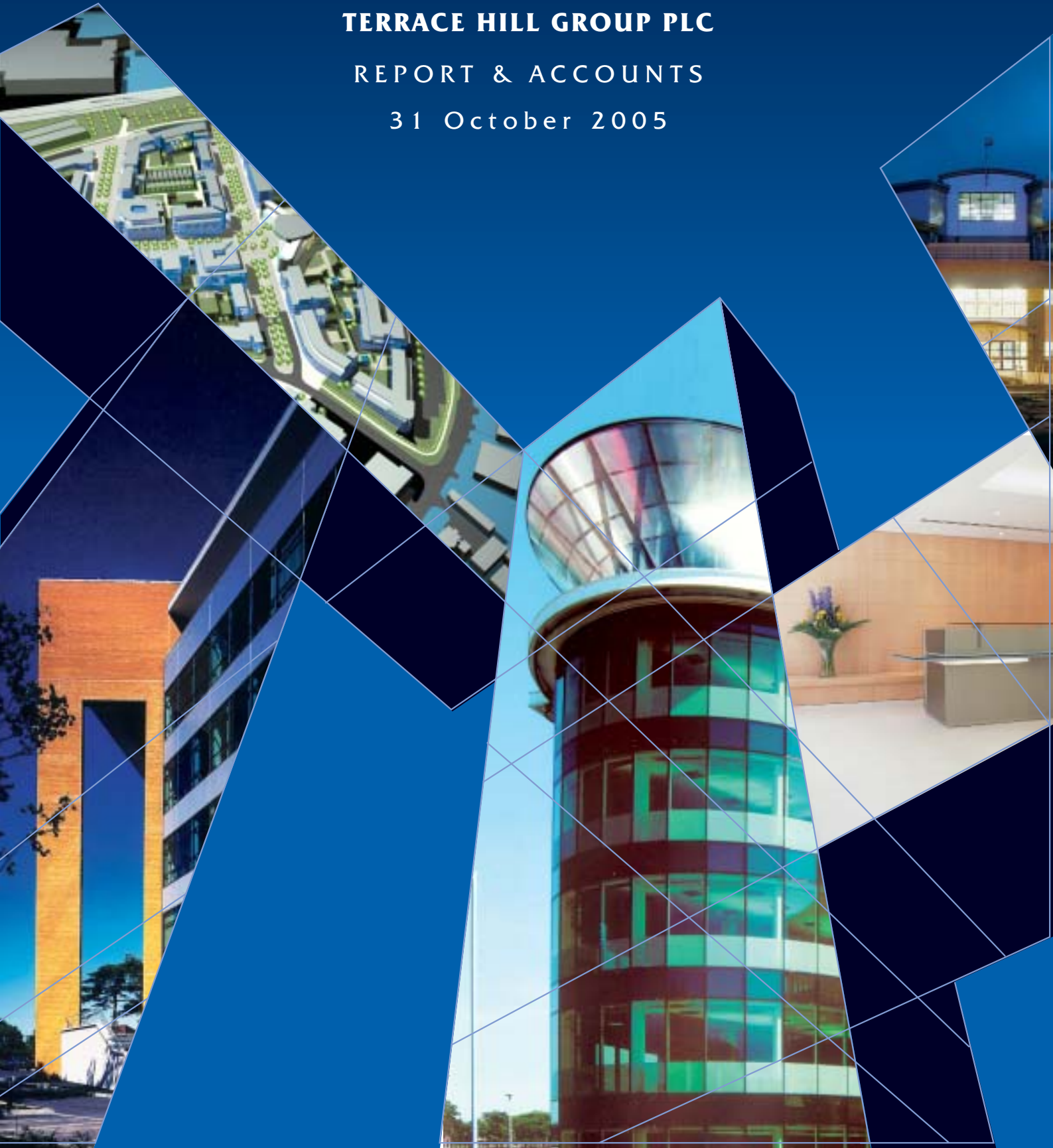




**TERRACE
HILL**

TERRACE HILL GROUP PLC
REPORT & ACCOUNTS
31 October 2005





UB One, Uxbridge

YEAR TO 31 OCTOBER 2005

- Excellent results for year
- Triple NAV 48.06p per Share (20.18% increase)
- Profit Before Tax £4.237 million (2004: £4.084 million)
- Proposed Final dividend 0.7p per Share (2004: 0.5p)
- Development Programme end value approaching £820 million including joint ventures
- Confidence in future

CONTENTS

Chairman's Statement	3
Operational Review	5
Directors and Advisers	26
Directors' Report	27
Statement of Directors' Responsibilities	29
Independent Auditors' Report	30
Group Profit and Loss Account	31
Group Statement of Total Recognised Gains and Losses	32
Note of Historical Cost Profits and Losses	32
Group Balance Sheet	33
Company Balance Sheet	34
Group Statement of Cash Flows	35
Reconciliation of Net Cash Flow to Movement in Net Debt	35
Notes to the Accounts	36
Shareholder Information	59
Board of Directors and Operations Board	60
Our Offices	Inside Back Cover



CHAIRMAN'S STATEMENT

The Results

It gives me great pleasure to present another set of excellent results. The Group has continued to grow shareholder value by increasing the **Triple Net Asset Value (TNAV)** from 39.99p per share to 48.06p per share, a 20.18% increase over the 12 month period. **Profit before tax** for the year amounted to £4,237,056 (£4,083,801 year to October 2004).

The Board continues to regard growth in the TNAV as the principal measure of the Group's performance as profits are determined by the timing of sales and are not reflective of the Group's growth. Triple Net Asset Value revalues our trading assets to current value and deducts tax that would arise on their disposal.

Balance Sheet

The balance sheet at the year end reflects the disposal by the Group of fully valued investment properties in the period and the investment of the proceeds in the acquisition of sites for future development. This led to a 60% increase in the level of work in progress at the year end. Total Group assets at 31 October 2005 were £173.4 million (2004: £180.6 million), and net assets, after minority interests are £76.3 million (2004: £70.8 million) an increase of 7.76%.

Bank debt of £66 million net of £12 million cash was 86.5% of equity (2004: 81.6%). Of the bank debt 49.46% (68.35%) was with limited or no recourse to the parent company. Properties held as investments were £52.9 million comprising £37.7 million residential and £15.2 million commercial compared to £91.3 million in 2004. Work in progress was £89.2 million at the year end (2004: £55.7 million).

Dividend

In line with our progressive dividend policy, we are recommending a final dividend for the year of 0.7p per share (final period 2004: 0.5p) making a total dividend for the year of 1.2p per share (total dividend for 2004: 0.8p). The dividend will be paid on 31 March 2006 to shareholders on the register at 17 March 2006. We will continue to maintain a progressive dividend policy.

The Business

I am very encouraged by the excellent progress made in all areas of our business. The development programme has continued to grow and was valued at £820 million at the year end with cash recycled from the sale of completed developments at record yields into new and exciting opportunities.

The residential landbank has grown with the acquisition of some strategic land holdings adjacent to existing sites. We now estimate that the landbank, held partly in joint venture with Lithgows Limited, has potential for up to 1,100 units. We are working towards the prospect of setting up a housebuilding operation to progress these sites which may result in building over 200 homes per annum in a couple of years; this should generate attractive profits in future. Housebuilders are usually valued on a price earnings ratio whereas the rest of Terrace Hill's business is appraised in relation to its Triple Net Asset Value. We are currently therefore considering whether we should spin out the housebuilding operation and obtain a separate listing on AIM. We believe this could create significant value for Terrace Hill shareholders.

We continue to seek ways of leveraging our equity and management over a growing portfolio enhancing returns to shareholders. We consequently intend to further increase the use of joint ventures, co-investment structures and collective funds whereby we can earn proportionally higher returns than the level of our equity invested along with management and performance related fees.

Management

Our management team has grown over the period to help with our expanding workload with the employment of managers specialising in development, investment management and project coordination. Since the year end we have created an Operations Board comprising executives with key skills and geographic responsibility. We have decided to further incentivise our management by the implementation of a Long Term Incentive Plan (LTIP) which takes the form of a Performance Share Plan granting shares at nominal cost to employees conditional upon fair but testing company performance criteria. We believe this further aligns the interests of our executives with the interests of shareholders.

CHAIRMAN'S STATEMENT

Board

Since the financial year end we have restructured our board which now comprises myself as Executive Chairman, Philip Leech (MD) and Tom Walsh (FD), together with three non-executive directors, William Wyatt, Douglas Blausten and Kelvin Hudson. I would like to thank those stepping down for their support and hard work, and indeed my Board and all the Terrace Hill team for their hard work and commitment throughout the year.

Prospects

2006 is likely to be an exciting year for Terrace Hill and the property industry at large. I expect the development portfolio to continue to grow and provide a continuing flow of mature investments for sale, whilst the residential landbank should provide a unique opportunity to enhance shareholder value.

We will watch with interest the government's proposed introduction of REITS. Whilst I think it is unlikely that we would entirely transform ourselves into a REIT we may consider spinning out certain of our assets into REITs if we believe that would enhance shareholder returns.

I am confident that the Group can continue to maximise growth in TNAV per share and deliver excellent returns to shareholders.

Robert F M Adair, Chairman

OPERATIONAL REVIEW

The Commercial Division

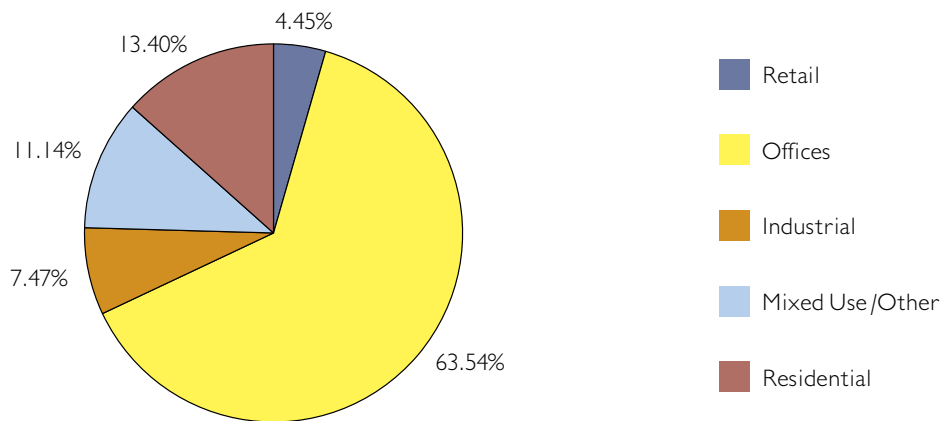
Highlights

- Sale of three completed office developments in **London** and **Uxbridge** and mature investments from **Grosvenor Holdings** portfolio at record yields.
- Forward sale of **Temple Circus, Bristol**.
- Major lettings at **Swansea Waterfront, Decimus Park, Tunbridge Wells and Queen Elizabeth Park, Guildford**. Since year end, **Time Central, Newcastle** has been 50% pre-let.
- Planning obtained for change of use from industrial to retail warehousing at **Blyth** and **Galashiels**.
- Acquisition of new sites for development at **Davis House, Victoria** and **Brampton Road, Eastbourne**.
- Since year end further site acquisitions have been contracted at **Maidenhead, Croydon, Redditch, Filton** and **Sheffield**.
- Development programme (including residential) now having an end value of £900 million of which £350 million is underway and £550 million at the planning stage.

