently valued by King Sturge ("KS"), chartered surveyors and valuers. 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.

Amounts recognised in the income statement:

	2010	2009
	€	€
Rental income	992,779	1,384,467
Direct operating expenses		
On properties that generated rental income	<u>398,208</u>	<u>408,474</u>

The entire carrying amount of Investment properties has been pledged as security for the bank loan. The holder of the security does not have the right to sell or re-pledge the investment properties in the absence of default.

Reconciliation of carrying amounts:

	2010	2009
	€	€
Carrying value at the beginning of the year	18,648,979	23,912,668
Fair value changes	(1,340,592)	(4,005,954)
Additions	-	321,801
Disposals	(2,504,217)	(1,579,536)
Carrying value at the end of the year	<u>14,804,170</u>	<u>18,648,979</u>
Investment Property	13,785,459	16,157,967
Property under development	361,111	361,111
Property held for resale	<u>657,600</u>	<u>2,129,901</u>
	<u>14,804,170</u>	<u>18,648,979</u>

Property disposals during the period

	2010	2009
	€	€
Gross proceeds from the sale of investment properties	2,660,377	1,672,055
Less: carrying value and related sales costs	(2,795,715)	(1,706,582)
Realised loss on disposal of property	<u>(135,338)</u>	<u>(34,527)</u>

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15. Investments in Subsidiary Companies

The subsidiaries of the Company are stated below:

Subsidiary	Principal activity	Country of & registration	Proportion of voting rights & 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	2010	2009
	€	€
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 combinations.

16. Intangible Assets

Goodwill

	2010	2009
	€	€
As at 1 January	22,678	22,678
Impairment loss	(22,678)	-
As at 31 December	-	22,678

The directors have recognised an impairment loss in Goodwill after their annual review and impairment tests. No other class of assets was impaired other than goodwill.

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17. Loans to subsidiaries

	Parent 2010 €	Parent 2009 €
Pactolus Eastern European Property Ltd	65,270	65,270
Midasz Property Kft.	12,310,717	11,370,428
Pactolus (IOM) Limited	-	41,775
Pactolus (UK) Limited	(1)	(1)
	<u>12,375,986</u>	<u>11,477,472</u>

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% (2009: 8.49%).

18. Trade and other receivables

	Group 2010 €	Parent 2010 €	Group 2009 €	Parent 2009 €
Rent and fees receivable	131,527	-	101,094	-
Other debtors	12,483	-	-	-
Prepayments and accrued income	68,452	9,957	105,376	15,312
	<u>212,462</u>	<u>9,957</u>	<u>206,470</u>	<u>15,312</u>

19. Trade and other payables

	Group 2010 €	Parent 2010 €	Group 2009 €	Parent 2009 €
Trade payables and accruals	322,769	277,756	356,088	247,374
Rent received in advance	59,966	-	138,516	-
Deposits held	199,898	-	418,354	-
Taxation	4,021	-	1,194	-
Interest payable and similar charges	7,472	-	9,402	-
	<u>594,126</u>	<u>277,756</u>	<u>923,554</u>	<u>247,374</u>

Included in deposit is €Nil (2009: €200,000) received in advance for the sale of investment properties.

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20. Secured loan	Group 2010 €	Parent 2010 €	Group 2009 €	Parent 2009 €
Variable interest rate loan	298,333	-	2,053,510	-
Fixed interest rate loan	4,162,500	-	4,162,500	-
	4,460,833	-	6,216,010	-
Loan issue cost				
Total cost on drawdown of loan	143,978	-	143,978	-
Amortisation of loan issue costs	104,264	-	72,692	-
Loan to value of portfolio	30%	-	33%	-

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. The loan is due for repayment on 21 December 2014 but the bank retains the right to call the loan on demand.

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 carrying value of the assets secured against the loan is €14,804,170 (2009: €18,648,979).

The variable interest rate loan carries a margin of 1.6% over the three month EURIBOR and therefore exposes the Group to cash flow and interest rate risks. The fixed portion of the loan carries an interest rate of 6.25% p.a. including margin.

The fair value of the loan as at 31 December 2010 was €4,460,833 (2009: €6,216,010). During the year, the Group's bank borrowings were subject to the following financial covenants:

- (a) The aggregate outstanding loan to current value of the Group's portfolio should not exceed 42% (2009: 43.8%);
- (b) Minimum capital reduction of the loan is €350,000 per annum.

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

Following the end of the accounting period, the Group renegotiated the apportionment of the secured loan between fixed and floating rates. Details of the current apportionment are disclosed in note 30.

