PATHFINDER PROPERTIES PLC

Report and Financial Statements
for the year ended 31 December 2006

Contents

CHAIRMAN'S STATEMENT

Dear Shareholder

I am pleased to present the accounts for the year ended 31 December 2006.

The sale of our site at River Quarter, Manchester was completed and consequently, the group has returned to profit. The net asset value of the group has increased by over 30%.

The Loch Lomond site was sold by the administrators in the year under review. I am pleased to state that we have managed to resolve the position of the continuing liabilities by agreeing a one off payment. The group is now free to move forward without this problem site hanging over it.

We have started our development at Newark, with the conversion of the 49 flats within the brewery. We hope to start the 99 River Edge flats within the next 6 months. The remainder of the site has outline planning, and we are in the process of firming it up into a full planning consent.

During the year, the group purchased a site in Ilford with planning consent for 83 flats. The site in the centre of Ilford town is not far from the new Olympic village. After lengthy negotiations with the planners, we have managed to increase the consent from 83 to 102 residential units, together with approximately 3,000 square feet of commercial space. It is hoped to start this development before the end of this year.

After many years of the group being in the doldrums, the board believes the development sites in Newark and Ilford are going to help the group grow and return substantial profits to the group.

Even though the group has embarked on large developments, we have managed to keep administrative expenses at nearly the same level as last year.

At this time, the board has decided not to pay any dividend, as it is in the best interest of the group to reinvest all monies and concentrate on increasing the net asset value of the group. Once the group maintains a steady profitability, it is the board's intention to resume the payment of dividends.

Once again, I would like to thank everyone for all their hard work and effort in managing to turn this group around.

Yours faithfully

Edward Azouz
Chairman

29 June 2007

OPERATING AND FINANCIAL REVIEW

Corporate Overview

In August 2006, the Group sold its development site known as River Quarter, Manchester, which was owned 100%, and generated a gross profit on disposal of £4,522,000.

In March 2006, Pathfinder Recovery 1 Limited disposed of 4,301,914 shares it held in Pathfinder Properties PLC at the market value at the time of 6p each to Victor Lipien and Robert Yorke-Starkey. Victor Lipien was appointed as a non-executive director during the year. The disposal generated a loss of £421,000.

In November 2006, the group acquired a plot of land for development in Ilford, Essex for £6million in a newly incorporated wholly owned subsidiary company, Plainrise Limited.

Pathfinder (Loch Lomond) Limited has been in administration since May 2004. 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 three years ended 31 December 2006. The administrators have sold it's only site during the year.

Results

Group turnover of £17,000,000 arose from the sale of development property mentioned above by the Group during the year (2005: £753,000) and the Group's share of income from joint ventures was £nil (2005: £8,000). The gross profit for the Group is £4,450,000 (gross profit ratio of 26%), compared with £192,000 in 2005 (gross profit ratio of 25%).

The administrative costs have increased to £560,000 from £515,000 in 2005. The main reason behind the increase has been the increase in directors remuneration and a management fee paid in the year.

Other operating income represents net rents on development properties.

The Group incurred a loss on disposal of shares held as a fixed asset investment of £421,000 as noted above.

The net profit before interest and taxation was £3,543,000 (2005 – loss £574,000).

Net interest payable is £722,000 compared with £847,000 in 2005. The interest is in respect of loans taken out to finance Newark developments and includes interest in respect of the cross-guarantees provided on the Pathfinder (Loch Lomond) Limited loans. The reduction was due to the repayment of the loan to finance the River Quarter development which was sold during the year.

The profit on ordinary activities before taxation for the group, taking into account the above, is £2,821,000 (2005 – loss of £1,421,000).

The tax charge for the year amounted to £535,000 (2005 – £190,000 credit), representing current year taxation of £220,000 and decreases in deferred tax assets on the balance sheet in respect of tax losses of £315,000.

After tax there was a profit of £2,286,000 (2005 – loss of £1,231,000), which, after accounting for the profits and losses attributable to the minority interests, leaves a profit attributable to members of the company of £2,205,000 (2005 – loss of £1,314,000) representing profit per share of 2.76 pence (2005 – loss per share of 1.64 pence).

The directors do not propose to pay a dividend.

Net Assets

The investment in joint ventures remained the same as last year as the joint venture companies have not had any activity during the year.

The value of the development properties at the year-end was £12,255,000 compared with £16,257,000 in 2005. The movement is due to the disposal of the site known as River Quarter, Manchester, which was held by Pathfinder (River Quay) Limited and the acquisition of a plot of land for development in Ilford, Essex, which is held by Plainrise Limited. The development properties now include the sites at Newark and Ilford, Essex.

Minority interests have decreased to £343,000 from £356,000 in 2005 due to a repayment of £94,000 from one of the subsidiary companies and profits attributable to them of £81,000 during the year.

There is no investment in own shares anymore as a result of the shares being sold by Pathfinder Recovery 1 Limited during the year.