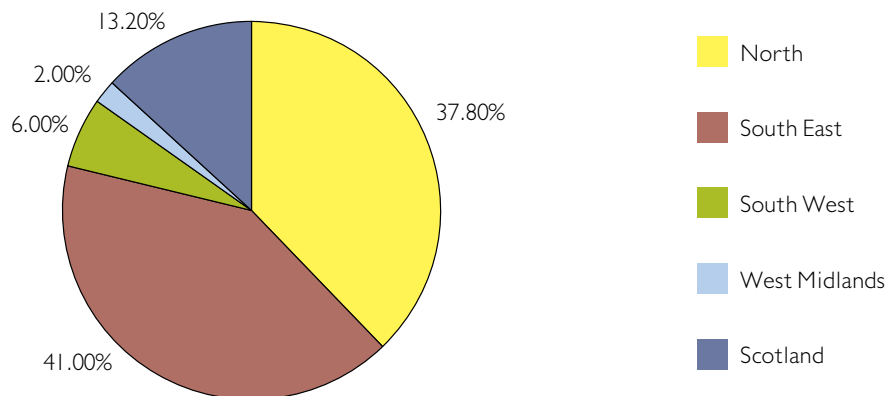
OPERATIONAL REVIEW

Development Programme

Total % End Value by Sector



Total % End Value by Region



OPERATIONAL REVIEW

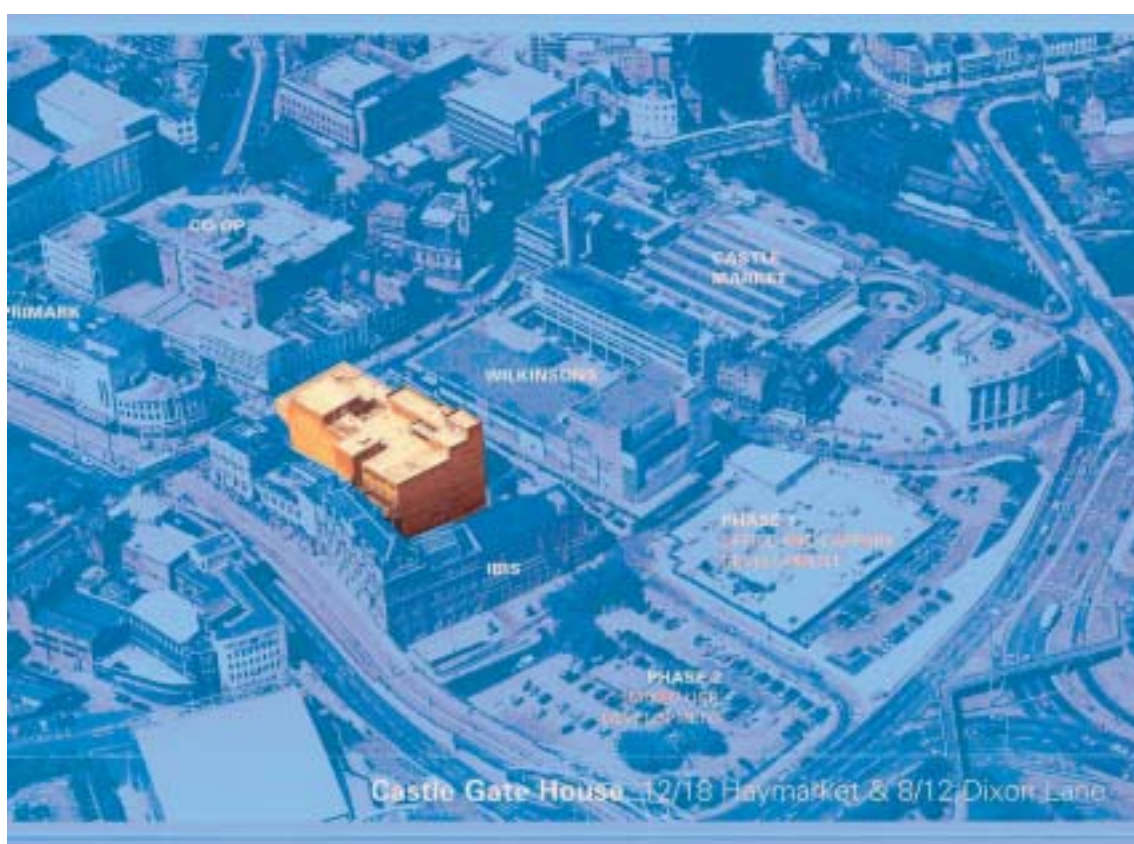
Outlook

Demand for commercial property investments has continued unabated: as a result we have benefited from the favourable pricing of our completed developments. We believe that there is little scope for further declines in yields which has been the main driver of the spectacular returns delivered by property investment in recent years. Returns from pure investment are therefore likely to be more pedestrian, with rental growth remaining elusive in many areas.

Terrace Hill remains very much a developer at heart and we have consistently managed to show excellent returns on capital employed through the genuine creation of value through development. Our specific expertise in this area allows us to carefully control the risk inherent in the development process and our nationwide coverage provides diverse geographic and sectorial opportunities.

Competition for well located and deliverable development sites has increased in areas of rising occupier demand and this is particularly true of central London. We believe, however, that our ability to move quickly and the strength of our regional office network will allow us to continue to build our development programme without increasing the risk profile.

In a departure from our traditional method of buying bare sites for development we are also targeting income producing investments where we can add value through our development expertise. Our first such acquisition is **Castlegate House in Sheffield** which, whilst vacant, is let on a long lease to BHS. The property has significant potential for mixed use redevelopment in a rapidly improving area in central Sheffield. It is our intention to create a Fund around similar opportunities allowing us to manage a diverse portfolio of income producing investments with development angles.



Castlegate House, Sheffield

OPERATIONAL REVIEW

London and the South East

Demonstrable rental growth in prime office locations within central London and selected M25 towns further fuelled the already strong demand for well let investment property. Taking advantage of record investment yields the Group disposed of the following completed developments:



16 Berkeley Street, London W1

- **16 Berkeley Street**, to overseas investor for £39.4 million at a yield of 4.65%
- **11 Berkeley Street**, to clients of ING for £13.7 million at a yield of 5.37%
- **UBI, Uxbridge**, let to Hertz Corporation and sold to NFU pension fund for £25.2 million at a yield of 5.68%

OPERATIONAL REVIEW

It has become increasingly difficult to acquire well located West End office development sites at sustainable prices but earlier in the year the Group acquired **Davis House** at **Wilton Road, Victoria** for £16.1 million in an off market transaction. Purchased with the benefit of a detailed planning consent, we have subsequently secured planning for a reconfigured mixed use scheme improving the design, layout and lettable floor area. When completed in late 2007 the £55 million development will comprise 60,000 sq ft offices, 8,000 sq ft ground floor retail and 38 apartments. The new building will incorporate 10% renewable energy sources helped by the inclusion of two 130m deep boreholes under the building. Prospects for the Victoria office market are increasingly good with occupiers moving from more expensive locations with less availability like Mayfair. Recent commitments to new offices in the vicinity to our development have been made by the Daily Telegraph, Google and P&O. We have recently entered into a joint venture with an offshore financial partner to progress this development.



Davis House, Victoria, London SW1

OPERATIONAL REVIEW

Office Development Programme

Development	Region	Size (sq ft)	Description	Timing	Potential Value	Update
Davis House Victoria	London	130,000	Adjacent to Victoria Station, mixed-use scheme.	Construction to start early 2006	£55.0m	Negotiations with JV partners recently concluded. Planning obtained.
Aeropark Farnborough Phase I	South East	40,000	17 acres of land adjacent to Farnborough Air Field and Aerospace Business Park. Phase One to include 40,000 sq ft of offices.	Construction started Dec 2005	£10.0m	
Queen Elizabeth Park, Guildford	South East	18,400 (phase 2)	Mixed use scheme comprising pre-lets to Esporta Health & Fitness Club, 25,500 sq ft, Budgens foodstore, 11,200 sq ft, Academy Day Nursery 6,500 sq ft (all sold) 42,000 sq ft offices comprising 26 freehold units JV with HSBC.	Final phase under construction	£4.6m (phase 2)	All retail units sold. 30% of final phase pre sold.
Pinewood – Wokingham	South East	150,000	Planning consent for office business park totalling 150,000 sq ft.	Planned construction start late 2006	£40.0m	Negotiations underway with a single occupier for the whole site. Received detailed planning permission.
Watford – 34 Clarendon Road	South East	25,000	A refurbishment of an existing office building.	Construction completed	£6.2m	Sale negotiations underway.
George Street Croydon	South East	130,000	Office development site in prime location opposite East Croydon railway station.	Construction start late 2006	£45.0m	Site recently acquired.
Vanwall Business Park Maidenhead	South East	120,000	Prime business park office development site.	Construction start late 2006	£50.0m	Contracts exchanged to purchase site
Time Central Newcastle City Centre	North East	83,141	Planning permission obtained for 7 storey office development. JV with landowner.	Completion expected autumn 2007	£25.0m	Demolition completed. Construction started Jan 2006. 50% prelet.

OPERATIONAL REVIEW

Office Development Programme – continued

Development	Region	Size (sq ft)	Description	Timing	Potential Value	Update
Middlehaven – Hudson Quay	North East	30,500 (phase 1)	Chosen as preferred developer by English Partnerships to develop 160,000 sq ft office park adjoining Middlesbrough FC. JV with Helmsley Group.	First building available for occupation from July 2005	£5.5m (phase 1)	Phase One completed with good tenant interest being shown.
Teesdale – Resolution	North East	42,000	Part of Teesdale Business Park where TH have completed 160,000 sq ft of new office space with units ranging from 7,500 to 40,000 sq ft. The remaining phases of the business park have capacity for a further 120,000 sq ft of development. Tenants include Barclays Bank, DVLA, Endeavour HA, WYG Plc, Brewin Dolphin, and the Inland Revenue.	Awaiting pre-let	£10.5m	Detailed planning obtained.
Stockton Riverside College Phase 2	North East	20,000	Second phase of College development on Teesdale Business Park.	Completion late 2006	£4.0m	Construction commenced Nov 2005.
Baltic Business Quarter Phase 1	Tyne & Wear	150,000 Offices 200,000 College	10 year development programme over a 50 acre site on South bank of the Tyne. JV with Gateshead MBC to develop 1.5m sq ft business park. Pre-sale developments of 200,000 sq ft to Gateshead College and 60,000 sq ft to Government agency in solicitors hands.	Gateshead College development to commence Jan 2006. Offices mid 2006.	£32.0m	Phase 1 infrastructure work completed. Planning obtained.
Temple Circus Bristol City Centre	South West	90,000	A 7 storey 90,000 sq ft office development (JV with Northridge Capital Ltd).	Completion expected in August 2006	£25.7m	Recently pre-sold to owner occupier Stonemartin Plc - a company principally owned by Morley and Hermes.
Filton North Bristol	South West	40,000	Small unit office development.	Construction starts spring 2006	£10.0m	Detailed planning application submitted.
Cyprium SA I Swansea Waterfront	South Wales	40,000	In association with the Welsh Development Agency (WDA). Prelet to WDA.	Completed Nov 2005	£8.2m	Sublet by WDA to Admiral Insurance.
Cyprium – Phase 2	South Wales	30,000	Extension to Cyprium Phase 1 and also prelet to WDA.	Construction commenced December 2005	£6.0m	WDA agreed to sublet to Admiral Insurance.

