

Prospect Number Three Limited

**Directors' report and financial
statements**

Registered number 4232628

30 June 2004



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Director's report

The director presents his annual report and the audited financial statements for the year ended 30 June 2004.

Principal activities

The principal activity of the company is that of property development.

Business review

The result for the year is shown on page 5.

Proposed dividend

The director recommends that a final ordinary dividend of £54,321.36 per share be paid (2003: £2,304.64).

Directors and directors' interests

The directors who held office during the year were as follows:

C P Candy (resigned 3 December 2003)
N A C Candy

The interests of NAC Candy in the ultimate parent company are disclosed in the directors' report of that company.

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

Auditors

Pursuant to a shareholders' resolution, the company is not obliged to reappoint its auditors annually and KPMG LLP will therefore continue in office.



N A C Candy
Director

100 Brompton Road
London
SW3 1ER

9th March 2006

Statement of director's responsibilities

Company law requires the director 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 for that period. In preparing those financial statements, the director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable him to ensure that the financial statements comply with the Companies Act 1985. He has general responsibility for taking such steps as are reasonably open to him to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Report of the independent auditors to the members of Prospect Number Three Limited

We have audited the financial statements on pages 5 to 16.

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 for the opinions we have formed.

Respective responsibilities of director and auditors

The director is responsible for preparing the director's report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 director's report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards 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 director 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.

Fundamental uncertainties

In forming our opinion we have considered the adequacy of the disclosures made in Notes 8 and 1 of the financial statements respectively concerning the following matters:

- The uncertainty over the possible outcome to the investigation into the tax affairs of the Company, its subsidiaries and related parties, and the amount that will ultimately be payable by the Company and its subsidiaries.
- The reliance of the Group on the shareholders for financial support to meet liabilities incurred outside the day to day activities of the Group. The tax uncertainty referred to in the preceding paragraph may be an item requiring this support.

In view of the significance of these uncertainties we consider that they should be drawn to your attention but our opinion is not qualified in these respects.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 June 2004 and of its profit for the year ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

9 March 2006

Profit and loss account
for the year ended 30 June 2004

	<i>Note</i>	Year ended 30 June 2004 £	17 month period ended 30 June 2003 £
Turnover	2	13,786,646	18,400,986
Cost of sales		(11,743,292)	(12,550,003)
Gross profit		2,043,342	5,850,983
Administrative expenses before exceptional item		(326,040)	(1,280,965)
Exceptional item	9	(3,865,397)	-
Operating profit		(2,148,083)	4,570,018
Profit on sale of investment		250,000	-
Income from shares in group undertakings		4,426,921	-
Interest receivable	6	131,732	16,790
Interest payable	7	(1,798)	(409)
Profit on ordinary activities before taxation	3	2,658,772	4,586,399
Tax on profit on ordinary activities	8	(1,036,000)	(353,000)
Profit on ordinary activities after taxation		1,622,772	4,233,399
Dividends on equity shares	10	(5,432,136)	(230,464)
(Loss)/retained profit for the year		(3,809,364)	4,002,935

A note on historical gains and losses has not been included as part of the financial statements as the results as disclosed in the profit and loss account are prepared on an unmodified historical cost basis.

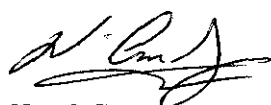
There are no recognised gains or losses in either the current or previous period other than those included in the profit and loss account.

The results stated above are derived from continuing operations.

Balance sheet
 at 30 June 2004

	Note	£	2004 £	£	2003 £
Fixed assets					
Investments	11		6		6
Current assets					
Stocks	12	9,602,797		18,219,438	
Debtors	13	12,205,869		6,937,378	
Cash at bank and in hand		979,377		2,561,463	
		<u>22,788,043</u>		<u>27,718,279</u>	
Creditors: amounts falling due within one year	14	<u>(15,266,353)</u>		<u>(14,194,223)</u>	
Net current assets			<u>7,521,690</u>		<u>13,524,056</u>
Total assets less current liabilities			<u>7,521,696</u>		<u>13,524,062</u>
Creditors: amounts falling due after more than one year	15		<u>(7,328,025)</u>		<u>(9,521,027)</u>
Net assets			<u>193,671</u>		<u>4,003,035</u>
Capital and reserves					
Called up share capital	17		100		100
Capital redemption reserve	18		100		100
Profit and loss account	18		193,471		4,002,835
Equity shareholders' funds			<u>193,671</u>		<u>4,003,035</u>

These financial statements were approved on 9th March 2006.