Debtors have decreased to £1,241,000 from £1,912,000 in 2005. The decrease results mainly from the deferred tax asset reduction of £315,000 and repayment by other debtors including related party loans.

Creditors have decreased to £4,037,000 from £4,610,000 in 2005. The decrease is mainly due to the net movement on a loan of £382,000 repaid in the year and £520,000 of deposits on an aborted sale, repaid during the year. On the other hand bank loans have been repaid from sale of River Quarter, Manchester.

Overall shareholders funds have increased to £11,033,000 (representing 13.79p per ordinary share) from the balance of £8,150,000 (representing 10.20p per ordinary share) in 2005 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 2006 the majority of development finance from banks was at variable rates.

The net operating cash inflow arising from operating activities was £7,574,000, compared with a net operating cash outflow in 2005 of £791,000.

Major cash outflows during the year arose from net interest payments of £722,000 (2005 – £845,000) and the loan repayment of £6,078,000 (2005 – loans drawn down – £1,277,000).

After placing £1,294,000 (2005 – £29,000) on short-term bank deposits, the cash inflow for the year was £924,000 (2005 – £203,000 cash outflow) resulting in year-end cash balances inclusive of deposits of £1,518,000 (2005 – £594,000).

Balance sheet borrowing decreased to £3,284,000 from £9,362,000, as a result of a net movement on loans in respect of loans repaid during the year from proceeds of sale of the development property.

The net debt/equity ratio at 31 December 2006 was 0.16:1 (2005 – 1.08:1).

Events since the Year End

The directors have signed an agreement to settle the continuing liabilities in respect of the Guarantee provided to the bank relating to the facility that was provided to Pathfinder (Loch Lomond) Limited in 2001. The settlement sum of £500,000 is to be paid by one payment of £250,000 on 9 March 2007 followed by two payments of £85,000 each on 31 August 2007 and 29 February 2008 followed by a final payment of £80,000 on 1 September 2008.

Edward Azouz   Gerard Lee
Executive Directors

PROPERTY UNDER DEVELOPMENT

Development portfolio
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 previous 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. Development works to convert the brewery commenced during the year

Land at Ilford, Essex (100% owned)

The development site comprises of a 1.3 acre plot of land in the centre of Ilford town, Essex, with planning permission for 83 apartments with underground parking.

Subsequent to the year end, following discussions with the local authority, planning consent has now been increased from 83 to 102 apartments and approximately 3,000 square feet of commercial space. Development work is expected to commence in 2007.

River Quarter, Castlefield, Manchester (100% owned)

The property was sold for £17m in August 2006.

DIRECTORS

Edward Azouz, aged 58, 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 60, Executive Director
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 55, Executive Director
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 60, Non-Executive Director
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.

Victor Lipien, aged 52, Non-Executive Director
Victor Lipien is a project management consultant and has had responsibility for several multi million pound developments. He has gained extensive experience of corporate and management issues as Chairman of a number of public limited property companies.

OFFICERS AND ADVISERS

SECRETARY
BA Gemal

COMPANY NUMBER
2578942 (England and Wales)

REGISTERED OFFICE
1001 Finchley Road
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1 Conduit Street
London W1S 2XA

SOLICITORS
Howard Kennedy
19 Cavendish Square
London W1A 2AW

NOMINATED ADVISER
Beaumont Cornish Limited
5th Floor
10-12 Copthall Avenue
London EC2R 7DE

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
The Royal Bank of Scotland
1 Dale Street
Liverpool L2 2PP

DIRECTORS' REPORT

For the year ended 31 December 2006

The Directors present their report and the group financial statements of Pathfinder Properties PLC for the year ended 31 December 2006.

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 profit on ordinary activities after taxation and before minority interests was £2,286,000 (2005 – loss £1,231,000).

The Directors do not recommend the payment of a dividend.

IFRS ADOPTION

The company does not currently intend to adopt International Financial Reporting Standards (IFRS) until it is required to do so, being the year ending 31 December 2007. As such no detailed conversion planning exercise has been carried out.

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 2006	Ordinary shares of 10p each 31 December 2005
Edward Azouz ^	**10,288,571**	10,288,571
Jeffrey Azouz ^	**10,288,571**	10,288,571
John Guy Davies	**—**	—
Gerard Lee +	**13,302,989**	13,302,989
Victor Lipien – appointed 28 November 2006	**2,916,630**	2,486,630

^ 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 30 days (2005 – 40 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 29 June 2007 the following had notified the Company of an interest on 3% or more of the Company's ordinary share capital:

Name	Number of ordinary shares	Shareholding %
Kerrington Limited	10,288,571	12.86
Sunnyview Limited	10,288,571	12.86
Lakesystem Limited	4,375,000	5.47
Victor Lipien	2,916,630	3.65
Amicrest Holdings PLC	2,614,418	3.27
Robert Yorke-Starkey	2,550,957	3.19

SHARE CAPITAL

The authorised and issued share capital of the Company at 31 December 2006 is shown in note 20 in the financial statements.