OPERATIONAL REVIEW



Aero Park, Farnborough

In particular we have been looking to acquire large sites which we can develop over a period of years. Slower markets for larger office buildings west of London have created opportunities for purchases of such sites at attractive prices, Aero Park, Farnborough and Pinewood, Wokingham being good examples.

- **Aero Park at Farnborough** is a 17 acre site purchased from British Aerospace with an existing planning consent for 350,000 sq ft of employment use. The vendor had envisaged the development of large office buildings: we have reconfigured the first phase of the site to smaller units for which there is good demand. The first phase over 4.5 acres comprising small office and industrial units aimed principally at the owner occupier market is now underway. The remainder of the site is being planned for a mix of uses.
- **Pinewood, Wokingham** – a site purchased from Hewlett Packard comprising a redundant building and surplus land. Outline planning consent has been obtained for a new 150,000 sq ft office park to be built in small units. Additionally detailed negotiations are now underway over a pre-sale turnkey development for a single corporate occupier.



Pinewood, Wokingham

OPERATIONAL REVIEW

We have identified the industrial sector in the South East as being attractive with good occupier demand and scarcity of suitable sites for development.

- **Brampton Road, Eastbourne** is a 5 acre industrial site on a main arterial route into Eastbourne. Planning consent has recently been obtained for 103,000 sq ft of mixed industrial and trade counter use with construction due to commence in spring 2006.



Brampton Road, Eastbourne

OPERATIONAL REVIEW

The 170,000 sq ft industrial development at **Decimus Park, Tunbridge Wells** has continued to attract strong owner occupier interest with the majority of the second phase sold by the year end. We will now go ahead with the third and final phase. We have been selling at prices in excess of our original appraisal.



Decimus Park, Tunbridge Wells

OPERATIONAL REVIEW

Elsewhere in the region:

- Construction commenced, with a third pre-sold, on the final phase of offices at the mixed use development at **Queen Elizabeth Park, Guildford**, and negotiations with planners for change of use from industrial to residential use at our **Edmonton** site were continued with a planning application now due to be made in spring 2006.
- The acquisition of **Grosvenor Holdings** in 2004 has continued to show excellent results with the sale from the portfolio of industrial investments in **Maidstone** and **Manchester** and since the year end, the pre-letting of an industrial development at **Crawley**.
- Following the year end further sites have been secured for development in **Maidenhead, Croydon** and **Redditch** with an aggregate investment value on completion expected to be around £113 million.



Ravensbank Business Park, Redditch

OPERATIONAL REVIEW

Retail Development Programme

Development	Region	Size (sq ft)	Description	Timing	Potential Value	Update
Blyth Retail Park Northumberland	North East	55,000	A bulky goods retail park with a 25,000 sq ft DIY store prelet to Homebase, and 5 ancillary units.	Construction starts mid 2006	£10.0m	Planning permission for change of use from industrial to retail use received summer 2005. Other prelets in solicitors hands.
Huddersfield Road Galashiels	Scotland	45,000	Retail planning consent recently received for 45,000 sq ft open A1 class non food retail. An edge of town centre retail development.	Construction start mid 2006	£12.0m	Pre-lets with a variety of retailers in solicitors hands. Planning received for change of use from industrial to retail summer 2005.
King Albert Chambers Jamieson Street Hull	North East	5,000	Redevelopment of 2 high street retail units.	Completed	£2.0m	Both units let to Ethel Austin & Sharpes Bedrooms. Sale planned 2006.
King Street W1	London	6,000	3 retail units remain to be let.	Completed	£1.0m	Sale planned 2006.

OPERATIONAL REVIEW

The North East and Scotland

Progress on development sites in the North East and the Borders continued to gain momentum:

- At **Baltic Business Quarter Gateshead**, the first phase of infrastructure was completed releasing 16 acres of the 50 acre site for development. Planning consent was secured for three office buildings comprising 90,000 sq ft and negotiations for a turnkey development for Gateshead College were progressed. One NorthEast has secured funding for a 60,000 sq ft building on the site which we expect to start developing, on a turnkey basis, in April 2006.



Baltic Business Quarter

OPERATIONAL REVIEW



Time Central, Gallowgate, Newcastle

- **Time Central at Gallowgate in Newcastle City Centre** generated significant occupier interest during the detailed design and contract tender process leading, since the year end, to the pre-letting of half of the building to Robert Muckle LLP a law firm. Construction of the 83,141 sq ft office building has now commenced.
- The first building of 30,500 sq ft at **Manhattan Gate, Middlesbrough** was completed, where good occupier interest is now evident. At our industrial sites in **Blyth** and **Galashiels** planning consents were obtained for change of use to retail warehousing. Pre-lets are being assembled on both of these sites with a view to construction commencing in mid 2006.



Galashiels

- Since the year end, **Castlegate House, Sheffield** has been purchased in joint venture with Tyburn Lane Properties acting for Anglo Irish Private Equity Property Fund. The property is an income producing asset and although vacant let on a long lease to BHS. The property offers excellent medium term redevelopment potential for a mixed use scheme.

OPERATIONAL REVIEW

Industrial Development Programme

Development	Region	Size (sq ft)	Description	Timing	Potential Value	Update
Crawley	South East	50,000	Industrial prelet development.	On site completion Spring 2006	£5.5m	
Brampton Road Eastbourne	South East	103,000	5.1 acres vacant site for redevelopment of 103,000 sq ft mixed use industrial and trade counter scheme.	Construction starts Spring 2006	£11.0m	Detailed planning obtained Jan 2006.
Aeropark – Phase I Farnborough	South East	40,000	Small unit industrial scheme. Part of larger 17 acre site.	Construction started Dec 2005	£5.0m	
Thanet Reach Business Park	South East	15,000	Completed and let industrial development.		£1.0m	Sale planned 2006.
Decimus Park Tunbridge Wells	South East	170,000 (total)	Industrial park being developed in three phases. Units available from 2,200 sq ft to 20,000 sq ft.	Final phase completes Autumn 2006	£16.0m (total)	Preletting negotiations underway on final phase.
Ravensbank Business Park Redditch	West Midlands	220,000	High bay distribution warehouse development.	Construction start Spring 2006	£18.0m	Detailed planning obtained.

OPERATIONAL REVIEW

The South West and Wales

Excellent results have been produced from our two developments under construction during the year:

- In **Bristol City Centre, Temple Circus**, our 90,000 sq ft office development, was forward sold to Stonemartin plc, a serviced office operator who works in association with the Institute of Directors. The sale for £25.75 million a year ahead of practical completion is a significant achievement and will have considerably enhanced our return on equity.



Temple Circus, Bristol

- At **Swansea Waterfront, Cyprium** our 40,000 sq ft office development was completed and construction of a second phase is now underway. Both buildings have been pre-let by the Welsh Development Agency and will be subsequently sublet to Admiral Insurance.



Cyprium, Swansea Waterfront

OPERATIONAL REVIEW

- Since the year end a 2.75 acre site at **Filton, North Bristol** has been acquired for the development of small office units aimed at owner occupiers and investors and construction is expected to commence in spring 2006.



Filton, North Bristol

OPERATIONAL REVIEW

Commercial Investments with Development Potential

Development	Sector	Region	Size	Description	Update
Platts Eyot	Residential	South East	12 acres	12 acre listed Island on the Thames at Hampton.	Planning application submitted for 13 houses and 65 two and three bed riverside units.
Edmonton, North London	Industrial	South East	5 acres	Industrial investment with residential development potential.	Planning application for change of use to be made Spring 2006.
Bishop Auckland	Industrial	North East	8 acres	Industrial investment with retail development potential.	Retail planning consent recently received subject to confirmation by Government Office.
Castlegate House, Sheffield	Mixed use	North	88,000 sq ft	Vacant department store let to BHS. Redevelopment potential for mixed use scheme. JV with Tyburn Lane Properties.	Property acquisition now complete.

OPERATIONAL REVIEW

The Residential Division

Residential Investment

We have recently reached the sixth anniversary of our entry into residential investment and now hold 362 residential units valued at £37.6 million. As the following table shows this activity has generated very good returns for us:

Financial Period Ended in	No of Units	Value (£m)	Cumulative Valuation Uplifts and Gains on Disposals (£m)
1999	0	0	0
2000	902	47.0	2.7
2001	919	49.5	4.1
2002	1,227	74.9	12.3
2003	585	45.7	28.5
2004	419	40.5	36.2
2005	362	37.6	36.9

We have always specialised in affordable flats and houses, which we have found to be relatively sheltered from housing market worries. Our average unit value is approximately £104,000. Over time we have shifted our focus to the **West of Scotland**, especially Glasgow where we have been seeing good value increases.



St George's Road block at St George's X, Glasgow

Included in this residual holding is our core property at **St. Georges Cross, Glasgow**, further modern units in the **Glasgow** area and in the **East of Scotland** at **Penicuik** and **Dundee**, with blocks of flats in **Manchester** and **Newcastle** and some scattered units in the **North of England**, as shown in the following table:

Region	No. of Units	Value (£'m)
West of Scotland	236	21.7
East of Scotland	38	3.9
Manchester	37	5.6
Newcastle/Durham	31	4.0
Misc. England/Wales	20	2.4

We have not recently been active on the acquisition front but continue to look at possible acquisitions in this area and believe the time will come when we will significantly expand our exposure again.

OPERATIONAL REVIEW

Residential Development

Our first residential development at **Glasgow Green** is progressing well, on budget and on time. With no advertising yet, 36 of the 54 flats due for completion up to November 2006 have already been sold off plan. The 10 houses created from, and in sympathy with, a small listed school building are now being completed and marketing is imminent.

Land development and house building

Further residential developments are planned in **Lanarkshire, West Lothian** and **Ayrshire** with potential for up to 1,100 units, some of which are in joint venture. The first planning application has been lodged for permission to develop 174 houses on a brownfield site at **Shotts**, midway between Glasgow and Edinburgh.

We believe that house building could become a major source of profits. We are currently in the process of establishing a house building subsidiary which we believe could be developing over 200 houses a year in the near future.



Development Plan, Shotts

Corporate Finance and Corporate Registrars

Substantial external costs were again saved by use of our Glasgow subsidiaries **Mercantile Securities (Scotland) Limited**, which is regulated by FSA, and **Park Circus Registrars Limited**, which has now grown in ranking of AiM traded clients to sixth by numbers.

Triple Net Asset Value (unaudited)

As indicated in the Chairman's Statement, to arrive at (unaudited) Triple Net Asset Value (TNAV), the following adjustments are made

- (1) Revaluation of current assets: properties (and rights to properties) held in work-in-progress have been revalued from cost (or if less realisable value) to market value. The valuation has been performed by relevant directors qualified as chartered surveyors based on external evidence and takes account of costs to complete and whether or not the property has been let and/or presold.
- (2) Taxation: the amount of taxation which would be payable were all of the Group's properties to be sold at the value used for the TNAV calculation has been deducted. This includes Deferred Tax which would be payable on sale of investment properties (as indicated in Note 8 to the Accounts) and additional taxation estimated to be payable on realisation of the uplift of trading properties to market value.
- (3) Finance: the adjustment required to revalue the group's financial assets and liabilities to current values is immaterial so no adjustment is required this year. No other adjustments are relevant to the Group's calculation.
- (4) Goodwill: goodwill, positive and negative, is excluded.