N A C Candy
 Director

Reconciliation of movements in shareholders' funds
for the year ended 30 June 2004

	Year ended 30 June 2004 £	17 month period ended 30 June 2003 £
Profit for the financial year	1,622,772	4,002,935
Dividends	(5,432,136)	-
	<hr/>	<hr/>
New share capital subscribed	(3,809,364)	4,002,935
	-	99
	<hr/>	<hr/>
Net addition to shareholders' funds	(3,809,364)	4,003,034
Opening shareholders' funds	4,003,035	1
	<hr/>	<hr/>
Closing shareholders' funds	193,671	4,003,035
	<hr/>	<hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The financial statements have been prepared on a going concern basis which the director believes to be appropriate for the following reasons. The Company meets its day to day working capital requirements through funds generated from its business activities. Since the year end bank loans and overdrafts have been reduced following the disposal of further properties. The funds required to settle the litigation referred to in Note 8 were provided to the Company by the shareholders. The shareholders have provided the Group, of which Prospect Number Three Limited is a member, with an undertaking that for at least 12 months, from the date of approval of these financial statements, they will provide their continued support, as necessary, to meet liabilities incurred outside the day to day activities of the group. The director of the group has prepared projected cash flow information for the period ending 12 months from the date of his approval of these accounts. On the basis of this cash flow information and the undertaking from the shareholders, the director considers that the Company will be able to continue to operate within the generated cash flows and funds made available by the shareholders, although there can be no certainty in relation to this matter, including as regards the matter referred to in the next paragraph.

The uncertainty in relation to the taxation enquiry mentioned in Note 8 may be an area in which the Group will need to rely on funds being made available by the shareholders.

The financial statements do not include any adjustments that would result from the going concern basis of accounts being inappropriate.

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As the company is a wholly owned subsidiary of Candy and Candy Group Limited, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of Candy and Candy Group Limited, within which this company is included, can be obtained from the address given in note 22.

Fixed asset investments

Fixed asset investments are held at cost less amounts provided for permanent diminution in value. The carrying value of fixed asset investments is reviewed for impairment where events or changes in circumstances indicate that the carrying value may not be recoverable.

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Notes (continued)

1 Accounting policies (continued)

Stocks

Stocks consist of development properties that are in the process of being developed or are available for sale. Development properties are often owned by Single Purpose Vehicles ("SPV's"). These are invariably non-UK incorporated limited liability companies. When the company acquires a development property it occasionally acquires the shares in the SPV rather than the property itself. In these circumstances the shares in the SPV are held as trading stock at the lower of cost or net realisable value.

Taxation

Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

Turnover is derived from the sale of properties and is recognised at the point when unconditional contracts are exchanged in relation to the property.

2 Turnover

The turnover for the period arose from the principal activity of the company and arose wholly in the United Kingdom.

3 Profit on ordinary activities before taxation

	Year ended 30 June 2004 £	17 month period ended 30 June 2003 £
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Hire of plant and machinery – rentals payable under operating leases	14,428	-

Auditor remuneration is borne by another group company.

4 Remuneration of directors

The directors received no remuneration in the year (2003: £nil).

Notes (continued)

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	Year ended 30 June 2004	17 month period ended 30 June 2003
Operations	2	3
Sales and design	2	3
Administration	2	2
	<hr/>	<hr/>
	6	8
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	Year ended 30 June 2004	17 month period ended 30 June 2003
	£	£
Wages and salaries	217,216	169,590
Social security costs	29,974	15,689
	<hr/>	<hr/>
	247,190	185,279
	<hr/>	<hr/>

6 Interest receivable

	Year ended 30 June 2004	17 month period ended 30 June 2003
	£	£
Bank interest	131,732	16,790
	<hr/>	<hr/>

7 Interest payable

	Year ended 30 June 2004	17 month period ended 30 June 2003
	£	£
Bank interest	1,798	409
	<hr/>	<hr/>

Notes (continued)

8 Taxation

Analysis of charge in year

	Year ended 30 June 2004 £	17 month period ended 30 June 2003 £
<i>UK corporation tax</i>		
Current tax on income for the period	-	353,000
Adjustments in respect of prior periods	1,162,000	-
Receipt from sale of group relief surrendered	(126,000)	-
	<hr/>	<hr/>
Total current tax	1,036,000	353,000
	<hr/>	<hr/>

Tax losses amounting to £1,243,000 (2003: *£nil*) are available to relieve future profits of the company. No deferred tax asset has been recognised due to the company currently making losses.