During the year the Group disposed of the remaining 4,301,914 ordinary shares held by Pathfinder Recovery 1 Limited in Pathfinder Properties PLC, for consideration of 6p per share.

CHARITABLE OR POLITICAL CONTRIBUTIONS

No charitable or political contributions were made during the current or previous year.

EVENTS SINCE THE YEAR END

The directors have signed an agreement to settle the continuing liabilities in respect of the Guarantee provided to the bank relating to the facility that was provided to Pathfinder (Loch Lomond) Limited in 2001. The settlement sum of £500,000 is to be paid by one payment of £250,000 on 9 March 2007 followed by two payments of £85,000 each on 31 August 2007 and 29 February 2008 followed by a final payment of £80,000 on 1 September 2008.

FINANCIAL INSTRUMENTS

The Group's financial instruments comprise of borrowings and cash that arise directly from its operations. The main purpose of these financial instruments is to fund the Group's operations as well as to manage working capital, liquidity and invest surplus funds. It is, and has been throughout the period under review, the Group's policy not to enter into derivative transactions and no trading in financial instruments has been undertaken.

Interest rate risk

The Group continues to finance its operations from the original issue of equity and bank loans. Accordingly borrowings at variable interest rates are expected to fluctuate. Surplus cash balances are held on the money market in the short term at variable rates of interest, which again are expected to fluctuate.

Liquidity risk

The combined entity has sufficient cash and cash equivalents to meet its operational requirements.

Currency risk

The Group's income and expenses are denominated in sterling. Thus the Group is not exposed to significant currency risk.

Credit risk

The Group has no significant concentration of credit risk. The Group has policies in place to ensure that sales are made to customers with an appropriate credit history.

Management of risks

The Directors continue to assess the risks facing the company and risks associated with investments and property developments are closely monitored by the directors.

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.

STATEMENT OF DISCLOSURE TO AUDITOR

(a) so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

ANNUAL GENERAL MEETING

A notice of the Annual General Meeting to be held on 11 September 2007 is set out on pages 40 and 41 together with explanatory notes.

By Order of the Board
BA Gemal
Company Secretary

29 June 2007

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 2006, the Company has applied the principles and complies, as far as practicable and appropriate given the size and constitution of the board, with the code provisions set out in Section 1 of the Combined Code. In addition, the group also complies with the principles of the Corporate Governance Guidelines for AIM Companies published by the Quoted Companies Alliance in 2005.

DIRECTORS

The Board of Directors comprise of three executive directors and two non-executive directors. 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, the terms of their service contracts with due regards to the interests of the shareholders and for any pension schemes operated by the Company. The remuneration and terms and conditions of appointment of the non-executive directors are set by the remuneration committee. No director is permitted to participate in discussions or decisions concerning his own remuneration. The report of the Remuneration Committee and its composition is given on page 15.

AUDIT COMMITTEE

The Audit Committee, which meets at least twice a year, comprises the non-executive directors 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. The committee have unrestricted access to the Company's auditors. Executives' attendance is required.

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. Consequently, they have continued to adopt the going concern basis in preparing the financial statements.

Edward Azouz
Chairman

29 June 2007

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 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. The committee meets as required during the year. Executive directors may also be invited to attend meetings but may not vote and are not involved in any matter relating to themselves.

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 reviewable annually by the Remuneration Committee.

The following table shows the remuneration of directors for the years ended 31 December 2006 and 2005.

	Fees and salaries		Benefits in kind		Bonuses		Total	
	2006 £000	2005 £000	**2006 £000**	2005 £000	**2006 £000**	2005 £000	**2006 £000**	2005 £000
Edward Azouz	**49**	40	**—**	—	**—**	—	**49**	40
Jeffrey Azouz	**21**	20	**—**	—	**—**	—	**21**	20
John Guy Davies	**21**	20	**—**	—	**—**	—	**21**	20
Gerard Lee	**49**	40	**—**	—	**—**	—	**49**	40
Victor Lipien+	**2**	—	**—**	—	**—**	—	**2**	—

