

Company Registration No. 3837850 (England and Wales)

PATHFINDER (RIVER QUAY) LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005



PATHFINDER (RIVER QUAY) LIMITED

COMPANY INFORMATION

Directors	G Lee E Azouz J Azouz J G Davies
Secretary	Mr E Elliot
Company number	3837850
Registered office	1001 Finchley Road London NW11 7HB
Auditors	Sedley Richard Laurence Vouters 1 Conduit Street London W1R 9TG
Bankers	Bank of Scotland 14/16 Cockspur Street London SW1Y 5BL
Solicitors	Pinsent Masons 30 Aylesbury Street London EC1R OER

PATHFINDER (RIVER QUAY) LIMITED

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PATHFINDER (RIVER QUAY) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2005

The directors present their report and financial statements for the year ended 31 December 2005.

Principal activities and review of the business

The principal activity of the company continued to be that of property development.

The company owns a 3.25 acre site in Manchester within 15 minutes walk of the city centre, adjacent to the River Medlock. Two of the four phases of the site have planning permission and it was the boards' decision to continue to develop the site into residential apartments, shopping and office space. However since the year end, an agreement has been entered into to sell the property for £17million and thus all development has been terminated.

Results and dividends

The results for the year are set out on page 5.

The directors do not recommend payment of an ordinary dividend.

Directors

The following directors have held office since 1 January 2005:

G Lee
E Azouz
J Azouz
J G Davies

Directors' interests

The directors' interests in the shares of the company were as stated below:

	Ordinary shares of £ 1 each	
	31 December 2005	1 January 2005
G Lee	-	-
E Azouz	-	-
J Azouz	-	-
J G Davies	-	-

The interests of the directors in the share capital of the ultimate parent company, Pathfinder Properties PLC, are disclosed in that company's financial statements.

Creditor payment policy

The company's current policy concerning the payment of trade creditors is to pay suppliers in accordance with the payment terms negotiated with them. Thus, payment is normally made to those suppliers meeting the company's obligations.

On average, trade creditors at the year end represented 5 (2004 - 42) days' purchases.

Auditors

The company has by elective resolution dispensed with the obligation to appoint auditors annually in accordance with section 386(1) of the Companies Act 1985. Therefore, the auditors, Sedley Richard Laurence Voulters, will be deemed to be reappointed for each succeeding financial year.

PATHFINDER (RIVER QUAY) LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

Directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company 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 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 enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board



Mr F. Elliot

Secretary

6 September 2006

PATHFINDER (RIVER QUAY) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF PATHFINDER (RIVER QUAY) LIMITED

We have audited the financial statements of Pathfinder (River Quay) Limited for the year ended 31 December 2005 set out on pages 5 to 12. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditors

As described in the Statement of Directors' Responsibilities on page 2 the company's directors are responsible for the preparation of 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 and 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 has not kept proper accounting records or if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

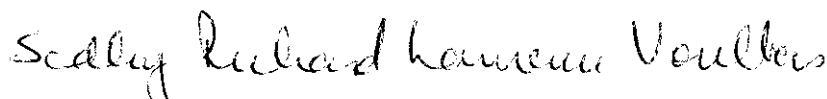
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

PATHFINDER (RIVER QUAY) LIMITED

INDEPENDENT AUDITORS' REPORT (CONTINUED) TO THE SHAREHOLDERS OF PATHFINDER (RIVER QUAY) LIMITED

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 company's affairs as at 31 December 2005 and of the loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Sedley Richard Laurence Voulters

6 September 2006

Chartered Accountants
Registered Auditor

1 Conduit Street
London
W1R 9TG

PATHFINDER (RIVER QUAY) LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 £	2004 £
Administrative expenses		(16,766)	(21,818)
Other operating income		90,000	90,000
Operating profit	2	73,234	68,182
Other interest receivable and similar income	3	1,773	7,893
Interest payable and similar charges	4	(409,010)	(460,806)
Loss on ordinary activities before taxation		(334,003)	(384,731)
Tax on loss on ordinary activities	5	129,050	51,603
Loss for the year	13	(204,953)	(333,128)

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.

