PATHFINDER PROPERTIES PLC

Report and Financial Statements
for the year ended 31 December 2005

Contents

CHAIRMAN'S STATEMENT

Dear Shareholder

Since my last statement, a number of positive developments have occurred especially after the year end.

It was the boards' intention to develop our site at River Quay, Manchester. In fact, the company had formally instructed all the professional advisors. However, in March 2006, a development company offered to purchase the site. After long negotiations, a sale price of £17,000,000 was agreed. At this figure, the board felt, the site should be sold, as it is a significant profit on cost.

Our other main asset in Newark has also moved forward. I am pleased to announce that we received planning consent for the remainder of the site to erect a new block of 99 flats, together with outline for another 80 houses. There is a Section 106 agreement, which requires us to renovate the Brewery.

During the last financial year we have continued to control the administrative expenses. However, as we have not capitalised the interest payments to our various sites, the company is showing losses. Another drain on our resources is the interest payments, under our guarantee, on the Loch Lomond site. Fortunately the receivers have now sold the site, so we are hopeful the matter can be resolved. Once we have completed the sale of River Quay, it is the boards' intention to reinvest the proceeds in order to bring the company into profit.

Once again I would like to thank board members and all staff for all their hard work

Yours faithfully

Edward Azouz
Chairman

30 June 2006

OPERATING AND FINANCIAL REVIEW

Corporate Overview

In October 2005, the Group sold its development site known as Northern Quarter, Manchester, which was owned 60%, and generated a gross profit on disposal of £144,000.

Due to the cash flow difficulties in October 2005, Pathfinder Recovery Ventures Limited disposed of 3,642,704 shares it held in Pathfinder Properties PLC at the market value at the time of 6p each to Kerrington Limited and Sunnyview Limited. G Lee controls Kerrington Limited and E and J Azouz control Sunnyview Limited. The disposal generated a loss of £357,000.

Pathfinder (Loch Lomond) Limited has been in administration since May 2004. The Group provided cross guarantees on loans made to Pathfinder (Loch Lomond) Limited and has therefore continued to make payments in this respect during the year. Since Pathfinder (Loch Lomond) Limited is in administration, the Board considers that this represents a severe long-term restriction that prevents the Group from exercising its rights over the Company. Therefore Pathfinder (Loch Lomond) Limited has been excluded from the Group accounts for the years ended 31 December 2004 and 31 December 2005.

As at 31 December 2005, the Group undertook a restructuring exercise in order to rationalise the number of trading companies within the group.

Subsequent to the year end, an agreement with an unconnected third party to sell the site at River Quay, Manchester for £17m is in place with completion anticipated to be on 31 August 2006.

Results

Group turnover of £753,000 arose from the sale of development property mentioned above by the Group during the year (2004 – £nil) in addition to the Group's share of income from joint ventures of £8,000 (2004 – nil). The gross profit for the Group is £192,000, compared with a loss of £44,000 in 2004.

The administrative costs have decreased to £515,000 from £793,000 in 2004. The main reason behind the decrease has been the Board's decision to minimise overhead costs by rationalising costs.

Other operating income represents net rents on development properties and management fees received by the Group. In the previous period, management fees of £540,000 were received from Pathfinder (Wetherby) Limited subsequent to its disposal in the year.

The share of operating profits in joint ventures represents the holding costs of the joint venture developments in PFP Management Limited and Excelmode Limited.

The Group incurred a loss on disposal of shares held as a fixed asset investment of £357,000 as noted above.

In the previous year, the disposal of Pathfinder (Wetherby) Limited and the exclusion of Pathfinder (Loch Lomond) Limited had resulted in a profit of £631,000 for the group. This profit was after taking account of specific provisions required by the Group against balances due from Pathfinder (Loch Lomond) Limited and costs borne by the Group in respect of cross-guarantees provided on loans to Lomond Galleries.

The net loss before interest and taxation was £574,000 (2004 – profit £450,000).

Net interest payable is £847,000 compared with £626,000 in 2004. The interest is in respect of loans taken out to finance River Quarter and Newark developments and includes interest in respect of the cross-guarantees provided on the Pathfinder (Loch Lomond) Limited loans.

The loss on ordinary activities before taxation for the group, taking into account the above, is £1,421,000 (2004 – £176,000).

The tax charge for the year amounted to a credit of £190,000 (2004 – £8,000 credit), representing increases in deferred tax assets on the balance sheet in respect of tax losses.

After tax there was a loss of £1,231,000 (2004 – £168,000), which, after accounting for the profits and losses attributable to the minority interests, leaves a loss attributable to members of the company of £1,314,000 (2004 – £158,000).

Based on the results for the year, the directors do not propose to pay a dividend.

Net Assets

The increase in the investment in joint ventures results from additional loans made to PFP Management Limited.

The value of the development properties at the year-end was £16,257,000 compared with £16,307,000 in 2004. The movement is due in part to the disposal of the site known as Northern Quarter, Manchester, which was held by Forgeglade Limited. The development properties now include the sites at Newark and River Quarter.

Minority interests have increased to £356,000 from £273,000 in 2004.

The investment in own shares has decreased as a result of the shares being sold to Kerrington Limited and Sunnyview Limited by Pathfinder Recovery Ventures Limited. This shareholding now amounts to a 5.38% interest in the Group at 31 December 2005.

Debtors have increased to £1,912,000 from £713,000 in 2004. The increase results mainly from a bond paid of £900,000 in the year.

Creditors have increased to £4,610,000 from £2,979,000 in 2004. The increase is mainly due to the net movement on a loan of £382,000 received in the year and £524,000 of deposits on an aborted sale, yet to be repaid.

Overall shareholders funds have decreased to £8,150,000 (representing 10.20p per ordinary share) from the balance of £8,887,000 (representing 11.11p per ordinary share) in 2004 before taking into account any increase in value over cost of the ongoing projects held by the Group. Such value is not reflected in the financial statements until the projects are sold.

Borrowings and Cash flow

The Group's financing requirements relate mainly to the funding of property development. Loan and overdraft facilities are arranged as necessary with a number of banks aimed at meeting development finance requirements on a cost-effective basis.

The Board regards the main financial risks facing the Group as liquidity risk and interest rate risk. Liquidity risk is managed by balancing bank financing with internally generated funds and joint venture finance, and by seeking to match loan periods with the expected planning and development cycle of the properties being developed. Interest rate risk is monitored by the Board and considered in relation to the length and level of borrowing required. At 31 December 2005 the majority of development finance from banks was at variable rates.

The net operating cash inflow arising from operating activities was £557,000, compared with a net operating cash outflow in 2004 of £1,547,000.

Major cash outflows during the year arose from net interest payments of £845,000 (2004 – £331,000).

After placing £29,000 (2004 – £100,000) on short-term bank deposits, the cash outflow for the year was £132,000 (2004 – £775,000 cash outflow) resulting in year-end cash balances inclusive of deposits of £594,000 (2004 – £797,000).

Balance sheet borrowing increased to £9,362,000 from £8,085,000, as a result of a net movement on loans in respect of loans acquired to enable the Group to continue with the remaining developments.