+ From date of appointment

Dr John Guy Davies
Chairman – Remuneration Committee

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2006

	Notes	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Turnover			
Group and share of joint ventures		**17,000**	753
– less: share of joint ventures		**—**	(8)
Group turnover	1	**17,000**	745
Cost of sales			
– Continuing operations		**(12,550)**	(553)
Gross profit		**4,450**	192
Administration expenses	2		
– Continuing operations		**(560)**	(515)
– Discontinued operations		**—**	—
		(560)	(515)
		3,890	(323)
Other operating income	2		
– Continuing operations		**74**	90
Operating profit/(loss) before share of joint ventures			
– Continuing operations		**3,964**	(233)
– Discontinued operations		**—**	—
		3,964	(233)
Share of operating profit /(loss) in joint ventures	12	**—**	8
Operating profit/(loss)	2	**3,964**	(225)
Continuing operations:			
Profit on sale of investment properties		**—**	8
Loss on sale of fixed asset investments		**(421)**	(357)
Profit/(loss) on ordinary activities before investment income, interest and taxation		**3,543**	(574)
Interest receivable	3	**94**	9
Interest payable	4	**(816)**	(856)
Profit/(loss) on ordinary activities before taxation		**2,821**	(1,421)
Taxation	7	**(535)**	190
Profit/(loss) on ordinary activities after taxation		**2,286**	(1,231)
Equity minority interests		**(81)**	(83)
Profit/(loss) for the year attributable to members of the parent company		**2,205**	(1,314)
Profit/(loss) for the year transferred to reserves	21	**2,205**	(1,314)

The notes on pages 22 to 37 form part of these financial statements.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
continued

	Notes	Year ended 31 December 2006 Pence	Year ended 31 December 2005 Pence
Profit/(loss) per share	9	**2.76**	(1.64)
Fully diluted profit/(loss) per share	9	**2.76**	(1.64)

The notes on pages 22 to 37 form part of these financial statements.

CONSOLIDATED BALANCE SHEET
as at 31 December 2006

		31 December 2006		31 December 2005	
	Notes	£000	£000	£000	£000
Fixed assets					
Intangible fixed assets – Goodwill	10		**154**		154
Tangible assets	11		**20**		11
Investment in joint ventures	12				
– Share of gross assets		**211**		210	
– Share of gross liabilities		**(138)**		(137)	
– Goodwill		**—**		—	
			73		73
Other investments	13		**152**		152
			399		390
Current assets					
Work in progress	14		**12,255**		16,257
Debtors	15		**1,241**		1,912
Cash at bank			**1,518**		594
			15,014		18,763
Creditors: Amounts falling due within one year	16		**(4,037)**		(4,610)
Net current assets			**10,977**		14,153
Total assets less current liabilities			**11,376**		14,543
Creditors: Amounts falling due after more than one year	17		**—**		(6,037)
			11,376		8,506
Equity minority interests			**(343)**		(356)
Net assets			**11,033**		8,150
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)
Profit and loss account	21		**(1,581)**		(3,786)
Equity shareholders' funds			**11,033**		8,150

	2006	2005
	Pence	Pence
Net assets per share attributable to ordinary shareholders	**13.79**	10.20

Approved by the Board on 29 June 2007 and signed on its behalf by

Gerard Lee
Director

The notes on pages 22 to 37 form part of these financial statements.

COMPANY BALANCE SHEET
as at 31 December 2006

	Notes	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Fixed assets			
Tangible assets	11	**8**	6
Investments	13	**27,441**	22,512
		27,449	22,518
Current assets			
Debtors	15	**52**	816
Cash at bank		**1,207**	2
		1,259	818
Creditors: amount falling due within one year	16	**(18,401)**	(12,613)
Net current liabilities		**(17,142)**	(11,795)
Total assets less current liabilities		**10,307**	10,723
Net assets		**10,307**	10,723
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	**340**	756
Equity shareholders' funds		**10,307**	10,723

Approved by the Board on 29 June 2007 and signed on its behalf by

Gerard Lee
Director

The notes on pages 22 to 37 form part of these financial statements.

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Year ended 31 December 2006	Year ended 31 December 2005
	£000	£000
Profit/(loss) for the financial year attributable to members of the parent company	2,205	(1,314)
Reduction in investment in own shares	678	577
Total recognised gains and losses since last financial statements	**2,883**	(737)

RECONCILIATION OF SHAREHOLDERS' FUNDS

	Year ended 31 December 2006	Year ended 31 December 2005
	£000	£000
Profit/(loss) for the financial year	2,205	(1,314)
Own shares disposed	678	577
Net increase/(depletion) of shareholders' funds	2,883	(737)
Opening shareholders' funds	8,150	8,887
Closing shareholders' funds	**11,033**	8,150

The notes on pages 22 to 37 form part of these financial statements.

CASH FLOW STATEMENT

for the year ended 31 December 2006

	Notes	Year ended 31 December 2006 £000	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000	Year ended 31 December 2005 £000
Net cash inflow/(outflow) from operating activities	23		**7,574**		(791)
Returns on investments and servicing of finance					
Interest received		**94**		9	
Interest paid		**(816)**		(854)	
Net cash outflow from returns on investments and servicing of finance			**(722)**		(845)
Taxation					
Taxation paid			**—**		(64)
Capital expenditure and financial investment					
Receipts from sale of investment properties		**2**		9	
Payments from joint ventures		**—**		(1)	
Payments to acquire tangible fixed assets		**(16)**		(6)	
Net cash (outflow)/inflow from capital expenditure and financial investment			**(14)**		2
Acquisitions and disposals					
Disposal of shares in parent undertaking		**258**		218	
Net cash inflow from acquisitions and disposals			**258**		218
Equity dividends					
Minority dividends paid			**(94)**		—
Financing					
Loans:					
– Long term loans repaid		**(6,037)**		—	
– Short term loans drawn down		**—**		1,501	
– Short terms loans repaid		**(41)**		(224)	
Net cash outflow from financing			**(6,078)**		1,277
Increase/(decrease) in cash	24		**924**		(203)

The notes on pages 22 to 37 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

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 United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) which have been applied consistently (except as otherwise stated) and the Companies Act 1985.