Factors affecting the tax charge for the current year

The current tax charge for the period is higher (2003: *lower*) than the standard rate of corporation tax in the UK (30%, 2003: 30%). The differences are explained below.

	Year ended 30 June 2004 £	17 month period ended 30 June 2003 £
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	2,658,772	4,661,399
	<hr/>	<hr/>
Current tax at 30% (2003: 30%)	797,632	1,398,420
<i>Effects of:</i>		
Expenses not deductible for tax purposes	31,357	9,094
Receipt of group relief	-	(1,054,514)
Increase in tax losses	373,087	-
Franked investment income	(1,328,076)	-
Losses surrendered for group relief	126,000	-
Payments received for group relief	(126,000)	-
Adjustments in respect of prior periods	1,162,000	-
	<hr/>	<hr/>
Total current tax charge (see above)	1,036,000	353,000
	<hr/>	<hr/>

HM Revenue and Customs are currently investigating the taxation affairs of Candy and Candy Group Limited, its subsidiaries, of which Prospect Number Three Limited is one, and related parties. The principal matter in the group investigation is a claim for capital allowances. The company has made provision for settlement of the director's best estimate of the liability arising from this investigation. Conclusion of the investigation was delayed by the litigation referred to in Note 9 and it is expected that it should now be possible to conclude the investigation although the exact timing is difficult to predict. The provision made takes no account of an unrecognised potential deferred tax asset arising from the settlement of the litigation detailed in Note 9 which should be available in determining the amount of tax ultimately due.

The director believes that the provision and available losses is appropriate to cover any tax liability arising but the nature and complexity of the claim and the possible tax, interest and penalties that could arise means that there can be no uncertainty to this matter.

Notes (continued)

9 Exceptional administration cost

On 30 November 2004, Prospect Number Three Limited, Xenotime Holdings, Limited and Maelstrom Investments Limited, subsidiaries of the company, were named as joint respondent in litigation launched in the Royal Courts of Jersey relating to transactions made prior to the Balance Sheet date. The action concerned the funding of the companies during their start up phase. The Company has vigorously defended the claim, and a settlement has been reached with the plaintiffs. The amount of the settlement attributable to the company, including costs is £3,865,397 (2003: £nil).

Under FRS 12, the full amount of the proposed settlement has been provided for, and is included in Creditors in Note 14 below.

10 Dividends and other appropriations

	Year ended 30 June 2004 £	17 month period ended 30 June 2003 £
Equity shares:		
Interim dividend paid	-	230,464
Final dividend proposed	5,432,136	-
	<hr/>	<hr/>
	5,432,136	230,464
	<hr/>	<hr/>

11 Fixed asset investments

	Shares in group undertakings £	Total £
Shares		
Cost		
At beginning and end of year	6	6
	<hr/>	<hr/>
Provisions		
At beginning and end of year	-	-
	<hr/>	<hr/>
Net book value		
At 30 June 2004	-	-
	<hr/>	<hr/>
At 30 June 2003	6	6
	<hr/>	<hr/>

Notes (continued)

11 Fixed asset investments (continued)

The companies in which the company's interest at the year end is more than 20% are as follows:

	Country of incorporation	Principal activity	Class and percentage of shares held
Subsidiary undertakings			
Xenotime Holdings Limited	Jersey	Property development	Ordinary 100%
Peridot Investment Limited	Jersey	Property development	Ordinary 100%
Maelstrom Investments Limited	Jersey	Property development	Ordinary 100%
Ownhome Property Limited*	England & Wales	Dormant	Ordinary 99.9%
Townplant Limited	England & Wales	Property development	Ordinary 100%
Chelsea Square Investments Limited	England & Wales	Property investment	Ordinary 100%
Project Lateral Limited	England & Wales	Dormant	Ordinary 100%
Prospect Group Limited	Guernsey	Dormant	Ordinary 74%

* Option to acquire via Xenotime Holdings Limited.