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21. Share capital

Authorised share capital

	Number of shares	2010 €	Number of shares	2009 €
Ordinary shares of 1p each	70,000,000	815,290	70,000,000	789,530
Ordinary Shares of 1p each issued and fully paid				
	Number of shares	2010 €	Number of shares	2009 €
Balance as at 1 January	16,312,582	237,536	23,050,273	335,647
Cancellation of ordinary shares	(165,000)	(2,403)	(6,737,691)	(98,111)
As at 31 December	16,147,582	235,133	16,312,582	237,536

In January 2009 the shareholders approved the Boards proposal to authorise the Company to acquire up to 30 per cent of its issued share capital at 31 December 2008. This authorisation was renewed in July 2010 for the acquisition of up to 32 per cent of the then issued share capital. After the resolution was passed, the Company was authorised to acquire up to 5,174,718 of its issued ordinary shares.

During the year to 31 December 2010, the Company acquired 165,000 of its issued ordinary shares as part of the ongoing Share Repurchase programme. The average price paid per ordinary shares was 31 cents (27 pence) inclusive of costs.

Since the renewal of the authority, the Company has not utilised any of the facility.

Ordinary Shareholders are entitled to vote at all general meetings.

The currency rate used to convert the authorised share capital is €1.1647 (2009: €1.1279).

22. Net Asset Value per Ordinary Share

	2010	2009
Net asset value as at 31 December	€10,561,492	€12,344,149
Number of shares in issue as at 31 December	16,147,582	16,312,582
Net asset value per ordinary share	€0.65	€0.76
Net asset value per share pre deferred tax [Euro to the Sterling exchange rate at the year-end €1.1647 (2009: €1.1279)]	£0.57	£0.68

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23. Notes to the Statements of Cash Flows

	Group 2010 €	Parent 2010 €	Restated Group 2009 €	Parent 2009 €
Reconciliation of net loss before investment result to net cash used in operations:				
Net (loss)/profit before taxation	(1,743,262)	885,915	(4,251,371)	406,805
Realised loss on sale of investment properties	135,338	-	34,527	-
Other interest income	-	(972,525)	-	(979,891)
Bank interest received	(4,720)	(3)	(27,218)	(67)
Income tax paid	6,608	-	8,280	-
Adjustment for non-cash items:				
Depreciation, amortisation and impairment	58,838	-	123,494	-
Subsidiary loan impairment	-	45,552	-	-
Goodwill impairment loss	22,678	22,678	-	-
Decrease in trade receivables	31,875	5,355	103,292	3,999
(Decrease)/Increase in trade payables	(129,428)	30,382	337,798	106,743
Unrealised currency movement	(50,482)	-	(16,841)	-
Unrealised loss on investment property valuation	1,340,592	-	4,005,954	-
Net cash (outflow)/inflow from operating activities	(331,963)	17,354	317,915	(462,411)

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24. 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 2010. The exchange rate at the option date was €1.4492 to Sterling.

	2010		2009
	Options	Weighted Avg. Exercise Price	Options
			Weighted Avg. Exercise Price
As at 1 January	165,902	60p	165,902
Granted during the period	-	-	
As at 31 December	<u>165,902</u>	<u>60p</u>	<u>165,902</u>

The weighted average contracted life remaining for these outstanding options is 0.25 year.

The aggregate fair value of the outstanding options granted is €Nil (2009: €Nil) determined according to the Black Scholes model.

The inputs into the Black Scholes model are as follows:

	2010	2009
Bid price of share	21.2p	26.7p
Weighted average exercise price	60p	60p
Expected volatility	13.6%	5.8%
Expected life	0.2 years	1.2 years
Risk free rate	<u>3.61%</u>	<u>0.50%</u>

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.

No charge has been made for the share based payments as it is not considered to be material.

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25. Financial risk factors

The Group and Company's activities throughout the year and previous years exposes 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 Company's risk management is undertaken at a Group level by the Treasury Committee. 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:

	2010	2010	2009	2009
	Carrying	Fair	Carrying	Fair
	Value	Value	Value	Value
	€	€	€	€
Group				
Financial assets				
Trade and other receivables	144,010	144,010	101,094	101,094
Cash and cash equivalents	184,404	184,404	253,769	253,769
Financial liabilities				
Other payables	594,126	594,126	871,184	871,184
Secured loan	4,460,833	4,460,833	6,216,010	6,216,010
Company				
Financial assets				
Loans to subsidiaries	12,375,986	12,375,986	11,477,472	11,477,472
Cash and cash equivalents	618	618	6,022	6,022
Financial liabilities				
Other payables	277,756	277,756	212,132	212,132

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

Credit risk

The Group places surplus cash with third parties and is 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 measures to ensure that rental contracts are made with customers with an appropriate credit history to minimise the exposure on any outstanding debts from lessees.