The net debt/equity ratio at 31 December 2005 was 1.08:1 (2004 – 0.82:1).

Events since the Year End

The directors have signed an agreement to sell the property held at River Quarter, Manchester for £17m. Completion is anticipated to be on 31 August 2006.

Subsequent to the year end, Robert Yorke-Starkey and Victor Lipien purchased 2,150,957 shares each from Pathfinder Recovery Ventures Limited.

Edward Azouz Gerard Lee
Executive Directors

PROPERTY UNDER DEVELOPMENT

Development portfolio
River Quarter, Castlefield, Manchester (100% owned)

The site comprises 3.25 acres within 15 minutes walk of the city centre adjacent to the River Medlock.

The site consists of four phases. The phases range from 62,500 sq ft to 155,000 sq ft to combine residential apartments, shopping space, public squares, riverside walks and offices.

Phase 1 has existing planning consent, obtained in 2001, for 199 apartments, 19,500 sq ft of commercial space and 144 car parking spaces.

Phase 2 also has existing planning consent, obtained in 2002, for 191 residential apartments, 19,500 sq ft of commercial space and 191 car parking spaces.

An agreement has been signed to sell the property for £17m in August 2006.

North Gate, Newark (100% owned)

The Group has a 6-acre site next to the River Trent, on the edge of Newark.

The development site comprises 4 adjacent sites in Newark, and includes a substantial Victorian Brewery building. Planning permission had been obtained to convert the brewery into 49 residential units. During the year the Group obtained planning consent for the remainder of the site to build a block of 99 flats, together with outline for another 80 houses.

Northern Quarter, Manchester (60% owned)

This development of a small site in Back Turner Street, comprising a number of adjoining buildings for which informal approval had been received from the planning authorities and English Heritage for revised schemes was sold during the year.

DIRECTORS

Edward Azouz, aged 57, Chairman

Edward Azouz qualified as a chartered accountant in 1973 after completing his articles at Citroen Wells.

In 1973 he took over, with his brother, a small estate agency known as Harding-Marsh.

In 1974 he founded Central Estates Limited, a property company, with his brother Jeffrey. He also became a director of A.R. & V. Investments Limited, another property company and to date is still a director of both A.R. & V. Investments Limited and Central Estates Limited together with many other property companies. Over the years A.R. & V. Investments Limited and Central Estates Limited have been involved in both residential and commercial investments and developments.

Jeffrey Azouz, aged 59

Jeffrey Azouz qualified as a chartered surveyor in 1973 after completing his training at Willmotts Property Services.

In 1973 he took over, with his brother Edward, a small estate agency known as Harding-Marsh.

In 1974 he founded Central Estates Limited, a property company, with his brother Edward and became Company Secretary of A.R. & V. Investments Limited, another property company.

In 1979 he became a director of A.R. & V. Investments Limited and to date he is still a director of both Central Estates Limited and A.R. & V. Investments Limited, together with many other property companies. Over the years A.R. & V. Investments Limited and Central Estates Limited have been involved in both residential and commercial investments and developments.

Gerard Lee, aged 54

Gerard Lee has been a property developer and investor in and around Greater London for over 20 years. As one of the founders of Kerrington Limited, (a business expansion scheme company – "BES") he has extensive experience in the development, management and sale of residential properties let under assured tenancies. Latterly he has used his investment skills to great effect in Manchester where the company has successfully completed three developments for sale and is currently refurbishing a fourth building.

Dr John Guy Davies, aged 59

John Guy Davies has long experience of public and private companies in a variety of business sectors both as a banker and executive. Areas of specialism include corporate finance, business development and strategy.

OFFICERS AND ADVISERS

SECRETARY
BA Gemal

COMPANY NUMBER
2578942 (England and Wales)

REGISTERED OFFICE
1001 Finchley Road
London NW11 7HB

AUDITORS
Sedley Richard Laurence Voulters
1 Conduit Street
London W1S 2XA

SOLICITORS
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30 Aylesbury Street
London
EC1R OER

NOMINATED ADVISER
Beaumont Cornish Limited
Georgian House
63 Coleman Street
London EC2R 5BB

NOMINATED BROKER
Teather & Greenwood Limited
Beaufort House
15 St Botolph Street
London EC3A 7QR

REGISTRARS
Capita Registrars Limited
Capita House
Woodsome Park
Huddersfield HD8 0JQ

BANKERS
Bank of Scotland
14-16 Cockspur Street
London SW1Y 5BL

DIRECTORS' REPORT

For the year ended 31 December 2005

The Directors present their report and the group financial statements of Pathfinder Properties PLC for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activity during the year was property development. The review of the business is contained in the Chairman's Statement and the Operating and Financial Review on pages 1 to 4.

RESULTS AND DIVIDENDS

The Group's loss on ordinary activities after taxation and before minority interests was £1,231,000 (2004 – loss £168,000).

The Directors are unable to recommend the payment of a dividend.

DIRECTORS AND THEIR INTERESTS

The Directors and their beneficial interests (including family interests) in the shares of the Company during the year were as follows:-

	Ordinary shares of 10p each 31 December 2005	Ordinary shares of 10p each 31 December 2004
Edward Azouz ^	**10,288,571**	8,467,219
Jeffrey Azouz ^	**10,288,571**	8,467,219
John Guy Davies	**—**	–
Gerard Lee +	**13,302,989**	11,481,637

^ including shares held by Sunnyview Limited, a company in which Messrs Azouz are shareholders and directors. The shares above are held jointly.
+ including shares held by Kerrington Limited and Amicrest Holding PLC, a company in which Mr Lee is a shareholder and director.

No director has been granted an option to purchase shares in the company.

RELATED PARTY TRANSACTIONS

Details of transactions with related parties undertaken by the Group during the year are disclosed in note 22.

FIXED ASSETS

The significant changes in fixed assets during the year are detailed in notes 10 to 13 to the financial statements.

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

It is the Company's and the Group's policy to pay suppliers in accordance with the payment terms negotiated with them. Thus, payment is normally made to those suppliers meeting the Company's and Group's obligations. The Group's average creditor days during the year was 40 days (2004 – 28 days).

RISK EXPOSURE

The Group's prime exposure to financial risk arises from its long term borrowings. The Group's risk management objectives are to ensure that long term assets are financed by long term loans, that loan repayment profiles match the Group's ability to generate cash and to maintain adequate interest cover. Note 19 details the Groups' borrowings and the cash flow statement details the Group's ability to generate cash from operations.

The main financial risks for the group are liquidity risk and cash flow risk. The Group maintains a mixture of short term and longer term funding through secured bank facilities. Bank facilities continue to be an important source of finance for the Group providing it with flexibility on competitive terms to fund its current and future business requirements.

DIRECTOR'S RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice (UK GAAP).

Company law requires the directors to prepare financial statements for each financial period, which give a true and fair view of the state of affairs of the Group and of the Company and of the profit or loss of the Group for that period. In preparing those 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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 also responsible for the maintenance and integrity of the corporate and financial information included on the company's website. It is important to bear in mind that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ in other jurisdictions.