The Table below shows the calculation in detail.

Proforma Triple Net Asset Value per Share

		31 October 2005
		£
Shareholders' Funds (per Audited Consolidated Balance Sheet and after Minority Interests)		76,335,111
Revaluation to market value of property etc held in work-in-progress		24,655,347
Deferred Tax (Note 8 to Accounts)		(501,961)
Estimated taxation on Revaluation		(7,396,604)
Tax losses available to be offset against future profits		179,576
Goodwill		(3,286,912)
Total Increase		13,649,446
Proforma Triple Net Asset Value		89,984,557
Proforma Triple Net Asset Value per Share	31 /10 /05	48.06p
Proforma Triple Net Asset Value per share	31 /10 /04	39.99p
Increase		20.18%

DIRECTORS & ADVISERS

DIRECTORS

R F M Adair MA ACA CTA FGS (Chairman)
P A J Leech MRICS (Group Managing Director)
T G Walsh B Comm FCA (Finance Director)
K M Hudson MA ACA (Non-Executive)
D Blausten MA FRICS (Non-Executive)
W P Wyatt (Non-Executive)

SECRETARY

M A Kelly LLB NP

REGISTERED OFFICE

James Sellars House,
144 West George Street, Glasgow G2 2HG

REGISTERED AUDITORS

BDO Stoy Hayward LLP
Ballantine House, 168 West George Street
Glasgow G2 2PT

REGISTRARS

Park Circus Registrars Limited
James Sellars House,
144 West George Street, Glasgow G2 2HG

NOMINATED ADVISER

Noble & Company Limited
76 George Street, Edinburgh EH2 3BU

NOMINATED BROKER

Numis Securities Ltd
Cheapside House
138 Cheapside
London EC2V 6LH

DIRECTORS' REPORT

The Directors submit their report and the group accounts for the year ended 31 October 2005.

RESULTS AND DIVIDENDS

The group profit for the period, after taxation and minority interests amounted to £3,477,834. The directors recommend the payment of a final dividend of 0.7p per share.

PRINCIPAL ACTIVITY AND REVIEW OF BUSINESS

The group's principal activities are property investment, development and trading.

The Chairman's Statement and Operational Review on pages 3 to 24 include a review of the development of the business of the company and its subsidiaries during the period.

ACQUISITIONS

During the period the company made acquisitions of entities engaged in property investment, development and trading.

Details of these acquisitions are included at note 26.

DIRECTORS AND THEIR INTERESTS

The directors during the period and their interests in the ordinary share capital of the company were as follows:

	<i>At 31 October 2005</i>	<i>At 31 October 2004</i>
	<i>Ordinary shares</i>	<i>(or date of appointment)</i> <i>Ordinary shares</i>
R F M Adair	129,258,549	128,423,549
D R Macdonald (resigned 6 February 2006)	558,522	558,522
N J C Turnbull (resigned 6 February 2006)	231,355	174,000
P A J Leech	1,564,447	69,000
T G Walsh	35,000	30,000
K W Grundy (resigned 6 February 2006)	15,000	10,000
M A Kelly (resigned 6 February 2006)	108,302	108,302
R E Lane (resigned 6 February 2006)	40,000	15,000
K M Hudson	–	–
W P Wyatt	–	–
D Blausten	–	–
C R L Phillips (resigned 17 November 2005)	–	–
G T P Brennan (resigned 6 February 2006)	148,484	148,484

No director had any interest in the shares of any of the subsidiary companies.

P A J Leech held an interest in 15 ordinary shares in Terrace Hill North East Limited at 31 October 2004. These shares were acquired by the group during the year.

Details of directors' material interests in contracts are given in note 27 to the accounts.

DIRECTORS' REPORT

SHARE CAPITAL

On 5 May 2005 1,395,447 ordinary shares were issued at a price of 40p each in part exchange for 15 shares in Terrace Hill North East Ltd.

CREDITORS' PAYMENT POLICY AND PRACTICE

It is the group's payment policy to ensure settlement of suppliers' invoices in accordance with the stated terms. In certain circumstances, settlement terms are agreed prior to any business taking place. It is our policy to then abide by those terms.

At the period end the company had an average of 33 days (2004 – 45 days) purchases outstanding in trade creditors.

AUDITORS

A resolution proposing the reappointment of BDO Stoy Hayward LLP will be submitted at the Annual General Meeting.

On behalf of the Board

M A Kelly
Company Secretary

7 February 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and 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 accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group 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 of the group and to enable them to ensure that the accounts 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.

Accounts are published on the group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of accounts, which may vary from legislation in other jurisdictions. The maintenance and integrity of the group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the accounts contained therein.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF TERRACE HILL GROUP PLC

We have audited the financial statements of Terrace Hill Group PLC for the year ended 31 October 2005 on pages 31 to 58. These financial statements have been prepared under the accounting policies set out on pages 36 to 38.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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, 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 other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, Operational Review and the Directors' Report. 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.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 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 of the state of the group's and the company's affairs as at 31 October 2005 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO STOY HAYWARD LLP

Chartered Accountants
and Registered Auditors
Glasgow

7 February 2006

GROUP PROFIT AND LOSS ACCOUNT

for the year ended 31 October 2005

	Notes	Year ended 31 October 2005 £	Year ended 31 October 2004 £
TURNOVER			
Group and share of joint venture		28,119,495	27,495,263
Less: share of joint venture		1,268,809	3,739
Group turnover: continuing operations	2	<u>26,850,686</u>	<u>27,491,524</u>
GROUP OPERATING PROFIT			
Continuing operations		3,965,973	5,302,554
Share of joint venture operating profit/(loss)		201,716	(43,310)
	3	4,167,689	5,259,244
(Loss)/gain on disposal of fixed asset investments		(863)	780
Amounts written off other investments		(11,818)	(143,796)
Net gain on disposal of investment property	5	3,495,252	3,252,070
Permanent diminution in value of an investment property		–	(279,436)
(Loss)/gain on liquidation/disposal of subsidiaries		(108,068)	142,551
Income from other fixed asset investments		15,142	–
Interest receivable		637,356	545,821
Group interest payable	4	(3,818,876)	(4,679,668)
Share of joint venture interest payable	4	<u>(138,758)</u>	<u>(13,765)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			
	5	4,237,056	4,083,801
Taxation (charge)/credit	8	<u>(763,155)</u>	<u>3,000</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAX			
		3,473,901	4,086,801
Minority Interest		3,933	(256,291)
PROFIT ATTRIBUTABLE TO MEMBERS OF PARENT COMPANY			
		3,477,834	3,830,510
Dividends	9	<u>(2,246,626)</u>	<u>(1,486,588)</u>
TRANSFER TO RESERVES			
Basic and diluted earnings per share	10	<u>1.864p</u>	<u>2.238p</u>

All amounts relate to continuing operations.

The notes on pages 36 to 58 form part of these financial statements.

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 October 2005

	Year ended 31 October 2005 £	Year ended 31 October 2004 £
Profit attributable to members of the parent company excluding share of profit/(loss) of joint venture company	3,414,876	3,887,585
Share of joint venture profit/(loss) for the year	62,958	(57,075)
Profit attributable to members of the parent company	3,477,834	3,830,510
Unrealised surplus on revaluation of investment properties	3,735,025	13,160,860
Unrealised surplus on revaluation of unlisted investments	5,596	11,558
TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR	7,218,455	17,002,928

NOTE OF HISTORICAL COST PROFITS AND LOSSES

for the year ended 31 October 2005

	Year ended 31 October 2005 £	Year ended 31 October 2004 £
Reported profit on ordinary activities before taxation	4,237,056	4,083,801
Realised surplus on previously revalued property	7,941,485	5,083,620
Historical cost profit on ordinary activities before taxation	12,178,541	9,167,421
Historical cost profit for the period retained after taxation, minority interests and dividends	9,172,693	7,427,542

The notes on pages 36 to 58 form part of these financial statements.

GROUP BALANCE SHEET

at 31 October 2005

		31 October 2005	31 October 2004
	Notes	£	£
FIXED ASSETS			
Intangible assets	11		
Positive goodwill		4,464,918	2,467,835
Negative goodwill		(1,178,006)	(1,921,579)
		<hr/>	<hr/>
		3,286,912	546,256
Tangible assets	12	52,958,443	91,380,965
		<hr/>	<hr/>
		56,245,355	91,927,221
Investments	13		
Joint venture – share of gross assets		4,957,563	4,032,545
Joint venture – share of gross liabilities		(4,801,680)	(3,939,620)
		<hr/>	<hr/>
		155,883	92,925
Other fixed asset investments		2,598,808	446,101
		<hr/>	<hr/>
		2,754,691	539,026
		<hr/>	<hr/>
		59,000,046	92,466,247
CURRENT ASSETS			
Work in progress	14	89,162,161	55,687,146
Debtors	15	13,207,068	14,626,625
Cash at bank and in hand		12,052,213	17,801,053
		<hr/>	<hr/>
		114,421,442	88,114,824
CREDITORS: amounts falling due within one year	16	(29,977,957)	(64,222,764)
		<hr/>	<hr/>
NET CURRENT ASSETS		84,443,485	23,892,060
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		143,443,531	116,358,307
CREDITORS: amounts falling due after more than one year	16	(66,758,066)	(44,671,808)
PROVISIONS FOR LIABILITIES AND CHARGES	17	–	(121,618)
		<hr/>	<hr/>
NET ASSETS		76,685,465	71,564,881
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up share capital	19	3,744,376	3,716,467
Share premium account	20	19,368,539	19,368,539
Revaluation reserves – investment properties	20	17,267,633	21,474,093
Revaluation reserves – other	20	23,162	17,566
Capital redemption reserve	20	849,430	849,430
Merger reserve	20	8,385,522	8,115,384
Profit and loss account	20	26,696,449	17,299,595
		<hr/>	<hr/>
EQUITY SHAREHOLDERS' FUNDS	21	76,335,111	70,841,074
MINORITY INTERESTS		350,354	723,807
		<hr/>	<hr/>
		76,685,465	71,564,881
		<hr/>	<hr/>
Approved by the Board			
P A J Leech	T G Walsh		
Director	Director		
7 February 2006			

The notes on pages 36 to 58 form part of these financial statements.

COMPANY BALANCE SHEET

at 31 October 2005

	Notes	31 October 2005 £	31 October 2004 £
FIXED ASSETS			
Investments	13	32,674,487	34,245,644
CURRENT ASSETS			
Debtors due within 1 year	15	24,243,061	16,679,956
Debtors due after more than 1 year	15	34,840,931	30,327,744
Cash at bank and in hand		1,282,827	4,323,658
		60,366,819	51,331,358
CREDITORS: Amounts falling due within one year	16	(36,444,898)	(45,929,983)
NET CURRENT ASSETS		23,921,921	5,401,375
NET ASSETS		56,596,408	39,647,019
CAPITAL AND RESERVES			
Called up share capital	19	3,744,376	3,716,467
Share premium account	20	19,368,539	19,368,539
Revaluation reserves – other	20	23,162	17,566
Capital redemption reserve	20	849,430	849,430
Merger reserve	20	15,985,523	8,115,384
Profit and loss account	20	16,625,378	7,579,633
EQUITY SHAREHOLDERS' FUNDS		56,596,408	39,647,019

Approved by the Board

PA J Leech
Director

T G Walsh
Director

7 February 2006

The notes on pages 36 to 58 form part of these financial statements.