The company has not adopted International Financial Reporting Standards (IFRS) until it is required to do so, being the year ending 31 December 2007.

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.

Turnover is derived from activities undertaken in the United Kingdom.
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
Motor Vehicles over 4 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.

ACCOUNTING POLICIES continued

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.

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. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging:

	Year ended 31 December 2006	Year ended 31 December 2005
	£000	£000
Depreciation of tangible fixed assets	**5**	3
Auditors remuneration:		
– audit services	**80**	77
– other services	**35**	35

And after crediting:

	£000	£000
– Turnover: rent and similar income receivable from investment properties	**15**	48
– Other operating income: rent receivable from development properties	**59**	90

3. INTEREST RECEIVABLE

	Year ended 31 December 2006	Year ended 31 December 2005
	£000	£000
Interest on bank and other deposits	**94**	9
	94	9

4. INTEREST PAYABLE

	Year ended 31 December 2006	Year ended 31 December 2005
	£000	£000
Interest on bank and other loans	**816**	840
Share of joint venture interest payable	**—**	15
Interest on late payment of tax	**—**	1
	816	856

5. DIRECTORS EMOLUMENTS AND INTERESTS

	Year ended 31 December 2006	Year ended 31 December 2005
	£000	£000
Total emoluments of all directors:		
Fees and salaries	**142**	120
Emoluments of the highest paid director	**49**	40

No pension contributions are paid in respect of any director.

Details of directors' interests and emoluments are given on pages 9 and 15 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 8 (2005 – 7). Salaries and social security costs amounted to £228,174 (2005 – £231,875) and £18,165 (2005 – £16,956) respectively.

7. TAXATION

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

	Year ended 31 December 2006	Year ended 31 December 2005
	£000	£000
Current tax – UK corporation tax at 30% (2005 – 30%)		
Group	220	—
Group – (over)/under provided in previous years	—	(3)
	220	(3)
Deferred tax		
Group	315	(187)
	315	(187)
Taxation credit for the year	535	(190)

(b) Factors affecting the tax charge for the year

The corporation tax charge (2005 – credit) for the year is lower (2005 – 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 2006	Year ended 31 December 2005
	£000	£000
Profit/(loss) on ordinary activities before tax	2,821	(1,421)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax 30% (2005 – 30%)	846	(426)
Effects of:		
Expenses not deductible for tax purposes	127	18
Capital allowances in excess of depreciation	(4)	(5)
Adjustments in respect of previous periods	—	(3)
Tax losses utilised in the year	(966)	—
Unrelieved tax losses carried forward	148	282
Other adjustments	69	131
Current tax charge/(credit) for the year	220	(3)

8. DIVIDENDS

	Year ended 31 December 2006	Year ended 31 December 2005
	£000	£000
Equity dividends:		
Final dividend Nil p (2005 – Nil p) per share	—	—

9. PROFIT PER SHARE

The calculation of profit per share is based on a profit of £2,205,000 on continuing operations (2005 – loss of £1,314,000) and on 79,971,393 (2005 – 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 2006 and 31 December 2006	**299**
Amortisation	
1 January 2006 and 31 December 2006	**(145)**
Net book value at 31 December 2006 and 31 December 2005	**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 2006	8	6	**14**
Additions	16	—	**16**
Disposals	—	(2)	**(2)**
31 December 2006	24	4	**28**
Depreciation			
1 January 2006	3	—	**3**
Charge for year	5	—	**5**
Disposals	—	—	**—**
31 December 2006	8	—	**8**
Net book value at 31 December 2006	16	4	**20**
Net book value at 31 December 2005	5	6	**11**

11. TANGIBLE FIXED ASSETS continued

Company

	Equipment, fixtures and fittings	**Total**
	£0000	**£000**
Cost		
1 January 2006	8	**8**
Additions	4	**4**
Disposals	—	**—**
31 December 2006	12	**12**
Depreciation		
1 January 2006	2	**2**
Charge for the year	2	**2**
Disposals	—	**—**
31 December 2006	4	**4**
Net book value at 31 December 2006	8	**8**
Net book value at 31 December 2005	6	**6**

All properties are freehold. Based on open market value at 31 December 2006, 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 2006	1	72	—	**73**
Share of profits	—	—	—	**—**
31 December 2006	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 2006 is as follows:

	Year ended 31 December 2006	Year ended 31 December 2005
	£000	£000
Turnover	**—**	8
Operating profit	**—**	7
Interest receivable	**—**	—
Profit before tax	**—**	7
Tax	**—**	—
Profit after tax	**—**	7
Dividends	**—**	—
Profit retained	**—**	7

A summary of the Group's share of assets and liabilities of joint ventures as at 31 December 2006 is as follows:

Fixed assets	**—**	—
Current assets	**211**	210
Liabilities due within one year	**(138)**	(137)
	73	73

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 2006		
Loans to joint ventures	56	3
1 January 2006		
Loans to joint ventures	56	3

Loans to joint ventures are interest free.