SUBSTANTIAL SHAREHOLDINGS

At 28 June 2006 the following had notified the Company of an interest on 3% or more of the Company's ordinary shares:

Name	Number of ordinary shares	Shareholding %
Kerrington Limited	10,288,571	12.86
Sunnyview Limited	10,288,571	12.86
Amicrest Holdings PLC	2,614,418	3.27
Robert Yorke-Starkey	2,550,957	3.19
Victor Lipien	2,486,630	3.11
Lakesystem Limited	2,475,000	3.10

SHARE CAPITAL

The authorised and issued share capital of the Company at 31 December 2005 is shown in note 20 in the financial statements.

During the year the Group disposed of 3,642,704 ordinary shares held by Pathfinder Recovery Ventures Limited in Pathfinder Properties PLC, for consideration of 6p per share. The number of shares held in Pathfinder Properties PLC at the year end was 4,301,914 shares, representing 5.38% of the issued share capital.

CHARITABLE OR POLITICAL CONTRIBUTIONS

No charitable or political contributions were made during the year (2004 – £nil).

AUDITORS

In accordance with section 385 of the Companies Act 1985, a resolution to re-appoint Sedley Richard Laurence Voulters, Chartered Accountants, as auditors will be proposed to the members at the annual general meeting.

ANNUAL GENERAL MEETING

A notice of the Annual General Meeting to be held on 8th September 2006 is set out on pages 38 and 39 together with explanatory notes.

By Order of the Board
BA Gemal
Company Secretary

30 June 2006

CORPORATE GOVERNANCE

The directors have considered the provisions set out in the Principles of Good Governance and Code of Best practice ("the Combined Code"). Throughout the year to 31 December 2005, the Company has applied the principles and complies, as far as practicable, with the code provisions set out in Section 1 of the Combined Code.

DIRECTORS

The Board of Directors comprise of three executive directors and one non-executive director. The Board is structured so that no one individual or group dominates the decision making process.

Board meetings are held at least ten times a year. A formal schedule of matters specifically reserved to the Board, including inter alia, overall strategy and monitoring of financial performance, has been adopted.

The Board has established an Audit Committee and a Remuneration Committee with duties and responsibilities formally delegated to them, details of which are given below.

REMUNERATION COMMITTEE

The Remuneration Committee is responsible for setting the remuneration of the executive Directors and for any pension schemes operated by the Company. The report of the Remuneration Committee and its composition is given on page 13.

AUDIT COMMITTEE

The Audit Committee comprises the non-executive director and one Executive Director, Jeffrey Azouz, and is responsible for ensuring that the financial performance of the Group is properly measured and reported and for reviewing reports from the auditor relating to the Group's financial statements and the Group's internal control systems.

INTERNAL CONTROL

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

Key elements of the Group's system of internal control are as follows:

Control environment

- The setting of appropriate levels of authorisation which must be adhered to as the Group conducts its business;
- The implementation of a recognised organisational and management reporting structure within which individual executive directors have responsibility for the day-to-day running of the business;
- Established procedures for setting of development budgets and the ongoing monitoring of actual financial performance against those budgets; and
- A clearly defined and well established set of accounting policies which ensure that the financial performance is recorded on a consistent and appropriate basis throughout the Group's reporting entities.

Monitoring and corrective action

There are ongoing procedures in place for monitoring the system of internal control. The Group does not have an internal audit function. Whilst the Board believes that the current size of the Group does not warrant the establishment of an internal audit function, the remit of the Audit Committee includes the review of the effectiveness of the Group's system of internal control.

Risk management
The Group's management is responsible for the identification and evaluation of key risks applicable to their areas of business. Risks which may be associated with a variety of internal and external sources including control breakdowns, disruption in information systems, competition, natural catastrophe and regulatory requirements are assessed on a continuous basis. Board approval is obtained for every significant stage of the development of a project together with any significant acquisition/disposal from the property portfolio.

Relations with shareholders

The Board supports the principal of clear reporting of financial performance to shareholders. Each year, shareholders receive a full annual report and interim report. The Board regards the Annual General Meeting as an opportunity to communicate directly with private investors. Directors attend the Annual General Meeting and are available to answer questions from shareholders present. The Board actively encourages feedback and shareholder dialogue, whether verbal or written.

Going concern

After making enquiries, the Board considers that the Group has adequate resources to continue operating for the foreseeable future and therefore has adopted the going concern basis in preparing the financial statements.

Edward Azouz
Chairman

30 June 2006

REPORT OF THE REMUNERATION COMMITTEE

The following is a report from the Remuneration Committee, which has been approved and adopted by the Board for submission to the shareholders.

The Remuneration Committee

The Remuneration Committee comprises the non-executive director along with executive directors and the policy of the Committee framed to give considerations to the provisions as to the best practice set out in the Combined Code.

Remuneration of Directors

The executive Directors are paid a salary, with the exception of Mr Lee who receives Director's fees.

The fees and salaries are reveiwable annually by the Remuneration Committee.

The following table shows the remuneration of directors at the year end for the years ended 31 December 2005 and 2004.

	Fees and salaries		Benefits in kind		Bonuses		Total	
	2005 £000	2004 £000	**2005 £000**	2004 £000	**2005 £000**	2004 £000	**2005 £000**	2004 £000
Edward Azouz+	**40**	37	**—**	—	**—**	—	**40**	37
Jeffrey Azouz+	**20**	19	**—**	—	**—**	—	**20**	19
John Guy Davies+	**20**	21	**—**	—	**—**	—	**20**	21
Gerard Lee+	**40**	37	**—**	—	**—**	—	**40**	37

+2004 – From date of appointment

Dr John Guy Davies
Chairman – Remuneration Committee

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2005

	Note	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
Turnover			
Group and share of joint ventures		**753**	—
– less: share of joint ventures		**(8)**	—
Group turnover	1	**745**	—
Cost of sales			
– Continuing operations		**(553)**	(44)
Gross profit/(loss)		**192**	(44)
Administration expenses	2		
– Continuing operations		**(515)**	(785)
– Discontinued operations		**—**	(8)
		(515)	(793)
		(323)	(837)
Other operating income	2		
– Continuing operations		**90**	660
Operating loss before share of joint ventures			
– Continuing operations		**(233)**	(169)
– Discontinued operations		**—**	(8)
		(233)	(177)
Share of operating profit /(loss) in joint ventures	12	**8**	(9)
Operating loss	2	**(225)**	(186)
Continuing operations:			
Profit on sale of investment properties		**8**	—
(Loss)/profit on sale of fixed asset investments		**(357)**	5
Discontinued operations:	2		
Profit on sale of operations		**—**	631
(Loss)/profit on ordinary activities before investment income, interest and taxation		**(574)**	450
Interest receivable	3	**9**	45
Interest payable	4	**(856)**	(671)
Loss on ordinary activities before taxation		**(1,421)**	(176)
Taxation		**190**	8
Loss on ordinary activities after taxation		**(1,231)**	(168)
Equity minority interests		**(83)**	10
Loss for the year attributable to members of the parent company		**(1,314)**	(158)
Ordinary dividend	8	**—**	—
Loss for the year transferred to reserves	21	**(1,314)**	(158)

The notes on pages 20 to 35 form part of these financial statements.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
continued

		Year ended 31 December 2005	Year ended 31 December 2004
		Pence	Pence
Loss per share	9	**(1.64)**	(0.20)
Fully diluted loss per share	9	**(1.64)**	(0.20)

The notes on pages 20 to 35 form part of these financial statements.