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Financial risk factors (continued)

The Group and Company's maximum exposure to credit risk:

	Group 2010	Company 2010	Group 2009	Company 2009
	€	€	€	€
Financial assets				
Trade and other receivables	144,010	-	101,094	-
Cash and cash equivalents	184,404	618	253,769	6,022
Loans to subsidiaries	-	12,375,986	-	11,477,472
	328,414	12,376,604	354,863	11,483,494

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

An analysis of rent and fees receivables for the Group:

2010

	Carrying amount	Neither impaired nor past due	61-90 Days	91-120 Days	Past due not impaired over 121 Days
	€	€	€	€	€
Rent and fees receivables	131,527	131,527	-	-	-

2009

	Carrying amount	Neither impaired nor past due	61 – 90 Days	91-120 Days	Past due not impaired over 121 Days
	€	€	€	€	€
Rent and fees receivables	101,094	95,519	-	5,575	-

There are no receivables in the accounts of the parent company.

The Group allows an average receivables period of 30 days after invoice date.

The receivables' 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.

Pactolus Hungarian Property Plc
Annual Report and Financial Statements 2010

Notes to the Financial Statements (Continued)
For the year ended 31 December 2010

Financial risk factors (continued)

The Company's principal credit risk is that of its loans advanced to subsidiaries.

As at the year end the amounts due to the Company is as follows:

	2009	2009
	€	€
Pactolus Eastern European Property Ltd	65,270	65,270
Midasz Property Kft.	12,310,717	11,370,428
Pactolus (IOM) Limited	-	<u>41,775</u>

These loans does not carry any security on the assets of the related subsidiary.

The loans are also evaluated on a regular basis for potential impairments. It is the Board's opinion that no impairment provision is required for the year ended 31 December 2010.

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 cash equivalents for the year totalled €4,720 (2009: €27,218). Net interest payment on borrowings for the year totalled €285,375 (2009: €356,933).

The Company's net interest income from cash and cash equivalents for the year totaled €3 (2009: €67). The Company does not have any long-term borrowing. Interest earned on loans to subsidiaries for the year was €972,525 (2009: €979,891).

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 +1 per cent from the average rate of 1.5 per cent earned in 2010. 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 -6 per cent and +5 per cent from €1.1647 to the Pound Sterling and 278.33 Forint to the Euro, being the rate as at 31 December 2010.

The Company's loans to subsidiaries are transacted in Euros. The operating currency of the leading trading subsidiary is Forint and as such exposes the Company to foreign currency exchange risks. The Board is satisfied that no impairment is necessary as the major assets within the relevant subsidiary are valued in Euros.

Pactolus Hungarian Property Plc
Annual Report and Financial Statements 2010

Notes to the Financial Statements (Continued)
For the year ended 31 December 2010

Financial risk factors (continued)

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 Company's interest charges for loan advance to its subsidiaries are not tied to the EURIBOR or LIBOR and as such, changes to the interest rate will not have a direct effect.

Group 2010	Total increase/ (decrease)	Financial Assets		Financial Liabilities	
		Cash & cash equivalents	Rent & fees receivable	Trade payables	Long term loan
	€	€	€	€	€
Carrying amount	-	184,404	131,527	594,126	4,460,833
Interest rate risk					
Profit (change of +1%)	(9,399)	2,360	-	-	(11,759)
Foreign exchange rate risk					
Equity (change of -6%)	10,983	(708)	-	11,691	-
Equity (change of +5%)	(9,152)	590	-	(9,742)	-
Company 2010					
	Total increase/ (decrease)	Financial Assets		Financial Liabilities	
		Cash & cash equivalents	Loans to subsidiaries	Trade payables	Long term loan
	€	€	€	€	€
Carrying amount	-	618	12,375,986	257,760	-
Interest rate risk					
Profit (change of +1%)	-	-	-	-	-
Foreign exchange rate risk					
Equity (change of -6%)	-	-	-	-	-
Equity (change of +5%)	-	-	-	-	-

Pactolus Hungarian Property Plc
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Notes to the Financial Statements (Continued)
For the year ended 31 December 2010

Financial risk factors (continued)

Group 2009	Total increase/ (decrease)	Financial Assets		Financial Liabilities	
		Cash & cash equivalents	Rent & fees receivable	Trade payables	Long term loan
	€	€	€	€	€
Carrying amount	-	253,769	101,094	774,442	6,216,010
Interest rate risk					
Profit (change of +2%)	(13,852)	27,218	-	-	(41,070)
Foreign exchange rate risk					
Equity (change of -2%)	(6,675)	(8,367)	-	1,692	-
Equity (change of +3%)	10,012	12,550	-	(2,538)	-
<hr/>					
Company 2009	Total increase/ (decrease)	Financial Assets		Financial Liabilities	
		Cash & cash equivalents	Loans to subsidiary	Trade payables	Long term loan
	€	€	€	€	€
Carrying amount	-	6,022	11,477,472	247,374	-
Interest rate risk					
Profit (change of +2%)	102	102	-	-	-
Profit (change of +1%)	118	118	-	-	-
Foreign exchange rate risk					
Equity (change of -2%)	1,692	-	-	1,692	-
Equity (change of +3%)	(2,538)	-	-	(2,538)	-

Pactolus Hungarian Property Plc
Annual Report and Financial Statements 2010

Notes to the Financial Statements (Continued)
For the year ended 31 December 2010

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to finance the Group's operations. The average creditor payment period for the Group and Company is 60 days (2009: 45 days).