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 October 2005

	Notes	Year ended 31 October 2005 £	Year ended 31 October 2004 £
Cash (outflow) from operating activities	23(a)	(48,931,054)	(7,086,432)
Returns on investments and servicing of finance	23(b)	(6,138,265)	(4,174,218)
Taxation		(991,892)	(7,500)
Capital expenditure and financial investment	23(b)	54,102,265	20,306,374
Acquisitions and disposals	23(b)	(4,903,544)	(9,681,722)
Equity dividends paid		(1,865,211)	(788,434)
Cash (outflow) before liquid resources and financing	23(c)	(8,727,701)	(1,431,932)
Financing	23(b)	2,735,250	5,280,784
(Decrease)/Increase in cash	23(c)	(5,992,451)	3,848,852

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	Year ended 31 October 2005 £	Year ended 31 October 2004 £
(Decrease)/Increase in cash	(5,992,451)	3,848,852
Cash flow from debt repaid	(2,735,250)	2,615,068
Change in net debt arising from cash flows	(8,727,701)	6,463,920
Long term debt acquired with subsidiaries	–	(8,718,097)
Debt issue costs	495,400	(142,840)
MOVEMENTS IN NET DEBT DURING THE PERIOD	(8,232,301)	(2,397,017)
Opening net debt	(57,798,823)	(55,401,806)
CLOSING NET DEBT	(66,031,124)	(57,798,823)

The analysis of net debt is included in note 23(c).

The notes on pages 36 to 58 form part of these financial statements.

NOTES TO THE ACCOUNTS

at 31 October 2005

I ACCOUNTING POLICIES

Accounting convention

The accounts have been prepared under the historical cost convention, as modified by the revaluation of investment properties, listed and unlisted investments, and in accordance with applicable accounting standards. The true and fair override provisions of the Companies Act 1985 have been invoked, see "investment properties" below.

Basis of consolidation

The consolidated financial statements incorporate the results of Terrace Hill Group PLC and all of its subsidiary undertakings as at 31 October 2005 using the acquisition method of accounting. The results of subsidiary undertakings are included from the date of acquisition.

Joint ventures

An entity is treated as a joint venture where the group holds a long term interest and shares control under a contractual agreement.

In the group financial statements, interests in joint ventures are accounted for using the gross equity method of accounting. The consolidated profit and loss account indicates the group's share of the operating results, interest, pre-tax results and attributable taxation of such undertakings. In the consolidated balance sheet, the group's share of the identifiable gross assets (including any unamortised premium paid on acquisition) and its share of the gross liabilities attributable to its joint ventures are shown separately.

Where there is a joint arrangement that is not an entity ("JANE") as defined by FRS 9, the group accounts for its share of assets, liabilities and cash flows according to the underlying joint agreement.

Positive and negative goodwill

Goodwill is the difference between the cost of an acquired entity and the aggregate of the fair value of the entity's identifiable assets and liabilities.

Positive purchased goodwill is capitalised and classified as an asset on the balance sheet. Amortisation is calculated to write off the capitalised goodwill in equal instalments over its estimated useful life up to a maximum of 20 years. Goodwill is reviewed for impairment following the first full year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying values may not be recoverable.

Negative goodwill, classified as a negative asset on the balance sheet, is recognised in the profit and loss account in the period in which the non-monetary assets are recovered whether through depreciation or sale.

Goodwill purchased prior to the implementation of Financial Reporting Standard No. 10 and not treated as above was and remains eliminated as a matter of accounting policy against the profit and loss reserve and is charged to the profit and loss account on subsequent disposal of the business to which it is related.

NOTES TO THE ACCOUNTS

at 31 October 2005

I ACCOUNTING POLICIES (continued)

Listed and unlisted investments

Listed investments are valued at market value. Unlisted investments are valued in the accounts at a valuation determined by the directors. In determining the valuation of unlisted investments the directors adopt the middle market price where a dealing facility exists and apply a discount if considered appropriate. Where no dealing facility exists the factors to which the directors have regard include, inter alia, the earnings record and growth prospects of the security, the rating of comparable listed companies, the yield of the security, where appropriate, and any recent transactions.

Work in progress

Development work in progress is valued at the lower of cost and net realisable value. Interest and other attributable costs are included in the value of stock and work in progress where appropriate. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of work in progress.

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land and freehold investment properties, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition, of each asset over its expected useful life, as follows:

Office equipment	– 20% - 25% straight line
Motor vehicles	– 10% - 25% reducing balance
Furniture and fittings	– 20% - 25% straight line
Short leasehold property	– length of lease

Investment properties

Certain of the group's properties are held for long term investment. Investment properties are accounted for in accordance with SSAP 19, as follows:

- (i) investment properties are revalued annually. The surplus or deficit on revaluation is transferred to the revaluation reserve unless a deficit below original cost on an individual investment property is expected to be permanent, in which case it is recognised in the profit and loss account for the year; and
- (ii) no depreciation is provided in respect of leasehold investment properties where the lease has over 20 years to run.

Although the Companies Act would normally require systematic annual depreciation of fixed assets, the directors believe that the policy of not providing depreciation is necessary in order for the accounts to give a true and fair view, since the current value for investment properties, and changes to that current value, are of prime importance rather than a calculation of systematic annual depreciation. Depreciation is only one of the many factors reflected in the annual valuation, and the amount which might otherwise have been included cannot be separately identified or quantified.

Profits and losses on the sale of investment properties are calculated on the difference between proceeds and net carrying amount.

Leasing

Assets obtained under finance leases are capitalised in the balance sheet and are depreciated over their useful lives. The interest elements of the rental obligations are charged to profit and loss account over the period of the lease and represent a constant portion of the balance of capital repayments outstanding. The capital elements of future obligations are included as liabilities in the balance sheet. Rentals paid under operating leases are charged to income on a straight line basis over the term of the lease.

NOTES TO THE ACCOUNTS

at 31 October 2005

I ACCOUNTING POLICIES (continued)

Turnover and cost of sales

Sales of development properties are reflected in the accounts if an unconditional contract is exchanged and the property is practically complete by the balance sheet date.

The attributable profit on the sale of development properties is reflected in the accounts if the development properties are pre-sold and the substantial risks derived from completion of the property are passed over to the purchaser.

Rental income is recognised in the period to which it relates.

Management fees and other income are treated on the accruals basis.

Sales of investment property

Sales of investment properties are reflected in the accounts if an unconditional contract is exchanged at the balance sheet date. An appropriate proportion of negative goodwill is released to the profit and loss account at the point of sale.

Pension costs

Contributions to defined contribution pension schemes are charged to the profit and loss account in the year in which they become payable.

Financial instruments

In relation to the disclosures made in note 18:

- short term debtors and creditors are not treated as financial assets or financial liabilities; and
- it is, and has been throughout the period under review, the group's policy that no trading in financial instruments shall be undertaken.
- the group makes use of interest rate swaps to manage its exposure to fluctuations in interest rates. Interest rate instruments are treated as hedges and the net interest payable or receivable is included in the profit and loss account.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that:

- deferred tax is not recognised on timing differences arising on revalued properties unless the group has entered into a binding sale agreement and is not proposing to take advantage of rollover relief; and
- the recognition of deferred tax assets is limited to the extent that the group anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

Cost of raising finance

In accordance with Financial Reporting Standard (FRS) No 4, costs incurred in raising finance are netted off against the loan proceeds and amortised over the life of the loan.

NOTES TO THE ACCOUNTS

at 31 October 2005

2 TURNOVER

All the group's activities are based in the United Kingdom and all sales are made to United Kingdom customers.

	2005	2004
	£	£
Sales of development properties	20,129,367	20,012,483
Rents receivable	5,383,721	7,309,569
Management fees and other income	1,337,598	169,472
	<hr/>	<hr/>
Share of joint venture turnover	26,850,686	27,491,524
	1,268,809	3,739
	<hr/>	<hr/>
	28,119,495	27,495,263

3 OPERATING PROFIT

	<i>Ongoing operations Total 2005 £</i>	<i>Ongoing operations Total 2004 £</i>
Turnover	26,850,686	27,491,524
Cost of sales	(18,854,735)	(16,936,686)
	<hr/>	<hr/>
Gross profit	7,995,951	10,554,838
Administrative expenses	(4,029,978)	(5,252,284)
	<hr/>	<hr/>
Group operating profit	3,965,973	5,302,554
	<hr/>	<hr/>
Share of joint venture profit/(loss)	201,716	(43,310)
	<hr/>	<hr/>
Total operating profit	4,167,689	5,259,244

The above analysis of operating results is before interest charges.

NOTES TO THE ACCOUNTS

at 31 October 2005

4 INTEREST PAYABLE

	2005 £	2004 £
On loan and overdrafts	5,766,027	4,793,151
Amortisation of issue costs	241,239	229,745
Interest capitalised	(2,188,390)	(343,228)
Total group interest payable	<u>3,818,876</u>	<u>4,679,668</u>
Share of joint venture interest payable	138,758	13,765
	<u>3,957,634</u>	<u>4,693,433</u>

5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2005 £	2004 £
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Auditors' remuneration – audit services	131,563	208,607
Auditors' remuneration – non-audit services	5,168	2,250
Depreciation of owned fixed assets	84,316	80,564
Loss on disposal of fixed assets	128,015	–
Operating lease charges – rent of properties	1,297,149	1,429,593
Positive goodwill – amortisation	469,389	168,790
Gain on disposal of investment properties	<u>(2,715,719)</u>	<u>(2,889,821)</u>
Release of negative goodwill	<u>(779,533)</u>	<u>(362,249)</u>
Net gain on disposal of investment property	(3,495,252)	(3,252,070)
Investment property rental income (included in turnover)	<u>(5,383,721)</u>	<u>(7,309,569)</u>

Auditors remuneration for the Company was £83,250 (2004 – £93,270).

6 DIRECTORS' EMOLUMENTS

	2005 £	2004 £
Emoluments	1,205,846	986,808
Amounts paid to third parties in respect of directors services	127,100	87,250
Amounts receivable under long-term incentive schemes	33,113	152,208
Pension contributions	<u>41,606</u>	<u>72,032</u>

Pension contributions to defined contribution schemes were made during the year in respect of 6 directors (2004 – 6).

The emoluments of the highest paid director for the year including salary, bonuses and benefits were £292,000 (2004 – £250,000).

Pension contributions in respect of the highest paid director were £NIL (2004 – £NIL).

NOTES TO THE ACCOUNTS

at 31 October 2005

7 STAFF COSTS

	2005	2004
	£	£
Wages and salaries	1,730,786	1,701,078
Social security costs	209,925	157,640
Other pension costs	49,315	79,801
	<u>1,990,026</u>	<u>1,938,519</u>

The average monthly number of employees during the year was 27 (2004–24).