13. INVESTMENTS

	Unlisted investments	Total
	£000	**£000**
Group		
1 January 2006 and 31 December 2006	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 2006	7,458	15,506	1	3	**22,968**
Additions	—	12,782	—	—	**12,782**
Transfers	—	—	—	—	**—**
Disposal	—	(8,279)	—	—	**(8,279)**
31 December 2006	7,458	20,009	1	3	**27,471**
Amounts provided					
1 January 2006	—	456	—	—	**456**
Transfers	—	—	—	—	—
Arising in the year	—	(426)	—	—	**(426)**
31 December 2006	—	30	—	—	**30**
Net book value					
31 December 2006	7,458	19,979	1	3	**27,441**
31 December 2005	7,458	15,050	1	3	**22,512**

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

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
Pathfinder Construction Services Limited	100%	—	Dormant
Property Action Limited	96%	—	Dormant
Plainrise Limited	100%	100%	Property development
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. The administrators have sold it's only site during the year.

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.

A Clean Company (No. 6) Limited, which was dormant since incorporation, was dissolved at the end of the previous accounting period.

Plainrise Limited was incorporated during the year. It is a wholly owned subsidiary company of Pathfinder Properties PLC. The company has been held as an investment from incorporation and hence there were no assets or liabilities on acquisition.

14. WORK-IN-PROGRESS

	Group		Company	
	31 December 2006	31 December 2005	**31 December 2006**	31 December 2005
	£000	£000	**£000**	£000
Land and buildings held for development and property in the course of construction	**12,255**	16,257	**—**	—

15. DEBTORS

	Group		Company	
	31 December 2006	31 December 2005	**31 December 2006**	31 December 2005
	£000	£000	**£000**	£000
Due within one year:				
Trade debtors	**—**	22	**—**	—
Amounts owed by Group undertakings	**—**	—	**35**	571
Other debtors	**994**	1,288	**1**	233
Prepayments and accrued income	**18**	58	**16**	12
	1,012	1,368	**52**	816
Due after one year:				
Deferred tax (note 18)	**229**	544	**—**	—
	1,241	1,912	**52**	816

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	31 December 2006	31 December 2005	**31 December 2006**	31 December 2005
	£000	£000	**£000**	£000
Bank and building society loans (see note 19)	**3,284**	2,765	**—**	2
Other loans	**—**	560	**—**	382
Trade creditors	**2**	85	**1**	33
Amount owed to Group undertakings	**—**	—	**17,961**	11,732
Amounts owed to undertakings in which the Group has a participating interest	**35**	134	**9**	56
Corporation tax	**220**	—	**—**	—
Other creditors	**50**	68	**44**	33
Accruals and deferred income	**446**	998	**386**	375
	4,037	4,610	**18,401**	12,613

The loans are stated net of unamortised issue costs of £nil (2005 – £nil). Issue costs of £nil (2005 – £nil) and interest of £nil (2005 – £112,342) were capitalised during the year. £nil (2005 – £15,000) of issue costs were amortised during the year.

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

	Group		Company	
	31 December 2006	31 December 2005	**31 December 2006**	31 December 2005
	£000	£000	**£000**	£000
Bank and building society loan	**—**	6,037	**—**	—

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 2006	**544**	—
Profit & loss account	**(315)**	—
Balance at 31 December 2006	**229**	—

	Group		Company	
	31 December 2006	31 December 2005	**31 December 2006**	31 December 2005
	£000	£000	**£000**	£000
Tax losses available	**229**	544	**—**	—

The amount of unprovided deferred tax relating to losses is an asset of £445,000 for the Group and £445,000 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		Company	
	31 December 2006	31 December 2005	**31 December 2006**	31 December 2005
	£000	£000	**£000**	£000
Bank and building society loans				
– Repayable within one year	**3,284**	2,765	**—**	—
– Repayable after one year	**—**	6,037	**—**	—
	3,284	8,802	**—**	—
Other loans				
– Repayable within one year	**—**	560	**—**	382
Total borrowings	**3,284**	9,362	**—**	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 loans from the minority shareholders in certain subsidiary undertakings to fund their proportionate share of developments. These loans are 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 £1,518,000 (2005 – £594,000), 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 2006	31 December 2005	**31 December 2006**	31 December 2005
	£000	£000	**£000**	£000
Repayable within one year	3,284	3,147	—	382
Repayable on financing or sale of relevant developments	—	178	—	—
Repayable in two to five years	—	6,037	—	—
Total borrowings	3,284	9,362	—	382

(f) Undrawn borrowing facilities

At 31 December 2006 and 2005, the Group had no undrawn borrowing facilities.