Contractual maturity analysis for financial liabilities:

Group 2010	Due within 1 month €	Due between 1 to 3 months €	Due between 3 months to 1 year €	Due between 1 to 5 years €	Total €
Other payables	154,763	26,068	-	413,295	594,126
Secured loan	-	-	350,000	4,110,833	4,460,833
	154,763	26,068	350,000	4,700,298	5,054,959
Company 2010					
Other payables	97,292	180,464	-	-	277,756

**Group
2009**

	Due within 1 month €	Due between 1 to 3 months €	Due between 3 months to 1 year €	Due between 1 to 5 years €	Total €
Other payables	343,421	388,445	6,033	185,655	923,554
Secured loan	-	-	350,000	5,866,010	6,216,010
	343,421	388,445	356,033	6,051,665	7,139,564

**Company
2009**

Other payables	87,416	159,958	-	-	247,374
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Pactolus Hungarian Property Plc
Annual Report and Financial Statements 2010

Notes to the Financial Statements (Continued)
For the year ended 31 December 2010

26. Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while achieving maximization 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:

	2010	2009
	€	€
Debt	4,460,833	6,216,010
Cash and cash equivalents	(184,404)	(253,769)
Net debt	<u>4,276,429</u>	<u>5,962,241</u>
Equity	<u>10,561,492</u>	<u>12,344,149</u>
Net debt to equity ratio	<u>40%</u>	<u>48%</u>

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 the secured loan (see note 20).

27. Leasing

Operating leases with tenants

The Group leases out all of its investment properties under operating leases for an average lease term of 1.9 years. The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

	2010	2009
	€	€
Less than one year	882,088	899,364
Between two and five years	1,093,028	373,092
	<u>1,975,116</u>	<u>1,272,456</u>

There were no contingent rental incomes recognised in the year (2009: €Nil).

28. Commitments

At the year end the Group had no capital commitments (2009: €Nil) in its portfolio of investment property. The Company had no commitments as at the period end.

Pactolus Hungarian Property Plc

Annual Report and Financial Statements 2010

Notes to the Financial Statements (Continued)

For the year ended 31 December 2009

29. Related parties

The Group was charged fees by Equiom Trust Company Ltd of €30,339 (2009: €52,587) in accordance with the Letter of Engagement referred to in Note 2 (ii). The amount outstanding as at 31 December 2010 is €4,168 (2009: €3,733).

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

Investment management fees amounting to €326,064 (2009: €359,745), and share acquisition commission charges of €97 (2009: €1,220) 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 2010 the amount outstanding to Midas Investment Management Ltd was €239,465 (2009: €206,358).

The amount due from each subsidiary is detailed in note 17 of the financial statements.

30. Events after the reporting period

On 8 February 2011, the Group was offered and has accepted the facility to switch €700,000 from its current fixed rate loan facility at 6.25 per cent to the floating portion of the loan, at 1.60 per cent above the 3 Month EURIBOR rate.

The Group has sold 3 properties for aggregate proceeds of €715,000, at an average price of €1,981 per square metre. The combined value of these properties represents 4 per cent of the Group's portfolio as at the balance sheet date.

As part of the continued strategy of reducing the Group's debt, the net proceeds from all property sales will be used to reduce the Group's borrowing. The expected effect on the loan to value is a reduction from 30 per cent as at 31 December 2010, to 27 per cent as at the date of publication.

31. Prior period adjustment

The Agency fees cost of €93,682, relating to the disposal of investment properties for the year ended 31 December 2009 has been reallocated to loss on investment properties from administrative expenses. This has no effect on Loss before Taxation for the year ended 31 December 2009, net cashflows for the year then ended nor any effect on the Statement of Financial Position as at 31 December 2009.

There is no effect on the year ended 31 December 2010.