PATHFINDER (RIVER QUAY) LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2005

	Notes	2005 £	£	2004 £	£
Fixed assets					
Investments	6		2		2
Current assets					
Stocks	7	10,751,939		10,656,997	
Debtors	8	785,224		215,508	
Cash at bank and in hand		-		33,862	
		11,537,163		10,906,367	
Creditors: amounts falling due within one year	9	(6,315,662)		(5,459,676)	
Net current assets		5,221,501		5,446,691	
Total assets less current liabilities		5,221,503		5,446,693	
Creditors: amounts falling due after more than one year	10	(6,037,056)		(6,057,292)	
		(815,553)		(610,599)	
Capital and reserves					
Called up share capital	12	200		200	
Profit and loss account	13	(815,753)		(610,799)	
Shareholders' funds	14	(815,553)		(610,599)	

Approved by the Board and authorised for issue on 6 September 2006

G Lee
Director

PATHFINDER (RIVER QUAY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

Included in creditors is an amount owed to the parent company and fellow subsidiary undertakings. These companies have indicated their willingness to continue to support the company, to enable the company to meet its liabilities as they fall due. Therefore, the financial statements have been prepared on a going concern basis which in the opinion of the directors is appropriate.

The company has taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from the requirement to produce a cash flow statement on the grounds that it is a subsidiary undertaking where 90 percent or more of the voting rights are controlled within the group.

1.2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), which have been applied consistently (except as otherwise stated).

1.3 Investments

Fixed asset investments are stated at cost less provision for diminution in value.

1.4 Stock and 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.

1.5 Deferred taxation

The accounting policy in respect of deferred tax is to reflect the requirements of FRS19 - Deferred tax. Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

1.6 Group accounts

The financial statements present information about the company as an individual undertaking and not about its group. The company has not prepared group accounts as it is exempt from the requirement to do so by section 228 of the Companies Act 1985 as it is a subsidiary undertaking of Pathfinder Properties PLC, a company incorporated in England and Wales, and is included in the consolidated accounts of that company.

1.7 Finance costs

The costs relating to the obtaining of loan finance are amortised through the profit and loss account at a constant periodic rate. Loans are included in the balance sheet at the amount received from the lender less the unamortised cost.

1.8 Recognition of profit

Gross profit on developments 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 recognised until a profitable outcome can be prudently foreseen.

PATHFINDER (RIVER QUAY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

2	Operating profit	2005	2004
		£	£
	Operating profit is stated after charging:		
	Auditors' remuneration	5,000	5,000
	Remuneration of auditors for non-audit work	765	-
		<u> </u>	<u> </u>
3	Investment income	2005	2004
		£	£
	Bank interest	1,773	7,893
		<u> </u>	<u> </u>
4	Interest payable	2005	2004
		£	£
	On bank loans and overdrafts	409,010	460,806
		<u> </u>	<u> </u>
5	Taxation	2005	2004
		£	£
	Current tax charge	-	-
	Deferred tax		
	Deferred tax charge/credit current year	(129,050)	(51,603)
		<u> </u>	<u> </u>
	Factors affecting the tax charge for the year		
	Loss on ordinary activities before taxation	(334,003)	(384,731)
		<u> </u>	<u> </u>
	Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2004 - 30.00%)	(100,201)	(115,419)
		<u> </u>	<u> </u>
	Effects of:		
	Tax losses carried forward	100,201	115,419
		<u> </u>	<u> </u>
		100,201	115,419
		<u> </u>	<u> </u>
	Current tax charge	-	-
		<u> </u>	<u> </u>

PATHFINDER (RIVER QUAY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

6 Fixed asset investments

	Shares in subsidiary undertakings £
Cost	
At 1 January 2005	-
Additions	2
At 31 December 2005	2
Net book value	
At 31 December 2005	2
At 31 December 2004	2