CONSOLIDATED BALANCE SHEET
at 31 December 2005

	Notes	31 December 2005 £000	31 December 2005 £000	31 December 2004 £000	31 December 2004 £000
Fixed assets					
Intangible fixed assets – Goodwill	10		**154**		154
Tangible assets	11		**11**		6
Investment in joint ventures	12				
– Share of gross assets		**210**		201	
– Share of gross liabilities		**(137)**		(135)	
– Goodwill		**—**		—	
			73		66
Other investments	13		**152**		152
			390		378
Current assets					
Work in progress	14		**16,257**		16,307
Debtors	15		**1,912**		713
Cash at bank			**594**		797
			18,763		17,817
Creditors: Amounts falling due within one year	16		**(4,610)**		(2,979)
Net current assets			**14,153**		14,838
Total assets less current liabilities			**14,543**		15,216
Creditors: Amounts falling due after more than one year	17		**(6,037)**		(6,056)
			8,506		9,160
Equity minority interests			**(356)**		(273)
Net assets			**8,150**		8,887
Capital and reserves					
Called up share capital	20		**7,997**		7,997
Share premium account	21		**1,970**		1,970
Merger reserve	21		**2,494**		2,494
Capital reserve	21		**153**		153
Own share capital reacquired	21		**(678)**		(1,255)
Profit and loss account	21		**(3,786)**		(2,472)
Equity shareholders' funds			**8,150**		8,887

	2005 Pence	2004 Pence
Net assets per share attributable to ordinary shareholders	**10.20**	11.11

Approved by the Board on 30 June 2006 and signed on its behalf by

Gerard Lee
Director

The notes on pages 20 to 35 form part of these financial statements.

COMPANY BALANCE SHEET
at 31 December 2005

	Note	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
Fixed assets			
Tangible assets	11	**6**	—
Investments	13	**22,512**	22,323
		22,518	22,323
Current assets			
Debtors	15	**816**	627
Cash at bank		**2**	308
		818	935
Creditors: amount falling due within one year	16	**(12,613)**	(12,016)
Net current liabilities		**(11,795)**	(11,081)
Total assets less current liabilities		**10,723**	11,242
Net assets		**10,723**	11,242
Capital and reserves			
Called up share capital	20	**7,997**	7,997
Share premium account	21	**1,970**	1,970
Profit and loss account	21	**756**	1,275
Equity shareholders' funds		**10,723**	11,242

Approved by the Board on 30 June 2006 and signed on its behalf by

Gerard Lee
Director

The notes on pages 20 to 35 form part of these financial statements.

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Year ended 31 December 2005	Year ended 31 December 2004
	£000	£000
Loss for the financial year attributable to members of the parent company	**(1,314)**	(158)
Reduction in investment in own shares	**577**	413
Total recognised gains and losses since last financial statements	**(737)**	255

RECONCILIATION OF SHAREHOLDERS' FUNDS

	Year ended 31 December 2005	Year ended 31 December 2004
	£000	£000
Loss for the financial year	**(1,314)**	(158)
Own shares disposed	**577**	413
Net (depletion)/increase of shareholders' funds	**(737)**	255
Opening shareholders' funds	**8,887**	8,632
Closing shareholders' funds	**8,150**	8,887

The notes on pages 20 to 35 form part of these financial statements.

CASH FLOW STATEMENT
for the year ended 31 December 2005

	Notes	Year ended 31 December 2005 £000	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000	Year ended 31 December 2004 £000
Net cash outflow from operating activities	23		**(791)**		(1,547)
Returns on investments and servicing of finance					
Interest received		**9**		43	
Interest paid		**(854)**		(374)	
Net cash outflow from returns on investments and servicing of finance			**(845)**		(331)
Taxation					
Taxation (paid)/received			**(64)**		18
Capital expenditure and financial investment					
Receipts from sale of investment properties		**9**		—	
Payments from joint ventures		**(1)**		(7)	
Payments to acquire investments		**—**		(10)	
Payments to acquire tangible fixed assets		**(6)**		—	
Net cash outflow from capital expenditure and financial investment			**2**		(17)
Acquisitions and disposals					
Disposal of shares in parent undertaking		**218**		—	
Net loans acquired with subsidiary undertaking		**—**		(2,879)	
Net loans disposed off with subsidiary undertaking		**—**		4,742	
Net cash disposed with subsidiary undertaking		**—**		(24)	
Net cash inflow from acquisitions and disposals			**218**		1,839
Equity dividends					
Dividends and minority dividends paid			**—**		(36)
Management of liquid resources					
Decrease in treasury deposit accounts	24		**71**		440
Financing					
Debt due within one year:					
– Short term loans drawn down		**1,501**		8,579	
– Short terms loans repaid		**(224)**		(9,720)	
Net cash inflow/(outflow) from financing			**1,277**		(1,141)
Decrease in cash	24		**(132)**		(775)

The notes on pages 20 to 35 form part of these financial statements.

ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared under the historical cost convention modified by the valuation of investment properties and in accordance with applicable accounting standards in the United Kingdom and the Companies Act 1985.

The consolidated financial statements comprise the financial statements of the Company, its subsidiary undertakings and the Group's share of interests in joint ventures. Where a subsidiary is acquired during the year, the profit attributable to shareholders includes only the profits or losses from the effective date of acquisition. Where a subsidiary has been disposed of during the year, the profit attributable to shareholders includes only profit or losses to the effective date of disposal. The Group's interests in joint ventures are accounted for using the gross equity method.

Turnover

Turnover comprises:

(a) Gross rental income and service charges receivable from investment properties;
(b) The value of the development stock and work-in-progress sold during the year; and
(c) Fees from management contracts.

Sales are recognized on completion of contracts.

Recognition of profit on work-in-progress

Gross profit on development is attributed to the individual units sold on the basis of the work fairly attributable to the unit taking into account all costs to complete. No profit is recognized until a profitable outcome can be prudently foreseen.

Goodwill

Goodwill arising on acquisition is amortised over the directors' estimate of its useful life. In the case of the acquisition of property development companies, the goodwill is written off on the disposal of the underlying work-in-progress.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Equipment, fixtures and fittings over 3 years

Investment properties

Investment properties are accounted for in accordance with SSAP 19 "Accounting for Investment Properties", which provides that these should not be subject to periodic depreciation charges (unless held on short lease), but should be shown at Open Market Value. This is contrary to the Companies Act 1985 which states that fixed asset should be subject to depreciation.