32. Domiciled

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

Pactolus Hungarian Property Plc

Annual Report and Financial Statements 2010

Management and Administration

Directors

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

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

Stockbrokers

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

Auditors

CLB Coopers
Fleet House
New Road
Lancaster
LA1 1EZ

Principal Bankers

Investec Bank Plc (Irish Branch)
The Harcourt Building
Harcourt Street
Dublin 2
Ireland

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

Barclays Bank Plc
Barclays House
Victoria Street
Douglas
Isle of Man
IM99 1AJ

Legal Advisors

Ruttkai Marczel Ruttkai
Attila utca 133
1012 Budapest
Hungary

Nominated Advisors

Singers Capital Markets Ltd
1 Hanover Street
London
W1S 1YZ

Pactolus Hungarian Property Plc

Annual Report and Financial Statements 2010

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 2010, 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 2010.

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.

Results

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

The Group reports a profit of €13,323 (2009: €118,825) before investment activities for the year. Following further reduction in the size of the property portfolio, rental income for the year has reduced to €1,063,525 from €1,471,298. The direct cost remains relatively constant, however administrative costs have been reduced to €651,994 from €943,999.

The board does not expect that level of reduction to continue as the portfolio size is reduced, but intend to continue with its tight control on costs.

The net amount transferred from profit and loss reserve is €1,680,955 (2009: €4,281,015).

Dividend

No dividend was paid for the year ended 31 December 2009. The 2.1 pence per share dividend paid during 2009 related to amount declared for the year ended 31 December 2008. This was paid on 16,947,582 ordinary shares.

Supplier terms

It is the Group's policy to obtain the best terms for all business including purchases of investment properties and to abide by those agreed terms. Trade payables are settled by the due date for payment.

Post balance sheet events

On 8 February 2011, the Group was offered and subsequently accepted the opportunity to switch €700,000 from its current fixed rate loan facility at 6.25 per cent, to the floating portion of the loan, at 1.60 per cent above the 3 Month EURIBOR rate.

Pactolus Hungarian Property Plc

Annual Report and Financial Statements 2010

Report of the Directors (continued)

The Group has sold 3 properties for aggregate proceeds of €715,000, at an average price of €1,981 per square metre. The combined value of these properties represents 4 per cent of the Group's portfolio as at the end of the reporting period.

As part of the continued strategy of reducing the Group's debt, the net proceeds from all property sales will be used to reduce the Group's borrowing. The expected effect on the loan to value is a reduction from 30 per cent as at 31 December 2010, to 27 per cent as at the date of publication.

Directors and their interests

	As at 31 December 2010 Ordinary Shares of 1p each	As at 31 December 2009 Ordinary Shares of 1p each
Chris Bennett	-	-
Brett Miller	61,666	61,666
Stephen Gray	-	-
Barry Smith	-	-
Sarah Ingrassia	-	-
Katherine Ellis	-	-

Shares held under option:

Chris Bennett	16,666	16,666
Brett Miller	25,000	25,000

Share Issue, Conversion and Repurchase

In November 2008, the Company embarked on a policy of acquiring its own shares. The purpose of the Share Repurchase programme is to reduce the Company's issued ordinary shares; therefore, all shares acquired are cancelled upon settlement.

On 12 July 2010, the shareholders approve the Board's proposal to renew the facility for the company to acquire its own shares, thus approving the continued share repurchase programme.

Since the programme began, the Company has made the following purchases:

Year	Ordinary Shares	Cost (£)	Average Cost Per Share	Share Capital Redeemed (%)
2010	165,000	44,836	27.17 pence	1
2009	6,737,691	2,009,901	29.83 pence	29
2008	2,561,142	723,162	28.24 pence	10

As at 31 December 2010 the remaining facility available to the Company is 5,174,718 ordinary shares representing 32 per cent of the entire issued shares.

Pactolus Hungarian Property Plc

Annual Report and Financial Statements 2010

Report of the Directors (continued)

Share Issue, Conversion and Repurchase (continued)

The Board believes that the Share Repurchase programme will benefit all of the Company's shareholders by:

1. Providing a cash return to those shareholders who no longer wish to retain an investment in the Company;
2. Enhancing the net asset value per share as it is anticipated that purchases will be made at a material discount to net asset value; and
3. Reducing the discount of the share price to net asset value per share.

The maximum price (exclusive of any expenses) to be paid by the Company on any purchase of an Ordinary Share will not be greater than 10 per cent above the average middle market quotation of an Ordinary Share at the close of business on the five business days immediately preceding the date of the purchase. The minimum price (exclusive of any expenses) to be paid on any purchase of an Ordinary Share will be 1 pence (being the nominal value of an Ordinary Share).

The Share Purchase facility will expire at the conclusion of the Company's next Annual General Meeting.

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 impacts 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.

Substantial Shareholdings

At 31 May 2011, 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	7,564,104	46.8
Roy Nominees Limited	2,075,000	12.9
Harewood Nominees Ltd	1,041,666	6.5
Hero Nominees Limited	880,000	5.4
Rock (Nominees) Limited	830,635	5.1
Lee Robert Morton	508,333	3.1

The Asset Manager, Midas Investment Management Ltd via its associated companies own (32.8%) of the issued share capital as at 31 May 2011. This forms part of the holding in Pershing Keen Nominees Ltd.