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of charge in year

	2005	2004
	£	£
Current tax		
UK corporation tax on profits of the year	1,357,307	768,794
Adjustment in respect of prior periods:	(476,164)	(413,000)
Total current tax	881,143	355,794
Origination and reversal of timing differences – current year	(552,467)	(499,551)
– prior year	434,479	140,757
Tax on profit on ordinary activities	<u>763,155</u>	<u>(3,000)</u>

(b) Factors affecting the tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2005	2004
	£	£
Profit on ordinary activities before tax	<u>4,237,056</u>	<u>4,083,800</u>
Profit on ordinary activities multiplied by the standard rate of UK Corporation tax of 30%	1,271,117	1,225,140
Disallowables	(21,510)	185,518
Provisions released	(93,474)	(239,842)
Capital gains	1,822,898	2,340,304
Gain on sale of properties	(802,867)	(1,393,190)
Wear and tear allowances and capital allowances in excess of depreciation	(505,356)	(226,490)
Goodwill amortised	(93,043)	(197,623)
Capitalised interest	–	(22,603)
Losses brought forward utilised	<u>(220,458)</u>	<u>(902,420)</u>
Adjustments in respect of previous years	1,357,307	768,794
	(476,164)	(413,000)
Current tax charge for the year	<u>881,143</u>	<u>355,794</u>

NOTES TO THE ACCOUNTS

at 31 October 2005

8 TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

(c) Factors that may affect future tax charges

The group expects to continue to claim capital allowances and wear and tear allowances in excess of depreciation.

No provision has been made for deferred tax on gains recognised on revaluing property to its market value. The total amount unprovided is £501,961, net of tax relief of £5,114,141 in respect of capital losses (2004 – £7,804,824).

(d) Joint venture

No tax charge arises on the results of the joint venture.

9 DIVIDENDS

	2005 £	2004 £
Ordinary shares		
Interim paid of 0.50p (2004 – 0.30p) per share	936,094	557,471
Final proposed of 0.70p per share (2004 – 0.50p) per share	1,310,532	929,117
	<u>2,246,626</u>	<u>1,486,588</u>

10 EARNINGS PER ORDINARY SHARE

The calculation of basic and diluted earnings per ordinary share is based on a profit of £3,477,834 (2004 profit – £3,830,510) and on 186,576,536 (2004 – 171,192,098) ordinary shares, being the weighted average number of shares in issue during the period.

11 INTANGIBLE FIXED ASSETS

	Positive goodwill £	Negative goodwill £
Cost:		
At 1 November 2004	3,431,908	(7,920,786)
Acquisitions	2,466,470	(35,960)
At 31 October 2005	<u>5,898,378</u>	<u>(7,956,746)</u>
Amortisation:		
At 1 November 2004	(964,073)	5,999,207
(Charge)/release for the period	(469,387)	779,533
At 31 October 2005	<u>(1,433,460)</u>	<u>6,778,740</u>
Net book value:		
At 31 October 2005	<u>4,464,918</u>	<u>(1,178,006)</u>
At 31 October 2004	<u>2,467,835</u>	<u>(1,921,579)</u>

NOTES TO THE ACCOUNTS

at 31 October 2005

12 TANGIBLE FIXED ASSETS

Group	Motor vehicles £	Office equipment £	Furniture and fittings £	Investment properties £	Total £
Cost or valuation:					
At 1 November 2004	5,977	84,559	238,071	91,293,202	91,621,809
Additions	–	7,343	–	45,539	52,882
Transfer from development work in progress	–	–	–	6,815,411	6,815,411
Disposals	–	(13,839)	(173,346)	(48,812,903)	(49,000,088)
Surplus on revaluation	–	–	–	3,735,025	3,735,025
At 31 October 2005	<u>5,977</u>	<u>78,063</u>	<u>64,725</u>	<u>53,076,274</u>	<u>53,225,039</u>
Whereof:					
Cost	5,977	78,063	64,725	–	148,765
Valuation	–	–	–	53,076,274	53,076,274
	<u>5,977</u>	<u>78,063</u>	<u>64,725</u>	<u>53,076,274</u>	<u>53,225,039</u>
Depreciation:					
At 1 November 2004	3,224	70,087	39,750	127,783	240,844
Charge for period	275	7,379	27,180	49,482	84,316
Disposals	–	(12,650)	(45,914)	–	(58,564)
At 31 October 2005	<u>3,499</u>	<u>64,816</u>	<u>21,016</u>	<u>177,265</u>	<u>266,596</u>
Net book value:					
At 31 October 2005	<u>2,478</u>	<u>13,247</u>	<u>43,709</u>	<u>52,899,009</u>	<u>52,958,443</u>
At 31 October 2004	<u>2,753</u>	<u>14,472</u>	<u>198,321</u>	<u>91,165,419</u>	<u>91,380,965</u>

The investment properties situated in Scotland owned by the group have been valued as at 31 October 2005 by CRGP Robertson Chartered Surveyors of Herbert House, 24 Herbert Street, Glasgow, G20 6NB on the basis of open market value.

Investment properties situated in England owned by the Group have been valued at open market value by directors, who are suitably qualified or experienced, at 31 October 2005 having regard to professional advice and/or sales evidence during the period.

On a historical cost basis the net book value of the group's investment properties would have been £35,631,376 (2004–£69,691,326).

NOTES TO THE ACCOUNTS

at 31 October 2005

13 INVESTMENTS

Group

	<i>Joint ventures</i> £	<i>Other investments</i> £	<i>Total</i> £
Cost or valuation:			
At 1 November 2004	150,000	772,058	922,058
Additions	–	573	573
Acquisition of subsidiary undertakings	–	2,488,113	2,488,113
Disposals	–	(329,757)	(329,757)
Surplus on revaluation	–	5,596	5,596
Adjustment on revaluation	–	(144,763)	(144,763)
	<hr/>	<hr/>	<hr/>
At 31 October 2005	150,000	2,791,820	2,941,820
Whereof:			
Cost	150,000	–	150,000
Valuation	–	2,791,820	2,791,820
	<hr/>	<hr/>	<hr/>
	150,000	2,791,820	2,941,820
Share of retained profits:			
At 1 November 2004	–	–	–
Provision released	(57,075)	–	(57,075)
Profit for the year	62,958	–	62,958
	<hr/>	<hr/>	<hr/>
At 31 October 2005	5,883	–	5,883
Provision for diminution in value:			
At 1 November 2004	57,075	325,957	383,032
Release	(57,075)	(144,763)	(201,838)
Provided during the period	–	11,818	11,818
	<hr/>	<hr/>	<hr/>
At 31 October 2005	–	193,012	193,012
Net book value:			
At 31 October 2005	<hr/>	<hr/>	<hr/>
	155,883	2,598,808	2,754,691
At 31 October 2004	<hr/>	<hr/>	<hr/>
	92,925	446,101	539,026

On a historical cost basis, other investments would have been included at a net book value of £2,575,646 (2004 – £428,182).

NOTES TO THE ACCOUNTS

at 31 October 2005

13 INVESTMENTS (continued)

Company

	<i>Subsidiary undertakings</i>	<i>Other investments</i>	<i>Total</i>
	£	£	£
Cost or valuation:			
At 1 November 2004	34,558,765	289,495	34,848,260
Additions	37,503	570	38,073
Disposals	(1,592,247)	(20,375)	(1,612,622)
Surplus on revaluation	–	5,596	5,596
	<hr/>	<hr/>	<hr/>
At 31 October 2005	33,004,021	275,286	33,279,307
Whereof:			
Cost	33,004,021	–	33,004,021
Valuation	–	275,286	275,286
	<hr/>	<hr/>	<hr/>
	33,004,021	275,286	33,279,307
Provision for diminution in value:			
At 1 November 2004	401,423	201,193	602,616
Provided during the period	–	2,204	2,204
	<hr/>	<hr/>	<hr/>
At 31 October 2005	401,423	203,397	604,820
Net book value:			
At 31 October 2005	<hr/>	<hr/>	<hr/>
	32,602,598	71,889	32,674,487
At 31 October 2004	<hr/>	<hr/>	<hr/>
	34,157,342	88,302	34,245,644

On a historical cost basis other investments other than loans would have been included at a net book value of £48,727 (2004 – £70,736).

NOTES TO THE ACCOUNTS

at 31 October 2005

13 INVESTMENTS (continued)

Details of the investments in which the group or the company, at 31 October 2005, held more than 20% of the nominal value of any class of share capital are as follows:

Principal companies of the group:

Subsidiary undertakings

<i>Name of company</i>	<i>Proportion of voting rights and ordinary shares held</i>	<i>Nature of business</i>
PCG Residential PLC	100%	Property investment
Paisley Pattern Homes Limited	100%	Property investment
Park Circus (Management) Limited	100%	Management and administration
Park Circus Registrars Limited	100%	Corporate registrars
Mercantile Securities (Scotland) Limited	100%	Corporate finance services
NC (Res) Limited†	100%	Holding company /Property investment
South Eastern Recovery II Limited*	100%	Property investment
Pacific Shelf 1058 Limited‡	100%	Property investment
Belgrave Residential Assets Limited*	100%	Property investment
Belgrave Residential Investments Limited‡	100%	Property investment
PCG Residential Lettings (No. 3) Limited	100%	Property investment
PCG Residential Lettings Limited	100%	Property investment
Spath Holme Limited*	100%	Property development
Terrace Hill (Central Scotland) Limited	100%	Property development
Terrace Hill (Kilmarnock) Limited	100%	Property development
Terrace Hill (Shotts) Limited	100%	Property development
Terrace Hill (Residential Developments) Limited	100%	Property development
Second Terrace Hill Investing Limited	100%	Investment holding company
Second Park Circus Investing Limited‡	100%	Investment holding company
Britannic Global Income Trust PLC*	100%	Investment holding company
Westview Investments Limited	100%	Investment holding company
Terrace Hill Limited*	100%	Investment holding company
Terrace Hill Estates Limited*	100%	Property investment
Terrace Hill Properties Limited*	100%	Property investment
Terrace Hill Developments Limited*	100%	Property development
Mount York Estates Limited*	100%	Project coordination and development
Terrace Hill Projects Limited*	100%	Project coordination and management services
Terrace Hill North East Limited*	100%	Property development
Terrace Hill (Baltic) Limited*	100%	Property development
Terrace Hill (Middlehaven) Limited*	100%	Property development
Terrace Hill (Clarendon Road) Limited*	100%	Property development
Tannochside Estates Limited*	100%	Property investment
Terrace Hill (Guildford No. 1) Limited*	100%	Property development
Thanet Reach Estates Limited*	100%	Property development
Terrace Hill (Crawley) Limited*	100%	Property investment
PCG Investments Limited*	100%	Investment holding company
Port Hampton Limited*	100%	Property investment and moorings hire
Platts Eyot Limited*	100%	Property investment
Terrace Hill (Swansea) Limited*	100%	Property development
Terrace Hill (Tunbridge Wells) Limited*	100%	Property development
Middlehaven Properties Limited*	100%	Property development
Terrace Hill (Bishop Auckland) Limited*	100%	Property development
Terrace Hill (Edmonton) Limited*	100%	Property investment

NOTES TO THE ACCOUNTS

at 31 October 2005

13 INVESTMENTS (continued)

Principal companies of the group (continued):

Subsidiary undertakings

Name of company	Proportion of voting rights and ordinary shares held	Nature of business
Terrace Hill (Farnborough) Limited*	100%	Property development
Terrace Hill Pinewood Limited*	100%	Property development
Terrace Hill (Resolution) Limited*	100%	Property development
Terrace Hill (Wilton Road) Holdings Limited*	100%	Investment holding company
Terrace Hill Blyth Limited*	100%	Property investment
Terrace Hill (Eastbourne) Holdings Limited*	100%	Investment holding company
Grosvenor Land Holdings Limited*	100%	Property investment
Grosvenor Land North Limited*	100%	Property investment
Grosvenor Land South Limited*	100%	Property investment
Plymouth & Exeter Properties Limited*	100%	Property development
SERAH Properties PLC*	86.69%	Property investment

Joint Ventures and partnerships

The group's interest in the net assets of the joint ventures and partnerships is

Guildford Partnership	50%	Property development
Templar Circus Partnership	63%	Property development
Achadonn Limited	50%	Property development

* Shares held by subsidiary undertaking.