(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 2006	31 December 2005
	£000	£000
Authorised:		
250,000,000 (2005: 250,000,000) ordinary shares of 10p each	**25,000**	25,000
Allotted, issued and fully paid:		
79,971,393 (2005 – 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 2006	1,970	2,494	153	(678)	(3,786)
Disposal of shares	—	—	—	678	—
Profit for the year	—	—	—	—	2,205
Dividends	—	—	—	—	—
31 December 2006	**1,970**	**2,494**	**153**	**—**	**(1,581)**

	Share premium account	Profit and loss account
	£000	£000
Company		
1 January 2006	1,970	756
Loss for the year	—	(416)
31 December 2006	**1,970**	**340**

During the year the Group disposed of 4,301,914 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 2006 was nil (2005 – 4,301,914). The market value of the shares held in Pathfinder Properties PLC at the year-end was £nil (2005 – £419,000).

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 2006	Year ended 31 December 2005	**As at 31 December 2006**	As at 31 December 2005
	£000	£000	**£000**	£000
	Transactions for the year		**Year end balance due to/(from) the Group**	
Group				
Kerrington Developments Limited				
Property development costs	**1,350**	—	—	—
Kerrington Property Services Limited,				
Office costs	**10**	10	—	—
Management Fees	**20**	—	—	—
Elesys Limited, Office costs	**8**	—	—	—
Directors fees	**2**	—	(2)	—
Hazelgrove Estates Limited, Administrative expenses	**5**	10	—	(2)
Kerrington Limited, Rent	**8**	8	—	—
PFP Management Limited, Group Services	**—**	—	(56)	(56)
Lion House Limited				
Property development costs	**96**	—	—	—
Aborted property development fee	**150**	—	—	—
Sentinal Properties Limited, Directors fees	**49**	40	(29)	(10)

22. RELATED PARTY TRANSACTIONS continued

During 2006, the Group received loans of £440,625 (2005 – £600,000) from Kerrington Limited. Interest of 8 % was charged on the loans. The loan was repaid during the year (2005 – £218,000 was repaid), and interest of £29,125 (2005 – £10,000) from the company was charged to the group in respect of the loan. The balance outstanding at the year end was £nil (2005 — £382,000).

The Group repaid the loans of £260,000 each from Gerard Lee and AR&V Investments Limited. Interest of 8% p.a. was paid on these loans.

During the year, Pathfinder Recovery 1 Limited sold 2,150,957 shares to Victor Lipien and Robert Yorke-Starkey each at market value. The transaction was conducted on an arms length basis.

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 Kerrington Developments Limited, Kerrington Property Services Limited, Hazelgrove Estates Limited, Kerrington Limited and Sentinal Properties Limited. Kerrington Developments Limited is a property development company which was engaged during the year to develop the site at Newark, Nottingham. The transaction was conducted on an arms length basis.

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

The £150,000 and £96,000 fees paid to Lion House Limited relates to the aborted development project situated at River Quarter, Manchester following the sale of the site. Victor Lipien is a director and shareholder of Elesys Limited and Lion House Limited. Victor Lipien was appointed director of Pathfinder Property PLC during the year.

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

	Year ended 31 December 2006	Year ended 31 December 2005
	£000	£000
Operating profit/(loss)	**3,964**	(225)
Depreciation on fixed assets	**5**	3
Share of operating (profit)/loss in joint ventures	**—**	(7)
Decrease/(Increase) in work in progress	**4,002**	50
Decrease/(Increase) in debtors	**355**	(1,015)
(Decrease)/Increase in creditors	**(752)**	403
Net cash inflow/(outflow) from operating activities	**7,574**	(791)

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

	31 December 2006	31 December 2005	**Change in Year**
	£000	£000	**£000**
Short term bank deposits	**1,294**	29	1,265
Other cash at bank	**224**	565	(341)
	1,518	594	924

25. ANALYSIS OF CHANGES IN NET DEBT

	Year ended 31 December 2005	Other movements	Cash flows	**Year ended 31 December 2006**
	£000	£000	£000	**£000**
Cash at bank	594	—	924	**1,518**
Debt due within one year	(3,325)	—	41	**(3,284)**
Debt due after one year	(6,037)	—	6,037	**—**
	(8,768)	—	7,002	**(1,766)**

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

	Year ended 31 December 2006
	£000
Increase in cash in the year	**924**
Net debt repaid	**6,078**
Movement in net debt in the year	**7,002**
Net debt at 1 January 2006	**(8,768)**
Net debt at 31 December 2006	**(1,766)**

27. MAJOR NON-CASH TRANSACTIONS

There were no major non-cash transactions during the year.