Pactolus Hungarian Property Plc

Annual Report and Financial Statements 2010

Report of the Directors (continued)

Status of Taxation

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

The Company's Hungarian subsidiaries which own the Group's property portfolio are subject to a average corporate rate of tax of 14.5 per cent (2009: 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

A resolution for the appointment of CLB Coopers, Fleet House, New Road, Lancaster, LA1 1EZ as auditors of the Company is to be proposed at the forthcoming AGM.

Directors' responsibilities in relation to the Company's Auditor

The Directors who held office at the date of approval of this Report of the Directors confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken steps that ought to have been taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

By order of the board

Katherine Sarah Ellis
Director

Dated: 31 May 2011

Pactolus Hungarian Property Plc

Annual Report and Financial Statements 2010

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 statement of comprehensive income 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.

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

Directors' Responsibilities in relation to the Company's auditor

The directors who held office at the date of approval of these financial statements confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken steps that ought to have been taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Responsibility Statement

We confirm that to the best of our knowledge the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.

The Chairman's Statement, the Assets Manager's Report and the results review, gives a fair review of the development and performance of the Group and its position and undertakings.

By order of the Board

Sarah Ingrassia
Director

Katherine Sarah Ellis
Director

31 May 2011

Pactolus Hungarian Property Plc

Annual Report and Financial Statements 2010

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 2010 which comprise the statement of comprehensive income, the statements of financial position, the statements of changes in equity, the statements of cash flows 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 report to you if, in our opinion, the directors' report is not consistent with the financial statements. We also report to you if 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' transactions is not disclosed.

We read other information contained in the directors' report and financial statements and consider whether it is consistent with the audited financial statements. 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.

Pactolus Hungarian Property Plc Annual Report and Financial Statements 2010

Independent Auditors' Report (continued)

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.

Opinion

In our opinion the 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 and the parent company's affairs as at 31 December 2010 and of the group's loss for the year then ended; and
- have been properly prepared in accordance with the Isle of Man Companies Acts 1931 to 2004.

CLB Coopers
Lancaster, United Kingdom

31 May 2011

Pactolus Hungarian Property Plc

Annual Report and Financial Statements 2010

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.

The Board considers that the Company has complied with the provisions set out in the Combined Code throughout the year to 31 December 2010. The following statement describes how the Company has applied the relevant principles of Corporate Governance.

The Board and Committees

The Board currently comprises five non-executive Directors, two of whom are considered to be independent of the Company's Investment Manager. As the Board is composed entirely of non-executive Directors, executive responsibility has been delegated to the Company's Investment Manager. There is no Chief Executive Officer, and the senior independent Director is Mr. Christopher Bennett.

The Board regularly reviews the independence of its members and considers Mr. Bennett and Mr. Miller to be independent of the Company's Investment Manager in character and judgement within the meaning set out in the Code, having examined each director against the independence criteria described in the Code.

The Board is satisfied that the Non-Executive Directors, each of whom is independent from management and has no commercial or other connection with the Company, are able to exercise independent judgement. The appointment of new directors is a matter for the Board as a whole.

The Board is responsible to shareholders of the Company for the strategy and future development of the Group and the efficient management of its resources. As a result, the Board has a schedule of matters reserved for its decision, which includes approval of annual budgets, acquisition and divestment policy, the raising of finance and management policies. The Board is supplied, in a timely fashion, with the information it needs to enable it to discharge its duties.

All Directors are subject to re-election by rotation, and their re-election is subject to shareholders' approval. All non-executive Directors stand for election at the Annual General Meeting following their appointment. No Director has been in office for more than three years without having offered himself for re-election.

The Company has established an audit committee with formally delegated duties and responsibilities. The audit committee has primary responsibility for monitoring the quality of internal controls and ensuring the financial performance of the Company is properly measured and reported. It will receive and review reports from the Company's management and auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Company. The audit committee will meet not less than twice in each financial year and will have access to the Company's auditors. The members of the audit committee are Brett Miller and Christopher Bennett.

The Company does not, consider it necessary to establish remuneration and nomination committees as it has no executive directors.

The Company has adopted and will operate a share dealing code governing the share dealings of the Directors and any applicable employees.

Pactolus Hungarian Property Plc

Annual Report and Financial Statements 2010

Corporate Governance (continued)

The Company will take all reasonable steps to ensure that the Directors and any applicable employees will comply with all provisions of the AIM Rules relating to the dealing in securities.