The treatment of investment properties under the Companies Act does not, in the opinion of the directors, give a true and fair view as these assets are not held for consumption in the business but as investments, the disposal of which would not materially affect any manufacturing or trading operations of the enterprise. In such a case it is the current value of these investments, and changes in that current value, which are of prime importance. Consequently, for the proper appreciation of the financial position, the accounting treatment required by SSAP 19 is considered appropriate for investment properties.

Investment properties are recognised in the financial statements once an irrevocable purchase contract has been entered into. Sales of investment properties are recorded once an irrevocable sales contract has been entered into provided that sale has completed by the date these financial statements are approved by the Board. Investment properties are treated as fixed asset investments until the date of sale.

ACCOUNTING POLICIES continued

Fixed asset investments

The investment in Pathfinder Properties PLC held by a subsidiary company is carried at cost to the Group in accordance with The Urgent Issues Task Force (UITF) abstract 37.

Other unlisted fixed asset investments are stated at cost, less any provision for diminution in value.

Work-in-progress

Developments in progress are valued at the lower of cost and net realisable value. Provision is made for any anticipated losses. Cost includes costs of acquisition and development including directly attributable fees, expenses and finance charges, less any related income. Properties are treated as acquired on exchange of contracts with the vendors.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the taxable profits of Group companies and its results as stated in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

1. SEGMENTAL ANALYSIS

The Group's turnover and results for the year arise principally from property development activities and from activities carried out in the UK.

2. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Loss on ordinary activities before taxation is stated after charging:

	Year ended 31 December 2005	Year ended 31 December 2004
	£000	£000
Depreciation of tangible fixed assets	**3**	5
Auditors remuneration:		
– audit services	**77**	73
– other services	**35**	55

And after crediting:

	£000	£000
– Turnover: rent and similar income receivable from investment properties	**48**	16
– Other operating income: rent receivable from development properties	**90**	90

Exceptional item

	Year ended 31 December 2005	Year ended 31 December 2004
	£000	£000
Profit on disposal of Pathfinder (Loch Lomond) Limited	—	3,019
Profit on disposal of Pathfinder (Wetherby) Limited	—	117
Provisions for loans and interest cross guarantees given to Pathfinder (Loch Lomond) Limited	—	(2,505)
	—	631

2. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION continued

In the previous year due to the trading losses accruing in Pathfinder (Loch Lomond) Limited, the downward revaluation of the property and the inability of Pathfinder (Loch Lomond) Limited to finance its debts, this Company entered into administration on 26 May 2004.

3. INTEREST RECEIVABLE

	Year ended 31 December 2005	Year ended 31 December 2004
	£000	£000
Interest on bank and other deposits	**9**	43
Share of joint venture interest receivable	**—**	2
	9	45

4. INTEREST PAYABLE

	Year ended 31 December 2005	Year ended 31 December 2004
	£000	£000
Interest on bank and other loans	**840**	671
Share of joint venture interest payable	**15**	—
Interest on late payment of tax	**1**	—
	856	671

5. DIRECTORS EMOLUMENTS AND INTERESTS

	Year ended 31 December 2005	Year ended 31 December 2004
	£000	£000
Total emoluments of all directors:		
Fees and salaries	**120**	128
	120	128
Emoluments of the highest paid director	**40**	37

No pension contributions are paid in respect of any director.

Details of directors' interests and emoluments are given on pages to 8 and 13 respectively. Details of other transactions in which directors have interests are given in note 22 to the financial statements.

6. EMPLOYEES

The average number of employees, including the executive directors, employed by the Group during the year was 7 (2004 – 7). Salaries and social security costs amounted to £231,875 (2004 – £307,602) and £16,956 (2004 – £29,480) respectively.

7. TAXATION

(a) UK Corporation tax on the results for the year

	Year ended 31 December 2005	Year ended 31 December 2004
	£000	£000
Current tax – UK corporation tax at 30% (2004 – 30%)		
Group	**—**	—
Group – over/(under) provided in previous years	**3**	(56)
	3	(56)
Deferred tax		
Group	**187**	64
	187	64
Taxation credit for the year	**190**	8

(b) Factors affecting the tax charge for the year

The corporation tax credit (2004 – credit) for the year is lower (2004 – lower) than the tax charge or credit, which would be assessed, based on the UK standard rate of corporation tax at 30%. The differences are explained as follows:

	Year ended 31 December 2005	Year ended 31 December 2004
	£000	£000
Loss on ordinary activities before tax	**(1,421)**	(627)
Loss on ordinary activities multiplied by the standard rate of corporation tax 30% (2004 – 30%)	**(426)**	188
Effects of:		
Expenses not deductible for tax purposes	**18**	56
Capital allowances in excess of depreciation	**(5)**	—
Adjustments in respect of previous periods	**3**	(56)
Unrelieved tax losses carried forward	**282**	(197)
Other	**131**	(47)
Current tax credit/(charge) for the year	**3**	(56)

8. DIVIDENDS

	Year ended 31 December 2005	Year ended 31 December 2004
	£000	£000
Equity dividends:		
Final dividend Nil p (2004 – Nil p) per share	—	—

9. LOSS PER SHARE

The calculation of loss per share is based on a loss of £1,314,000 on continuing operations (2004 – loss of £158,000) and on 79,971,393 (2004 – 79,971,393) ordinary shares, being the weighted average number of ordinary shares in issue during the year. There is no difference between earnings and fully diluted earnings per share.

10. INTANGIBLE FIXED ASSETS – GOODWILL
Group

	Total
	£000
Cost	
1 January 2005 and 31 December 2005	**299**
Amortisation	
1 January 2005 and 31 December 2005	**(145)**
Net book value at 31 December 2005 and 31 December 2004	**154**

Goodwill arises on the consolidation of Pathfinder Recovery Ventures Limited, Pathfinder (River Quay) Limited, Fletcher Gate Limited and Newark Property Development Limited.

11. TANGIBLE FIXED ASSETS
Group

	Equipment, fixtures and fittings	Investment properties	Total
	£000	£000	£000
Cost			
1 January 2005	26	6	**32**
Additions	8	—	**8**
Disposals	(26)	—	**(26)**
31 December 2005	8	6	**14**
Depreciation			
1 January 2005	(26)	—	**(26)**
Charge for year	3	—	**3**
Disposals	26	—	**26**
31 December 2005	3	—	**3**
Net book value at 31 December 2005	5	6	**11**
Net book value at 31 December 2004	—	6	**6**

11. TANGIBLE FIXED ASSETS continued

Company

	Equipment, fixtures and fittings	**Total**
	£0000	**£000**
Cost		
1 January 2005	26	**26**
Additions	8	**8**
Disposals	(26)	**(26)**
31 December 2005	8	**8**
Depreciation		
1 January 2005	(26)	**(26)**
Charge for the year	2	**2**
Disposals	26	**26**
31 December 2005	2	**2**
Net book value at 31 December 2005	6	**6**
Net book value at 31 December 2004	—	**—**

All properties are freehold. Based on open market value at 31 December 2005, it is the opinion of the directors that there are no significant changes in the value of these investment properties during the year.