† 75% of shares held by subsidiary undertaking.

‡ 50% of shares held by subsidiary undertaking.

14 WORK IN PROGRESS

	Group 2005 £	Group 2004 £	Company 2005 £	Company 2004 £
Development work in progress	89,162,161	55,687,146	–	–
Included in these figures is capitalised interest of	2,531,260	702,531	–	–

15 DEBTORS

	Group 2005 £	Group 2004 £	Company 2005 £	Company 2004 £
Trade debtors	923,640	1,616,050	59,075	44,485
Prepayments and accrued income	1,300,665	1,252,341	216,475	217,145
Amount due from subsidiaries	–	–	58,777,188	46,583,138
Other debtors	10,982,763	11,758,234	31,254	162,932
	<u>13,207,068</u>	<u>14,626,625</u>	<u>59,083,992</u>	<u>47,007,700</u>

All amounts fall due for payment within one year except for other debtors (group) of £NIL (2004 – £459,775), prepayments (group) of £21,973 (2004 – £110,928) and amount due from subsidiaries (company) of £34,840,931 (2004 – £30,327,744).

NOTES TO THE ACCOUNTS

at 31 October 2005

16 CREDITORS

	Group 2005 £	Group 2004 £	Company 2005 £	Company 2004 £
Amounts due within one year:				
Bank overdraft	1,082,802	839,191	–	–
Bank loans	10,242,469	30,088,877	–	–
Trade creditors	3,561,561	2,586,043	52,537	31,517
Current corporation tax	661,675	761,294	–	–
Other taxation and social security costs	75,065	318,968	–	–
Accruals and deferred income	6,184,860	27,227,434	112,789	154,751
Other creditors	6,858,993	1,471,840	519,697	501,023
Proposed final ordinary dividend	1,310,532	929,117	1,310,532	929,117
Amounts due to subsidiaries	–	–	34,449,343	44,313,575
	<u>29,977,957</u>	<u>64,222,764</u>	<u>36,444,898</u>	<u>45,929,983</u>

The bank overdraft is secured by way of debenture and cross guarantee from certain subsidiaries.

	Group 2005 £	Group 2004 £	Company 2005 £	Company 2004 £
Amounts due after more than one year:				
Bank loans	<u>66,758,066</u>	<u>44,671,808</u>	–	–

The bank loans are secured by legal charges over the group's investment and development properties together with guarantees from certain subsidiary undertakings with a limited guarantee from the parent company and in one case a floating charge from the parent company.

	Group 2005 £	Group 2004 £	Company 2005 £	Company 2004 £
Financial liabilities are due:				
Bank loans and overdrafts:				
In one year or less or on demand	11,798,023	31,043,812	–	–
Unamortised issue costs	(472,752)	(115,744)	–	–
	<u>11,325,271</u>	<u>30,928,068</u>	–	–
Bank loans and overdrafts:				
In more than one year but less than two	35,282,847	24,790,991	–	–
In more than two years but less than five	31,789,368	18,329,085	–	–
In more than five years	–	1,727,440	–	–
Unamortised issue costs	(314,149)	(175,708)	–	–
	<u>66,758,066</u>	<u>44,671,808</u>	–	–

NOTES TO THE ACCOUNTS

at 31 October 2005

17 PROVISIONS FOR LIABILITIES AND CHARGES

<i>Deferred Tax</i>	<i>Group</i> 2005	<i>Group</i> 2004	<i>Company</i> 2005	<i>Company</i> 2004
	£	£	£	£
At 1 November 2004	121,618	476,779	–	–
(Credited) to profit and loss account	(117,988)	(358,794)	–	–
Acquisition of subsidiary undertakings	(3,630)	3,633	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 October 2005	–	121,618	–	–
	<hr/>	<hr/>	<hr/>	<hr/>

<i>Deferred Tax</i>	<i>Group</i> 2005	<i>Group</i> 2004	<i>Company</i> 2005	<i>Company</i> 2004
	£	£	£	£
Accelerated capital allowances	–	721,261	–	–
Other timing differences	–	(599,643)	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
	–	121,618	–	–
	<hr/>	<hr/>	<hr/>	<hr/>

18 FINANCIAL INSTRUMENTS

The group's principal financial instruments comprise loans, overdrafts, cash and short term deposits. The main purpose of these financial instruments is to provide finance for the group's operations.

The group has various other financial instruments such as trade debtors and trade creditors that arise directly from its operations, listed and unlisted investments.

The main risks arising from the group's financial instruments are interest rate risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The magnitude of the risk that has arisen over the period is detailed below.

Interest rate risk

The group holds cash balances on short term deposit. The group's policy is to monitor the level of these balances to ensure that funds are available as required, recognising that interest earnings will be subject to interest rate fluctuations.

The group borrows cash in the form of loans and overdrafts, which are subject to interest at floating rates, recognising that rates will fluctuate according to changes in the bank base rate. The Group is cognisant at all times of movements in interest rates and will, as appropriate, enter into interest rate swaps to maintain a balance between borrowings that are subject to floating and fixed rates.

Liquidity risk

The group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank balances and loans. The group has borrowing facilities available as detailed below.

NOTES TO THE ACCOUNTS

at 31 October 2005

18 FINANCIAL INSTRUMENTS (continued)

Interest rate risk profile of financial assets and liabilities

The interest rate profile of financial assets and liabilities of the group at 31 October 2005 was as follows:

	Total £	Floating rate financial assets £	Financial assets on which no interest is earned £
Sterling	<u>12,052,213</u>	<u>12,052,213</u>	<u>–</u>
	Total £	Fixed rate financial liabilities £	Floating rate financial liabilities £
Sterling	<u>78,083,337</u>	<u>–</u>	<u>78,083,337</u>

Floating rate financial liabilities bear interest at LIBOR or base rate plus margins of between 1.25% and 2.25%.

The interest rate profile of financial assets and liabilities of the group at 31 October 2004 was as follows:

	Total £	Floating rate financial assets £	Financial assets on which no interest is earned £		
Sterling	<u>17,801,053</u>	<u>17,801,053</u>	<u>–</u>		
<i>Fixed rate financial liabilities</i>					
	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Total As restated £	Fixed rate financial liabilities £	Floating rate financial liabilities As restated £
Sterling	<u>4.68</u>	<u>0.5</u>	<u>75,599,876</u>	<u>12,098,105</u>	<u>63,501,771</u>

NOTES TO THE ACCOUNTS

at 31 October 2005

18 FINANCIAL INSTRUMENTS (continued)

The floating rate financial assets comprise:

- cash on deposit.

The floating rate financial liabilities comprise:

- sterling denominated bank loans that bear interest based on LIBOR and bank base rates.
- sterling denominated bank overdrafts that bear interest based on bank base rates.

Borrowing facilities

The group has the following undrawn committed bank borrowing facilities available to it:

At 31 October 2005:

	£
Expiring in one year or less:	576,941
Expiring in more than one year but not more than two:	9,664,238
Expiring in more than two years but not more than five:	20,956,417
	<u>31,197,596</u>

At 31 October 2004:

	£
Expiring in one year or less:	1,342,795
Expiring in more than one year but not more than two:	23,050,814
Expiring in more than two years but not more than five:	4,008,272
	<u>28,401,881</u>

Subsequent to 31 October 2005 the maximum principal amount of a revolving credit facility has reduced from £20 million to £10 million.

Fair values of financial assets and liabilities

The fair values of the group's financial assets and liabilities are not materially different from their carrying amounts.

NOTES TO THE ACCOUNTS

at 31 October 2005

19 CALLED UP SHARE CAPITAL

	2005 £	2004 £
Authorised:		
250,000,000 ordinary shares of 2 pence each	5,000,000	5,000,000
200,000 cumulative 8% redeemable preference shares of £1 each	200,000	200,000
3,300,000 convertible shares of 20 pence each	660,000	660,000
	<u>5,860,000</u>	<u>5,860,000</u>
	£	£
Allotted, called up, and fully paid:		
187,218,824 (2004 – 185,823,377) ordinary shares of 2 pence each	<u>3,744,376</u>	<u>3,716,467</u>

During the period the company entered into the following share transactions:

On 5 May 2005 1,395,447 ordinary shares were issued at a price of 40p each in part exchange for 15 shares in Terrace Hill North East Ltd.

NOTES TO THE ACCOUNTS

at 31 October 2005

20 RESERVES

	Share premium	Revaluation reserve – Investment properties	Revaluation reserve – other	Capital redemption reserve	Merger reserve	Profit and loss account
Group	£	£	£	£	£	£
At 1 November 2004	19,368,539	21,474,093	17,566	849,430	8,115,384	17,299,595
Profit for the year	–	–	–	–	–	3,477,834
Interim ordinary dividends	–	–	–	–	–	(936,094)
Final proposed ordinary dividend	–	–	–	–	–	(1,310,532)
Revaluation reserve released on disposal of assets in the year	–	(7,941,485)	–	–	–	7,941,485
Premium on issue of share capital as part of acquisition	–	–	–	–	530,270	–
Surplus on revaluation of investment properties	–	3,735,025	–	–	–	–
Surplus on revaluation of unlisted investments	–	–	5,596	–	–	–
Purchase of own shares by subsidiary	–	–	–	–	–	(35,971)
Merger reserve release	–	–	–	–	(260,132)	260,132
At 31 October 2005	<u>19,368,539</u>	<u>17,267,633</u>	<u>23,162</u>	<u>849,430</u>	<u>8,385,522</u>	<u>26,696,449</u>

The cumulative amount of goodwill deducted directly from group reserves net of goodwill relating to businesses disposed of as at 31 October 2005 is £234,010 (2004 – £234,010).