Internal Financial Control

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process is subject to regular review by the Board and is in accordance with the FRC guidance 'Internal Control: Revised Guidance for Directors on the Combined Code'. The process was fully in place throughout the year and up to the date of approval of the financial statements.

The Board is responsible for ensuring that the Company has in place an effective system of internal financial controls designed to ensure the maintenance of proper accounting records and safeguarding the Company's assets. These systems are designed to provide reasonable, but not absolute, assurance against material mis-statement or loss. The Board recognises its responsibility for regular review of all aspects of internal financial control.

The Board has established a series of parameters which are designed to limit the inherent risk in managing a portfolio of investment properties and the Board receives regular reports from the Investment Manager which are reviewed in detail.

The Board has contractually delegated responsibility for management of the investment portfolio and the provision of accounting services to external agencies. This is after full and proper consideration by the Board of the quality and cost of services offered including the financial control systems in operation insofar as they relate to the affairs of the Company. As such, the Board believes that there is no necessity for an internal audit function. This matter is subject to regular review.

The key procedures, which have been established to provide effective internal control, are as follows:

- Investment management is provided by Midas Investment Management Ltd. The Board is responsible for setting the overall investment policy and monitors the activity of the Investment Manager at regular Board meetings. The Investment Manager provides reports at these meetings, which cover investment performance and compliance issues.
- Equiom Trust Company Ltd is responsible for the provision of administration and company secretarial duties. It also reports to the Board on risk control issues for the Company as a whole.
- Custody of assets is undertaken by Midasz European Property Kft.
- The non-executive Directors of the Company clearly define the duties and responsibilities of their agents and advisers in terms of their contracts. The appointment of agents and advisers is conducted by the Administrators after consideration of the quality of the parties involved; the Board monitors their ongoing performance and contractual arrangements.
- The Board reviews in detail the financial information produced by the Asset Manager on a regular basis.

Pactolus Hungarian Property Plc

Annual Report and Financial Statements 2010

Corporate Governance (continued)

The Board has carried out a review of the system of internal controls as it has operated throughout the year. The Directors confirm that actions are taken where appropriate to remedy any significant failings or weaknesses identified.

Asset Manager

The Company has a management agreement with Midas Investment Management Limited ("Midas") under which the Asset Manager will manage the Company's portfolio in accordance with the policies determined by the Board. Details of the fee arrangements with Midas are disclosed in note 2 to the financial statements. Midas is authorised and regulated by the FSA.

The Board regularly considers the appointment of the Asset Manager and, in particular, reviews the investment performance and the quality of the personnel employed. The Directors consider that the continuing appointment of Midas on the agreed terms is in the interests of the shareholders as a whole.

Supplier terms

It is the Group's policy to obtain the best terms for all business including purchases of investment properties and to abide by those agreed terms. Trade payables are settled by the due date for payment.

Exercise of voting powers

The Company has approved a Corporate Governance voting policy which, in summary, is based on the governance recommendations of the Combined Code with the intention of voting in accordance with best practice whilst maintaining a primary focus on financial returns.

Capital Structure

The Company's capital structure is summarised in note 21 to the financial statements.

Going Concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Relations with shareholders

Communications with shareholders are given a high priority, with information provided regularly in interim and annual accounts. Any issues of concern can be addressed to the Board by any shareholder.

All shareholders are encouraged to attend the Annual General Meeting, where they are given an opportunity to question the Chairman and the Board. Separate resolutions are proposed on each issue including a resolution to adopt the annual report and accounts. The Company ensures that all proxy votes are counted and announces the level of proxies lodged on each resolution.

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 fifth Annual General Meeting of Pactolus Hungarian Property plc (the "Company") will be held at 11.00am on Wednesday 29 June 2010 at Jubilee Buildings, Victoria Street, Douglas, Isle of Man, IM1 2SH, for the following purposes:

1. To receive and adopt the Report of the Directors and audited Accounts for the year ended 31 December 2010.
2. To appoint CLB Coopers as Auditors to the Company and its subsidiaries (the "Group").
3. To authorise the Directors to fix the remuneration of the Auditors.
4. To re-elect Stephen Dillon Gray as a director of the Company.
5. To re-elect Sarah Joanne Ingrassia as a director of the Company.
6. To re-elect Katherine Sarah Ellis as a director of the Company.
7. To renew the authority for the directors to allot relevant securities and to disapply statutory pre-emption rights arising in respect of the allotment of equity securities up to a nominal aggregate value of £161,475.82.