12. JOINT VENTURES

	Participating interest	Loans to undertakings in which the company has a participating interest	Share of profits and losses	**Total**
	£000	£000	£000	**£000**
1 January 2005	1	72	(7)	**66**
Share of profits	—	—	7	**7**
31 December 2005	1	72	—	**73**

The investment in joint ventures comprises the following companies and their subsidiaries

	Proportion of voting rights and shares held	Nature of business
Excelmode Limited	50%	Property development at 25 Church Street, Manchester
Viewland Limited	50%	Property investment
PFP Management Limited	59%*	Provision of management services

*As a result of voting restrictions on the shareholding in the company, it is treated as a joint venture rather than a subsidiary.

12. JOINT VENTURES continued

A summary of the Group's share of profits of joint ventures for the year ended 31 December 2005 is as follows:

	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
Turnover	**8**	—
Operating profit/(loss)	**7**	(9)
Interest receivable	**—**	2
Profit/(loss) before tax	**7**	(7)
Tax	**—**	—
Profit/(loss) after tax	**7**	(7)
Dividends	**—**	—
Profit/ (loss) retained	**7**	(7)

A summary of the Group's share of assets and liabilities of joint ventures as at 31 December 2005 is as follows:

Fixed assets	**—**	—
Current assets	**210**	201
Liabilities due within one year	**(137)**	(135)
	73	66

During the year the Group entered into loan transactions, in the ordinary course of business, with joint ventures, which are related parties of the Group. The outstanding balances at the year-end were as follows:

	PFP Management Limited	Excelmode Limited
31 December 2005		
Loans to joint ventures	56	3
1 January 2005		
Loans to joint ventures	56	3

Loans to joint ventures are interest free.

13. INVESTMENTS

	Unlisted investments	Total
	£000	£000
Group		
1 January 2005 and 31 December 2005	152	**152**

	Shares in subsidiary undertakings	Loans to subsidiary undertakings	Participating interest	Loans to undertakings in which the company has a participating interest	Total
	£000	£000	£000	£000	£000
Company					
Cost					
1 January 2005	16,374	6,401	1	3	**22,779**
Additions	—	877	—	—	**877**
Transfers	(8,916)	8,916	—	—	**—**
Disposal	—	(688)	—	—	**(688)**
31 December 2005	7,458	15,506	1	3	**22,968**
Amounts provided					
1 January 2005	30	426	—	—	**456**
Transfers	(30)	30	—	—	**—**
Arising in the year	—	—	—	—	**—**
31 December 2005	—	456	—	—	**456**
Net book value					
31 December 2005	7,458	15,050	1	3	**22,512**
31 December 2004	16,344	5,975	1	3	**22,323**

The cost of shares in subsidiary undertakings includes the associated costs of acquisition.

As at 31 December 2005, the Group undertook a restructuring exercise in order to rationalise the number of trading companies within the group.

13. INVESTMENTS continued

Details of the Group's and the Company's investments are as follows:

	Proportion of shares held Group	Company	Nature of business
Subsidiary undertakings:			
Crannon Limited	60%	—	Property development
Drayhawk Limited	100%	—	Property development
Forgeglade Limited	60%	—	Property development
Pathfinder Recovery 1 Limited	96%	96%	Property investment and development
Pathfinder Recovery Ventures Limited	96%	—	Property investment and development
Pathfinder Repossessions Limited	100%	—	Property investment
Pathfinder Repossessions II Limited	100%	—	Property investment
Pathfinder Residential Investments Limited	96%	—	Property investment
Pathfinder (Clyde Street) Limited	96%	—	Property development
Pathfinder (Glasgow) Limited	96%	—	Property development
Pathfinder (Loch Lomond) Limited +	98%	50%	Property development
Newark Property Development Limited	100%	—	Property development
Fletcher Gate Limited	100%	—	Property development
Newark Property LCS Limited	100%	—	Dormant
Newark Property Pocklington Limited	100%	—	Dormant
Pathfinder (River Quay) Limited	98%	—	Property development
Pathfinder (Scotland) Limited	79%	—	Property development
Merchant City Limited	100%	100%	Property investment
Merchant Village Limited	100%	—	Property investment
A Clean Company (No.6) Limited	100%	—	Dormant
Pathfinder Construction Services Limited	100%	—	Dormant
Property Action Limited	96%	—	Dormant
Joint ventures:			
Excelmode Limited	50%	—	Property development
PFP Management Limited	59%*	—	Provision of management services
Viewland Limited	50%	—	Property investment

* As a result of voting restrictions on the shareholding in the company, it is treated as a joint venture rather than a subsidiary.
All investments held are in ordinary shares.
\+ Pathfinder (Loch Lomond) Limited is in administration. The directors consider this to be a severe long-term restriction that prevents the Group from exercising its rights over the investment and consequently the company has been excluded from the consolidation from the beginning of 2004.

No financial statements have been prepared for Pathfinder (Loch Lomond) Limited since the company has been in administration. Consequently there are no recent figures available in respect of the company's results for the year and its financial position as at the year end, hence these disclosures have not been made in these accounts.

14. WORK-IN-PROGRESS

	Group 31 December 2005	Group 31 December 2004	Company 31 December 2005	Company 31 December 2004
	£000	£000	**£000**	£000
Land and buildings held for development and property in the course of construction	**16,257**	16,307	**—**	—

15. DEBTORS

	Group		Company	
	31 December 2005	31 December 2004	**31 December 2005**	31 December 2004
	£000	£000	**£000**	£000
Due within one year:				
Trade debtors	**22**	27	**—**	—
Amounts owed by Group undertakings	**—**	—	**571**	475
Other debtors	**1,288**	296	**233**	146
Prepayments and accrued income	**58**	33	**12**	6
	1,368	356	**816**	627
Due after one year:				
Deferred tax (note 18)	**544**	357	**—**	—
	1,912	713	**816**	627

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	31 December 2005	31 December 2004	**31 December 2005**	31 December 2004
	£000	£000	**£000**	£000
Bank and building society loans (see note 18)	**2,765**	1,851	**2**	—
Other loans	**560**	178	**382**	–
Trade creditors	**85**	14	**33**	8
Amount owed to Group undertakings	**—**	—	**11,732**	11,508
Amounts owed to undertakings in which the Group has a participating interest	**134**	134	**56**	56
Corporation tax	**—**	65	**—**	—
Other creditors	**68**	318	**33**	47
Accruals and deferred income	**998**	419	**375**	397
	4,610	2,979	**12,613**	12,016

The loans are stated net of unamortised issue costs of £Nil (2004 – £nil). Issue costs of £Nil (2004 – £nil) and interest of £112,342 (2004 – £395,000) were capitalised during the year. £15,000 (2004 – £12,000) of issue costs were amortised during the year.

17. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	31 December 2005	31 December 2004	**31 December 2005**	31 December 2004
	£000	£000	**£000**	£000
Bank and building society loan	**6,037**	6,056	**—**	—

18. PROVISIONS FOR LIABILITIES AND CHARGES

The deferred tax asset (included in debtors, note 15) is made up as follows:

	Group	Company
	£000	£000
Balance at 1 January 2005	**357**	—
Profit & loss account	**187**	—
Balance at 31 December 2005	**544**	—

	Group 31 December 2005	Group 31 December 2004	Company 31 December 2005	Company 31 December 2004
	£000	£000	£000	£000
Tax losses available	**544**	357	**—**	—

The amount of unprovided deferred tax relating to losses is an asset of £448,000 for the Group and £448,000 for the company.

19. BORROWINGS AND OTHER FINANCIAL INSTRUMENTS

Details of the Group's policies for the use of financial instruments in managing risk are included in the Operating and Financial Review.

(a) Borrowings

	Group 31 December 2005	Group 31 December 2004	Company 31 December 2005	Company 31 December 2004
	£000	£000	£000	£000
Bank and building society loans				
– Repayable within one year	**2,765**	1,851	**—**	—
– Repayable after one year	**6,037**	6,056	**—**	—
	8,802	7,907	**—**	—
Other loans				
– Repayable within one year	**560**	178	**382**	—
Total borrowings	**9,362**	8,085	**382**	—

Bank and building society loans are secured against work-in-progress in specific subsidiary undertakings. The loans are at variable interest rates determined by reference to LIBOR or bank base rate.

Other loans repayable within one year comprise:

(i) loans from the minority shareholders in certain subsidiary undertakings to fund their proportionate share of developments. These loans are interest free and repayable only on the sale or refinancing of the relevant developments.

(b) Financial assets

The Group's financial assets comprise cash at bank and on deposit amounting to £594,000 (2004 – £797,000), which bears interest based on bank base rates.

(c) Other financial instruments

Other than the above the Group has no financial instruments.

19. BORROWINGS AND OTHER FINANCIAL INSTRUMENTS continued

(d) Fair value

There is no material difference between the fair value of borrowings, cash and other financial instruments and their book value at the balance sheet date.

(e) Maturity

	Group		Company	
	31 December 2005	31 December 2004	**31 December 2005**	31 December 2004
	£000	£000	**£000**	£000
Repayable within one year	**3,147**	1,851	**382**	—
Repayable on financing or sale of relevant developments	**178**	178	**—**	—
Repayable in two to five years	**6,037**	6,056	**—**	—
Total borrowings	**9,362**	8,085	**382**	—

(f) Undrawn borrowing facilities

At 31 December 2005, the Group had no undrawn borrowing facilities (2004 – £Nil).

(g) Currency exposure

All assets and liabilities are held in Sterling and as such are not liable to any form of currency exposure.

20. SHARE CAPITAL

	31 December 2005	31 December 2004
	£000	£000
Authorised:		
250,000,000 (2004: 250,000,000) ordinary shares of 10p each	**25,000**	25,000
Allotted, issued and fully paid:		
79,971,393 (2004 – 79,971,393) ordinary shares of 10p each	**7,997**	7,997

21. RESERVES

	Share premium account	Merger reserve	Capital reserve	Own share capital reacquired	Profit and loss account
	£000	£000	£000	£000	£000
Group					
1 January 2005	1,970	2,494	153	(1,255)	(2,472)
Disposal of shares	—	—	—	577	—
Loss for the year	—	—	—	—	(1,314)
31 December 2005	**1,970**	**2,494**	**153**	**(678)**	**(3,786)**

	Share premium account	Profit and loss account
	£000	£000
Company		
1 January 2005	1,970	1,275
Loss for the year	—	(519)
31 December 2005	**1,970**	**756**

During the year the Group disposed of 3,642,704 ordinary shares held in Pathfinder Properties PLC, for consideration of 6p per share. The number of shares held in Pathfinder Properties PLC at 31 December 2005 was 4,301,914 (2004 – 7,944,618) and this represents 5.38% (9.93%) of the issued share capital. The market value of the shares held in Pathfinder Properties PLC at the year-end was £419,000 (2004 – £973,000).

22. RELATED PARTY TRANSACTIONS

The following charges have been incurred by the Group in connection with services provided by related parties during the year:

	Year ended 31 December 2005	Year ended 31 December 2004	**As at 31 December 2005**	As at 31 December 2004
	£000	£000	**£000**	£000
	Charges for the year		**Year end balance to/(from) the Group**	
Group				
Kerrington Property Services Limited,				
Office costs	**10**	6	**—**	—
Amicrest Holdings Plc, Office moving costs	**—**	7	**—**	—
Hazelgrove Estates Limited, Administrative expenses	**10**	3	**(2)**	—
Kerrington Limited, Rent	**8**	4	**—**	—
PFP Management Limited, Group Services	**—**	—	**(56)**	(108)
Sentinel Properties Limited, Directors fees	**40**	40	**(10)**	—

22. RELATED PARTY TRANSACTIONS continued

During 2005, the Group received loans of £600,000 from Kerrington Limited. Interest of 8 % p.a. was charged on the loans. £218,000 was repaid during the year, and interest of £10,000 from the company was charged to the group in respect of the loan. The balance outstanding at the year end was £382,000.

The Group received a loan of £260,000 each from Gerard Lee and AR&V Investments Limited at an interest of 8% p.a. The balance at the year end was £520,000.

During the year, Pathfinder Recovery Ventures Limited sold 1,821,352 shares to Kerrington Limited and Sunnyview Limited each at market value. Gerard Lee is a director in Kerrington Limited and Edward Azouz and Jeffrey Azouz are directors in Sunnyview Limited. The transaction was conducted on an arms length basis.

The Group had balances of £2,175,000 due from Pathfinder (Loch Lomond) Limited, which had previously been eliminated when the subsidiary was included in the group accounts. This balance was written off during the year.

PFP Management Limited is a non-profit service charge company set up by, and wholly owned by a number of Pathfinder companies in order to administer common expenses.

Gerard Lee is a director and shareholder of Amicrest Holdings PLC, Kerrington Property Services Limited, Hazelgrove Estates Limited, Kerrington Limited and Sentinel Properties Limited.

Edward and Jeffrey Azouz are directors and shareholders of AR &V Investments Limited.

23. RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Year ended 31 December 2005	Year ended 31 December 2004
	£000	£000
Operating loss	**(225)**	(186)
Depreciation on fixed assets	**3**	5
Share of operating (profit)/loss in joint ventures	**(7)**	9
Decrease/(increase) in work in progress	**50**	(474)
Increase in debtors	**(1,015)**	(2,037)
Increase in creditors	**403**	1,136
Net cash outflow from operating activities	**(791)**	(1,547)

24. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE BALANCE SHEET

	31 December 2005	31 December 2004	**Change in Year**
	£000	£000	**£000**
Short term bank deposits	**29**	100	**(71)**
Other cash at bank	**565**	697	**(132)**
	594	797	**(203)**

25. ANALYSIS OF CHANGES IN NET DEBT

	Year ended 31 December 2004	Other movements	Cash flows	**Year ended 31 December 2005**
	£000	£000	£000	**£000**
Cash at bank	797	—	(203)	**594**
Debt due within one year	(2,029)	(19)	(1,277)	**(3,325)**
Debt due after one year	(6,056)	19	—	**(6,037)**
	(7,288)	—	(1,480)	**(8,768)**

26. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	Year ended 31 December 2005
	£000
Decrease in cash in the year	**(203)**
Net debt drawn down	**(1,277)**
Movement in net debt in the year	**(1,480)**
Net debt at 1 January 2005	**(7,288)**
Net debt at 31 December 2005	**(8,768)**

27. MAJOR NON-CASH TRANSACTIONS

In the previous year the major non-cash transaction was in respect of the sums owing to Amicrest Holdings PLC including interest, by Pathfinder Recovery Ventures Limited that was settled in exchange of shares held in Pathfinder Properties PLC.