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 £3,284,000 (2005 – £8,802,000) of which £3,284,000 (2005 – £8,802,000) was utilised at 31 December 2006.

(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 profit/(loss) attributable to members of the parent company was dealt with as follows:

	Year ended 31 December 2006	Year ended 31 December 2005
	£000	£000
In the financial statements of the parent company	**(416)**	(519)
Retained in subsidiary undertakings	**2,621**	(795)
	2,205	(1,314)

INDEPENDENT AUDITOR'S REPORT

for the year ended 31 December 2006

TO THE SHAREHOLDERS OF PATHFINDER PROPERTIES PLC

We have audited the Group and Parent Company financial statements of Pathfinder Properties PLC on pages 16 to 37 for the year ended 31 December 2006. 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 10 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.

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 2006 and of the group's profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Sedley Richard Laurence Voulters
Chartered Accountants

Registered Auditor
1 Conduit Street
London W1S 2XA
29 June 2007

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the Company will be held at Avenue House, East End Road, Finchley, London N3 3QE on 11 September 2007 at 10am for the transaction of the following purposes:

1. To receive and adopt the Directors' Report and Financial Statements for the year ended 31 December 2006.
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 2006 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 Jeffery Azouz, who is retiring by rotation, as a director.
5. To elect Mr Victor Lipien, who was appointed during the year and offers himself for election as a director.

Special business

To consider, and if thought fit, pass the following resolution which will be proposed as a special resolution:

6. That the company be generally and unconditionally authorised in accordance with section 166 of the Companies Act 1985 to make market purchases (within the meaning of section 163 of that Act) of ordinary shares of 10 pence each in the capital of the company subject to the following conditions:
   - (i) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 7,997,139 shares;
   - (ii) the minimum price (exclusive of expenses) which may be paid for each ordinary share is 10 pence, being the nominal value thereof;
   - (iii) the maximum price (exclusive of expenses) which may be paid for each ordinary share for as long as the ordinary shares of the company are listed on the Alternative Investment Market shall be an amount equal to 105% of the average middle market quotation for an ordinary share derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the purchase is made;
   - (iv) this authority shall expire, unless previously renewed, varied or revoked by the company, on the earlier of the conclusion of the next Annual General Meeting of the company or the date which is eighteen months after the date on which the resolution is passed;
   - (v) the company may make a contract to purchase its own shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority; and make a purchase of its own shares in pursuant to any such contract.

By order of the Board
BA Gemal
Secretary

Registered office:
1001 Finchley Road
London
NW11 7HB

Dated this 29 June 2007

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 director**

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

5. **Election of director**

   The Company's Article of Association provide that one third of the Directors are obliged to retire by rotation at each Annual General Meeting. Mr V Lipien, who was appointed during the year, retires at the meeting and offers himself for election as a director.

6. **Authority to purchase own shares**

   It may be advantageous for the company, in certain circumstances, to purchase its own shares and the directors require the authority of shareholders in advance in order to do so. The authority seeks to purchase up to 7,997,139 shares in the company which represents 10% of the company's issued ordinary share capital within the minimum and maximum prices set out in the resolution. The directors would only purchase shares if in their opinion, the expected effect would be to result in an increase in earnings per share and would benefit shareholders generally. This authority expires no later than eighteen months after the passing of the resolution.

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, Capita House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0JQ 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.

FIVE YEAR SUMMARY

	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004	Year ended 31 December 2003	Year ended 31 December 2002 As restated
	£000	£000	£000	£000	£000
Gross turnover	**17,000**	753	—	6	17,490
Group turnover	**17,000**	745	—	—	15,390
Operating profit/(loss)	**4,450**	(233)	(186)	(4,053)	469
Profit/(loss) on ordinary activities before taxation	**2,821**	(1,421)	(176)	(4,620)	(112)
Profit/(loss) on ordinary activities after taxation	**2,286**	(1,231)	(168)	(4,548)	(196)
Dividends	**—**	—	—	—	173
Retained profit/(loss)	**2,205**	(1,314)	(158)	(4,426)	(276)
Profit/(loss) per share	**2.76p**	(1.64p)	(0.20p)	(5.54p)	(0.13p)
Dividends per share	**—**	—	—	—	0.25p

	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004	Year ended 31 December 2003	Year ended 31 December 2002 As restated
	£000	£000	£000	£000	£000
Intangible fixed assets	**154**	154	154	—	142
Tangible assets	**20**	11	6	11	32
Investment in joint ventures	**73**	73	66	1,255	1,486
Other investments	**152**	152	152	152	152
Net current assets	**10,977**	14,153	14,838	7,443	18,826
Creditor falling due after more than one year	**—**	(6,037)	(6,056)	—	(7,330)
Minority interest	**(343)**	(356)	(273)	(283)	(1,079)
Shareholders' funds	**11,033**	8,150	8,887	8,632	12,229
	Pence	Pence	Pence	Pence	Pence
Net assets per share	**13.79**	10.20	11.11	10.79	15.34

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