By Order of the Board:

Barry Smith
Company Secretary

Registered Office:

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

Dated: 31 May 2011

NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. A member entitled to attend and vote at the AGM 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 AGM 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 or authority) must be completed, signed and lodged with the Company at their registered address not later than 48 hours before the time for holding the AGM.
3. Deposit of a Form of Proxy will not preclude a member from attending the AGM and voting in person should they so wish.
4. See the notes to the Form of Proxy for more details.
5. Pursuant to Regulation 22 of the Uncertificated Securities Regulations 2005, the Company has specified that to be entitled to attend and vote at the AGM (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 11:00 a.m. on 27 June 2011. Changes to entries on the register of members after 11:00 a.m. on that date shall be disregarded in determining the rights of any person to attend and vote at the AGM.
6. The quorum required for the AGM is two members present in person or by proxy and entitled to vote there at.

PACTOLUS HUNGARIAN PROPERTY PLC

Annual General Meeting Wednesday 29 June 2011

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 third Annual General Meeting of the Company to be held on Wednesday 29 June 2011 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	Vote withheld (note 5)
1. To adopt the Report of the Directors and audited Accounts for the year ended 31 December 2010.			
2. To appoint CLB Coopers as Auditors to the Company and its subsidiaries (the "Group").			
3. To authorise the Directors to fix the remuneration of the Auditors.			
4. To re-appoint Stephen Dillon Gray as a Director of the Company.			
5. To re-appoint Sarah Joanne Ingrassia as a Director of the Company.			
6. To re-elect Katherine Sarah Ellis as a director of the Company.			
7. To renew the authority for the directors to allot relevant securities and to disapply statutory pre-emption rights arising in respect of the allotment of equity securities up to a nominal aggregate value of £161,475.82.			

Signed: _____ day of _____ 2011

Signature: _____

Name (print): _____

Address: _____

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

Second fold

BUSINESS REPLY SERVICE

Licence No. DO81

1



The Secretary
Pactolus Hungarian Property plc
c/o Equiom Investment Trust Company Ltd
1st Floor
Jubilee Buildings
Victoria Street
Douglas
Isle of Man
IM1 2SH

First fold

Third fold

And tuck in flap opposite

PACTOLUS HUNGARIAN PROPERTY PLC
ANNUAL GENERAL MEETING - 29 June 2011
NOTES TO THE FORM OF PROXY

1. As a member of the Company you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and, on a poll, vote at a general meeting of the Company. You can only appoint a proxy using the procedures set out in these notes.
2. Appointment of a proxy does not preclude you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will be deemed to be automatically terminated.
3. A proxy does not need to be a member of the Company but must attend the meeting to represent you. To appoint as your proxy a person other than the Chairman of the meeting, insert their full name in the relevant space on the first page of this proxy form. If you sign and return this proxy form with no name inserted in the relevant space, the Chairman of the meeting will be deemed to be your proxy. Where you appoint as your proxy someone other than the Chairman, you are responsible for ensuring that they attend the meeting and are aware of your voting intentions. If you wish your proxy to make any comments on your behalf, you will need to appoint someone other than the Chairman and give them the relevant instructions directly. Your proxy shall have no right to speak at the meeting except with the permission of the Chairman.
4. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share.
5. In respect of voting on a poll, to direct your proxy how to vote on the resolutions mark the appropriate box with an 'X'. To abstain from voting on a resolution, select the relevant "Vote withheld" box. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is properly put before the meeting.
6. To appoint a proxy using this form, the form must be:
 - completed and signed;
 - sent or delivered to the Secretary, Pactolus Hungarian Property plc, c/o Equiom Trust Company Limited, First Floor, Jubilee Buildings, Victoria Street, Douglas, Isle of Man, IM1 2SH; and
 - received by the Secretary, Pactolus Hungarian Property plc, c/o Equiom Trust Company Limited, Jubilee Buildings, Victoria Street, Douglas, Isle of Man, IM1 2SH no later than 11:00 a.m. on 27 June 2011.
7. In the case of a member which is a company, this proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.
8. Where a corporation is to be represented at the meeting by a personal representative, such corporation must deposit a certified copy of the resolution of its directors or other governing body authorising the appointment of the representative to the Company c/o the Secretary, Pactolus Hungarian Property plc, c/o Equiom Trust Company Limited, Jubilee Buildings, Victoria Street, Douglas, Isle of Man, IM1 2SH, not later than 48 hours before the time appointed for the meeting.
9. Any power of attorney or any other authority under which this proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.
10. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
11. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies (regardless of its date or the date of its execution) will take precedence. If the Company is unable to determine which appointment was last validly delivered, none of them shall be treated as valid.
12. A vote given or poll demanded in accordance with the terms of an appointment of a proxy shall be valid notwithstanding the death or mental disorder of the principal or the revocation of the appointment of the proxy, or of the authority under which the appointment of the proxy was executed or the transfer of the share in respect of which the appointment of the proxy is given unless notice in writing of such death, mental disorder, revocation or transfer shall have been received by the Company at the address specified at note 6 above at least 48 hours before the commencement of the meeting or any adjournment thereof.