12 Stocks

	2004 £	2003 £
Work in progress	166,724	11,110,446
Shares held as trading stock	9,436,073	7,108,992
	<u>9,602,797</u>	<u>18,219,438</u>

13 Debtors

	2004 £	2003 £
Trade debtors	-	19,927
Amounts owed by group undertakings	7,372,915	6,649,579
Other debtors	4,699,490	267,872
Repayments and accrued income	133,464	-
	<u>12,205,869</u>	<u>6,937,378</u>

14 Creditors: amounts falling due within one year

	2004 £	2003 £
Bank loans (see note 15)	-	5,190,492
Trade creditors	15,692	546,778
Amounts owed to group undertakings	4,243,431	4,099,571
Taxation and social security	1,358,042	382,956
Other creditors	5,028,963	3,905,733
Accruals and deferred income	4,620,196	68,693
	<u>15,266,353</u>	<u>14,194,223</u>

Notes (continued)

15 Creditors: amounts falling due after more than one year

	2004 £	2003 £
Bank loans	7,328,025	9,521,027
Analysis of debt:		
	2004 £	2003 £
Debt can be analysed as falling due:		
In one year or less, or on demand	-	5,190,492
Between two and five years	1,960,025	2,669,243
In five years or more	5,368,000	6,851,784
	<u>7,328,025</u>	<u>14,711,519</u>

The bank loans are secured against the company's and certain of its subsidiaries development properties which are classified as stock. The rate of interest on these loans is either fixed at 5% or variable at LIBOR plus 1.25%.

16 Provisions for liabilities and charges

	Taxation including deferred taxation £	Total £
At beginning and end of year	-	-

Notes (continued)

16 Provisions for liabilities and charges (continued)

The elements of deferred taxation are as follows:

	2004 £	2003 £
Tax losses	373,087	-
Undiscounted provision	373,087	-
Deferred tax asset	-	-

17 Called up share capital

	2004 £	2003 £
<i>Authorised</i>		
Equity: 200 ordinary shares of £1 each	200	200
Equity: 10,000 'A' ordinary shares of 1p each	100	100
	300	300
<i>Allotted, called up and fully paid</i>		
Equity: 100 ordinary shares of £1 each	100	100

18 Reserves

	Capital redemption reserve £	Profit and loss account £
At beginning of year	100	4,002,835
Loss for the year	-	(3,809,364)
At end of year	100	193,471

Notes (continued)

19 Contingent liabilities

The company has entered an unlimited multilateral guarantee for the overdraft facility provided by the bankers of the group of which it is a member. The amount outstanding at the year end was £1,765,997 (2003: £7,568).

20 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	2004	Other 2003
	£	£
Operating leases which expire:		
In the second to fifth years inclusive	-	18,688

21 Related party disclosures

The company is controlled by Candy and Candy Holdings II Limited, the parent company. The ultimate controlling party is Candy and Candy Group Limited, the ultimate parent company.

At the year end the company was owed £1,260,541 (2003: £nil) by CPC No.2 Limited a company in which C Candy, shareholder in the ultimate parent company of Prospect Number Three Limited, has an interest. In the year the company sold its investment in Loris Investments Limited to CPC No.2 Limited for £250,000. This consideration is included within the balance owed by CPC No.2 Limited at the year end. In the year the company forwarded funds of £1,000,000 (2003: £nil), recharged expenses of £5,000 (2003: £nil), charged interest of £10,541 (2003: £nil) to CPC No.2 Limited and received cash of £5,000 (2003: £nil).

At the year end the company owed £23,400 (2003: £nil) to CPC No.2 Limited. In the year CPC No.2 Limited charged introduction fees of £23,400 (2003: £nil) to the company.

At the end of the year the company was owed £3,438,686 (2003: £nil) by Loris Investments Limited a company in which C Candy, shareholder in the ultimate parent company of Prospect Number Three Limited, has an interest. In the year the company forwarded funds and recharged expenses totalling £3,329,651 (2003: £nil) and charged interest of £109,035 (2003: £nil) to Loris Investments Limited.

22 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company is a subsidiary undertaking of Candy and Candy Group Limited incorporated in The British Virgin Islands.

The largest group in which the results of the company are consolidated is that headed by Candy and Candy Group Limited incorporated in The British Virgin Islands. The smallest group in which they are consolidated is that headed by Candy and Candy Holdings Limited, incorporated in the United Kingdom. The consolidated accounts of these groups are available to the public and may be obtained from Craigmuir Chambers, P.O. Box 71, Road Town, Tortola, British Virgin Islands and 100 Brompton Road, London SW3 1ER, respectively.