28. CAPITAL COMMITMENTS

There are no capital commitments entered into by the Group or the Company.

29. CONTINGENT LIABILITY

The company has issued guarantees in respect of:

(a) Bank and other loans of subsidiary undertakings to the extent of £8,802,000 (2004 – £7,907,000) of which £8,802,000 (2004 – £7,907,000) was utilised at 31 December 2005.

(b) The Group provided cross – guarantees in respect of the interest due on loans made to Pathfinder (Loch Lomond) Limited. Since Pathfinder (Loch Lomond) Limited is in liquidation the Group has made payments under this cross-guarantee and has made provision of £300,000 in respect of future interest payments.

30. COMPANY PROFIT AND LOSS ACCOUNT

As permitted by s230 Companies Act 1985, the company has not presented its own profit and loss account.

The loss attributable to members of the parent company was dealt with as follows:

	Year ended 31 December 2005	Year ended 31 December 2004
	£000	£000
In the financial statements of the parent company	**(519)**	(300)
Retained in subsidiary undertakings	**(795)**	(142)

INDEPENDENT AUDITOR'S REPORT
for the year ended 31 December 2005

TO THE SHAREHOLDERS OF PATHFINDER PROPERTIES PLC

We have audited the Group and Parent Company financial statements of Pathfinder Properties PLC on pages 14 to 35 for the year ended 31 December 2005. These financial statements have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditor's 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 the opinions we have formed.

Respective responsibilities of the directors and auditors

As described in the statement of directors' responsibilities on page 9 the company's directors are responsible for the preparation of the Annual Report including the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company and other members of the group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read the other information contained within the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Chairman's Statement, the Operating and Financial Review and the Corporate Governance Statement. 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 & 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which 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.

INDEPENDENT AUDITOR'S REPORT

for the year ended 31 December 2005 continued

Opinion

In our opinion the financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group and the Parent Company's affairs as at 31 December 2005 and of the Group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Sedley Richard Laurence Voulters

Chartered Accountants

Registered Auditor

1 Conduit Street
London W1S 2XA
30 June 2006

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the Company will be held at 1001 Finchley Road, London NW11 7HB on 8 September 2006 at 10.00am for the transaction of the following purposes:

1. To receive and adopt the Directors' Report and Financial Statements for the year ended 31 December 2005.

2. To reappoint Messrs Sedley Richard Laurence Voulters, Chartered Accountants, as Auditors in accordance with Section 385 of the Companies Act 1985, to hold Office from the conclusion of the 2005 Annual General Meeting until the conclusion of the next Annual General Meeting at which Accounts are laid before the members.

3. To authorise the directors to fix the remuneration of the Auditors.

4. To re-elect Mr G Lee, who is retiring by rotation, as a director.

5. To re-elect Mr J G Davies, who is retiring by rotation, as a director.

By order of the Board
BA Gemal
Secretary

Registered office:
1001 Finchley Road
London
NW11 7HB

Dated this 30 June 2006

Notes:

(i) A member entitled to attend and vote at the Meeting may appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a Member of the Company.

(ii) A form of proxy is provided with this notice. To be valid, proxies must be received at this office or the Company's Registrars, Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU no later than 48 hours before the time fixed for the next meeting.

(iii) Please indicate how you wish your votes to be cast by placing a cross in the appropriate spaces. Unless otherwise indicated the proxy will vote as he thinks fit or will abstain (including any other matter which may properly come before the meeting.)

(iv) Completion and return of this form of proxy will not prevent a member from attending the meeting and voting in person should the member wish to do so.

(v) There will be available for inspection at the Registered Office during normal business hours from the date of this notice to the date of the Annual General Meeting and at the place of the Meeting for 15 minutes prior to and during the Meeting, the Register of Directors Interests and copies of the Directors Service contracts.

ANNUAL GENERAL MEETING EXPLANATORY NOTES

1. **Report and financial statements**

   The directors of the Company must present the financial statements to the meeting for adoption.

2. **Reappointment of auditors**

   The Company is required to appoint auditors at each general meeting at which the financial statements are presented to the shareholder for adoption. Sedley Richard Laurence Voulters served as the Company's auditors during the accounting period last ended and it is proposed that they be reappointed.

3. **Remuneration of auditors**

   This resolution provides that the Board be authorised to fix the remuneration of the auditors.

4. **Re-election of directors**

   The Company's Article of Association provide that one third of the Directors is obliged to retire by rotation at each Annual General Meeting. Mr G Lee and Mr J G Davies retire by rotation at the meeting and are standing for re-election.

FIVE YEAR SUMMARY

	Year ended 31 December 2005	Year ended 31 December 2004	Year ended 31 December 2003	Year ended 31 December 2002 As restated	Year ended 31 December 2001
	£000	£000	£000	£000	£000
Gross turnover	**753**	—	6	17,490	4,612
Group turnover	**745**	—	—	15,390	527
Operating (loss)/profit	**(233)**	(186)	(4,053)	469	(834)
Loss on ordinary activities before taxation	**(1,421)**	(176)	(4,620)	(112)	(1,271)
Loss on ordinary activities after taxation	**(1,231)**	(168)	(4,548)	(196)	(1,070)
Dividends	**—**	—	—	173	119
Retained loss	**(1,314)**	(158)	(4,426)	(276)	(1,092)
Loss per share	**(1.64p)**	(0.20p)	(5.54p)	(0.13p)	(1.30p)
Dividends per share	**—**	—	—	0.25p	0.15p

	Year ended 31 December 2005	Year ended 31 December 2004	Year ended 31 December 2003	Year ended 31 December 2002 As restated	Year ended 31 December 2001
	£000	£000	£000	£000	£000
Intangible fixed assets	**154**	154	—	142	136
Tangible assets	**11**	6	11	32	47
Investment in joint ventures	**73**	66	1,255	1,486	5,667
Other investments	**152**	152	152	152	152
Net current assets	**14,153**	14,838	7,443	18,826	12,757
Creditor falling due after more than one year	**(6,037)**	(6,056)	—	(7,330)	(2,084)
Provisions	**—**	—	—	—	(108)
Minority interest	**(356)**	(273)	(283)	(1,079)	(1,764)
Shareholders' funds	**8,150**	8,887	8,632	12,229	14,803
	Pence	Pence	Pence	Pence	Pence
Net assets per share	**10.20**	11.11	10.79	15.34	18.56

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