Holdings of more than 20%

The company holds more than 20% of the share capital of the following companies:

Company	Country of registration or incorporation	Class	Shares held %
Subsidiary undertakings			
Pathfinder (River Quarter Phase 1) Limited	England & Wales	Ordinary	100

7 Work in progress

	2005 £	2004 £
Work in progress	10,751,939	10,656,997

PATHFINDER (RIVER QUAY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

8 Debtors	2005 £	2004 £
Trade debtors	-	26,438
Amounts owed by parent and fellow subsidiary undertakings	14,500	-
Amounts owed by subsidiary undertakings	478,293	25,689
Deferred tax asset (see note 11)	292,431	163,381
	<u>785,224</u>	<u>215,508</u>

Amounts falling due after more than one year and included in the debtors above are:

	2005 £	2004 £
Other debtors	<u>292,431</u>	<u>163,381</u>

The other debtor falling due in more than one year is deferred tax asset which is expected to be realised from future profits.

9 Creditors: amounts falling due within one year	2005 £	2004 £
Bank loans and overdrafts	19,647	-
Trade creditors	54,670	5,420
Amounts owed to parent and fellow subsidiary undertakings	5,674,980	5,369,987
Amounts owed to subsidiary undertakings	-	2
Taxes and social security costs	-	549
Accruals and deferred income	566,365	83,718
	<u>6,315,662</u>	<u>5,459,676</u>

The bank loans and overdrafts are secured by a legal charge over the property of the company.

PATHFINDER (RIVER QUAY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

10 Creditors: amounts falling due after more than one year	2005 £	2004 £
Bank loans	6,037,056	6,057,292
Analysis of loans		
Wholly repayable within five years	6,037,056	6,057,292
	6,037,056	6,057,292
Loan maturity analysis		
In more than one year but not more than two years	6,037,056	6,057,292
The bank loan is secured by a legal charge over the property of the company.		

11 Provisions for liabilities and charges

The deferred tax asset (included in debtors, note 8) is made up as follows:

	2005 £	2004 £
Balance at 1 January 2005	(163,381)	
Profit and loss account	(129,050)	
Balance at 31 December 2005	(292,431)	
	2005 £	2004 £
Tax losses available	(292,431)	(163,381)

12 Share capital	2005 £	2004 £
Authorised		
1,000 Ordinary shares of £1 each	1,000	1,000
Allotted, called up and fully paid		
200 Ordinary shares of £1 each	200	200

PATHFINDER (RIVER QUAY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

13 Statement of movements on profit and loss account

Profit and
loss
account
£

Balance at 1 January 2005	(610,800)
Loss for the year	(204,953)
Balance at 31 December 2005	(815,753)

14 Reconciliation of movements in shareholders' funds

2005
£

2004
£

Loss for the financial year	(204,953)	(333,128)
Opening shareholders' funds	(610,599)	(277,471)
Closing shareholders' funds	(815,553)	(610,599)

15 Employees

Number of employees

There were no employees during the year apart from the directors.

16 Control

The company is owned equally by Pathfinder Recovery 1 Limited and Merchant City Limited. The ultimate parent company and controlling party is Pathfinder Properties PLC, a company registered in England and Wales.

Pathfinder Properties PLC prepares group financial statements and copies can be obtained from 1001 Finchley Road, London, NW11 7HB.

17 Related party transactions

The company has taken advantage of the exemption in Financial Reporting Standard Number 8 from the requirement to disclose transactions with group companies on the grounds that consolidated financial statements are prepared by the ultimate parent company.

The company received a loan of £261,919 each from G Lee and A R & V Investments Limited at an interest rate of 8% per annum. The balance due as at the year end was £523,838. E Azouz and J Azouz are directors and shareholders of A R & V Investments Limited.

18 Post balance sheet events

Subsequent to the year end, the company entered into an agreement to sell the development property for £17 million.