	Share premium	Revaluation reserve – other	Capital redemption reserve	Merger reserve	Profit and loss account
Company	£	£	£	£	£
At 1 November 2004	19,368,539	17,566	849,430	8,115,384	7,579,633
Profit for the year	–	–	–	–	18,632,240
Interim ordinary dividends	–	–	–	–	(936,094)
Final proposed ordinary dividend	–	–	–	–	(1,310,532)
Premium on issue of share capital as part of acquisition	–	–	–	530,270	–
Surplus on revaluation of unlisted investments	–	5,596	–	–	–
Merger reserve transfer	–	–	–	7,339,869	(7,339,869)
At 31 October 2005	<u>19,368,539</u>	<u>23,162</u>	<u>849,430</u>	<u>15,985,523</u>	<u>16,625,378</u>

NOTES TO THE ACCOUNTS

at 31 October 2005

21 RECONCILIATION OF GROUP SHAREHOLDERS' FUNDS

	2005 Group £	2004 Group £	2005 Company £	2004 Company £
Total recognised gains and losses for the year (see page 32)	7,218,455	17,002,928	18,637,836	(520,068)
Ordinary dividends	(2,246,626)	(1,486,588)	(2,246,626)	(1,486,588)
New shares issued (net)	27,909	665,157	27,909	665,157
Merger reserve arising on new shares issued	530,270	1,183,648	530,270	1,183,648
Share premium arising on new shares issued	–	7,545,836	–	7,545,836
Purchase of own shares by subsidiary	(35,971)	(409,356)	–	(409,356)
Release of shares to be issued	–	(192,551)	–	(192,551)
	<hr/>	<hr/>	<hr/>	<hr/>
Total movements during the year	5,494,037	24,309,074	16,949,389	6,786,078
Opening shareholders' funds	70,841,074	46,532,000	39,647,019	32,860,941
	<hr/>	<hr/>	<hr/>	<hr/>
Closing shareholders' funds	76,335,111	70,841,074	56,596,408	39,647,019

22 PROFIT/(LOSS) ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The group profit for the year includes a profit after tax and before dividends paid of £18,632,240 (2004 – loss £531,626) which is dealt with in the financial statements of the parent company.

23 GROUP STATEMENT OF CASH FLOWS

(a) *Reconciliation of group operating profit to net cash (outflow) from operating activities*

	2005 £	2004 £
Operating profit	3,965,973	5,302,554
Depreciation	84,316	80,564
Loss on sale of other tangible fixed assets	127,430	–
Positive goodwill amortisation and impairment losses	469,387	168,790
(Increase) in stocks	(41,892,863)	(36,757,727)
Decrease in operating debtors	3,591,066	1,804,789
(Decrease)/increase in operating creditors	(15,276,363)	22,314,598
	<hr/>	<hr/>
Net cash (outflow) from operating activities	(48,931,054)	(7,086,432)

NOTES TO THE ACCOUNTS

at 31 October 2005

23 GROUP STATEMENT OF CASH FLOWS (continued)

(b) Analysis of cash flows for headings netted in the cash flow statement:

	2005	2004
	£	£
Returns on investment and servicing of finance:		
Interest received	631,116	545,821
Interest paid	(5,732,997)	(4,430,427)
Dividends paid to minority interests	–	(102,239)
Dividends received	142	–
Debt issue costs	(1,036,526)	(187,373)
	<u>(6,138,265)</u>	<u>(4,174,218)</u>
	2005	2004
	£	£
Capital expenditure and financial investment:		
Purchase of investment property	–	(1,717,850)
Purchase of other tangible fixed assets	(450,548)	(47,827)
Sale of investment property	54,224,504	22,212,342
Purchase of investments	(574)	(1,071)
Sale of investments	328,883	10,780
Investments in joint venture	–	(150,000)
	<u>54,102,265</u>	<u>20,306,374</u>
	2005	2004
	£	£
Acquisitions and disposals:		
Purchase of subsidiaries:		
Acquisitions – consideration	(4,362,591)	(9,908,502)
Acquisitions expenses	(399,602)	(51,317)
Cash on acquisition	–	328,097
Compensation in respect of shares to be issued	–	(50,000)
Disposal – consideration	1,484	–
Net cash on disposals	(142,835)	–
	<u>(4,903,544)</u>	<u>(9,681,722)</u>
	2005	2004
	£	£
Financing:		
Purchase of ordinary shares	–	(394,807)
Issue of ordinary shares	–	8,294,000
Expenses on issue of ordinary shares	–	(176,164)
Expenses on repurchase of ordinary shares	–	(14,550)
New long term bank loans	39,837,945	15,874,401
Long term bank loans repaid	(37,102,695)	(18,302,096)
	<u>2,735,250</u>	<u>5,280,784</u>

NOTES TO THE ACCOUNTS

at 31 October 2005

23 GROUP STATEMENT OF CASH FLOWS (continued)

(c) Analysis of net debt

	At 1 November 2004 £	Cash flow £	Acquisitions £	Other non-cash changes £	At 31 October 2005 £
Cash at bank and in hand	17,801,053	(5,748,840)	–	–	12,052,213
Bank overdraft	(839,191)	(243,611)	–	–	(1,082,802)
	16,961,862	(5,992,451)	–	–	10,969,411
Debt due within one year	(30,088,877)	20,761,245	–	(914,837)	(10,242,469)
Debt due after one year	(44,671,808)	(23,496,495)	–	1,410,237	(66,758,066)
	(57,798,823)	(8,727,701)	–	495,400	(66,031,124)

£495,400 of debt issue costs paid during the year were unamortised at the balance sheet date.

24 CONTINGENT LIABILITIES

Grants received from Scottish Homes are repayable by certain subsidiary companies in the event of:

- (a) disposal of the property /ies prior to an agreed cut-off point; or
- (b) the discontinuation of rental income from the property /ies.

The directors are of the opinion that neither of these contingencies will crystallise, since the principal activity of the company is the letting of the properties for rental income and it is not anticipated that the properties will be disposed of within the timeframe of (a) above. In the event of crystallisation of (a) and /or (b), the company will be obligated to pay an amount calculated with reference to the properties disposed of /not let out. The maximum sum repayable is £564,522.

NOTES TO THE ACCOUNTS

at 31 October 2005

25 GUARANTEES AND FINANCIAL COMMITMENTS

The group and company had annual commitments under non-cancellable operating leases as set out below:

	<i>Group</i> 2005	<i>Group</i> 2004	<i>Company</i> 2005	<i>Company</i> 2004
	£	£	£	£
	<i>Land and</i> <i>buildings</i>	<i>Land and</i> <i>buildings</i>	<i>Land and</i> <i>buildings</i>	<i>Land and</i> <i>buildings</i>
Operating leases which expire:				
In less than one year	57,540	62,000	–	–
In two to five years	–	–	–	–
After five years	1,266,712	1,506,732	1,266,712	1,266,712
	<u>1,324,252</u>	<u>1,568,732</u>	<u>1,266,712</u>	<u>1,266,712</u>
Capital commitments:				
	<i>Group</i> 2005	<i>Group</i> 2004	<i>Company</i> 2005	<i>Company</i> 2004
	£	£	£	£
Contracted but not provided for	<u>14,643,350</u>	<u>–</u>	<u>–</u>	<u>–</u>

26 ACQUISITIONS

Date of acquisition	<i>Britannic Global</i> <i>Income Trust plc</i> 11 October 2005
Investments – book value	£ 2,488,113
– fair value adjustment	–
Goodwill on acquisition	<u>2,488,113</u> <u>1,454,808</u>
Consideration	<u>3,942,921</u>
Represented by:	
Cash	£ <u>3,942,921</u>

Pre-acquisition financial information in respect of the company acquired during the year has not been provided as the figures are not material.

SHAREHOLDER INFORMATION

at 31 October 2005

27 RELATED PARTY TRANSACTIONS

- (a) Office facility and staff costs of £2,683,117 (2004 – £2,192,741) were billed to the group from Terrace Hill Partnership. Rent charges of £249,725 (2004 – £180,250) were billed by the group to Terrace Hill Partnership. The balance outstanding due by Terrace Hill Partnership to group companies at 31 October 2005 was £NIL (2004 – £NIL). R F M Adair, N J C Turnbull, R E Lane, P A J Leech, K W Grundy and T G Walsh are all partners in Terrace Hill Partnership.
- (b) Consultancy fees of £107,100 were charged to the group from Fineluck Limited, a company in which N J C Turnbull is a director and shareholder (2004 – £76,000). The balance due to Fineluck Limited by the Group at 31 October 2005 was £NIL (2004 – £15,000).
- (c) Included in management fees for the period are amounts charged to the following partnerships.

	2005	2004
	£	£
Guildford Partnership	22,983	28,125
Templar Circus Partnership	105,690	–

The relationship with the partnerships is disclosed in note 13.

- (d) Property management fees of £175,004 (2004 – £171,386) were charged to the group by Cyril Leonard & Co. in which D Blausten is a partner. The balance due to Cyril Leonard & Co. by the group at 31 October 2005 was £NIL (2004 – £42,652)
- (e) *Joint Venture Company – Achadonn Limited*

The following transactions took place between the group and its joint venture during the year:

	2005	2004
	£	£
Net short-term loan movements advances/(repayments)	–	650,000
Purchases of goods and services	1,700,000	800,000
Management fees received	70,000	13,333
Interest received	43,478	14,398

The following receivable balances relating to the joint venture undertakings were included in the consolidated balance sheet:

	2005	2004
	£	£
Short-term loans	650,000	650,000
Management fees	83,333	13,333
Interest	57,876	14,398

- (f) The group sold its interest in two subsidiaries Tannochside Development Limited and TH (One Portland Place) Limited on 30th April 2005 to a company ultimately controlled by Nigel Turnbull and Ross Macdonald. The consideration received was £2.
- (g) During the year the Group acquired from P A J Leech his interest in the ordinary share capital of Terrace Hill North East Limited at a cost of £1,116,358.

28 CONTROLLING PARTY

The company was controlled throughout the period by family trusts in which R F M Adair has an interest.

DIRECTORS

FINANCIAL CALENDAR

Annual General Meeting	10 March 2006, Glasgow
Half year results	July 2006
Full year results	February 2007

SHAREHOLDER ANALYSIS (AS AT 31 OCTOBER 2005)

<i>Size of holding</i>	<i>No</i>	<i>No. of shares</i>	<i>%</i>
1 – 1000	115	56,971	0.030
1,001 – 10,000	754	3,912,117	2.090
10,001 – 100,000	643	17,658,000	9.432
100,001 – 1,000,000	35	9,369,466	5.005
1,000,001 and over	10	156,222,270	83.443
	<hr/>	<hr/>	<hr/>
	1,557	187,218,824	100.00%

LONDON STOCK EXCHANGE

The ordinary shares of the Company are traded on the Alternative Investment Market of the London Stock Exchange with code THG.

2005 SHARE PRICE (pence per ordinary share)

Start of year	32.50
End of year	41.75

WEBSITE

www.terracehill.co.uk

Terrace Hill Group PLC Board

Robert Adair (49) Executive Chairman – After graduating in geology at Oxford University he qualified as a Chartered Accountant with Arthur Andersen & Co. He has substantial corporate finance experience, including a period working in the City. In 1984 he set up Terrace Hill. Robert is executive chairman of listed oil and gas group Melrose Resources plc. He is also non-executive chairman of AIM listed Plexus Holdings PLC and a non-executive director of quoted investment trust, Chameleon Trust PLC.

Philip Leech (42) MRICS – Group Managing Director – Joined Terrace Hill in 1993. Established and ran the North East office over the following 12 years and assumed responsibility as Group Managing Director in January 2005.

Tom Walsh (44) Group Finance Director – Joined Terrace Hill in 1996 and appointed Group Finance Director in 2002. He is responsible for all aspects of Group finance.

Will Wyatt (37) Non Executive Director – Director of Caledonia Investments plc. Other directorships include Cobepa, a Belgium based investment company, Avanti Screen Media, a specialised media and satellite company and Omniport, an operator of regional airports. Previously with Close Brothers Corporate Finance.

Douglas Blausten (54) Non Executive Director – Douglas is Senior Partner of Cyril Leonard, a firm of chartered surveyors based in London's West End.

Kelvin Hudson (44) Non Executive Director – Kelvin qualified as a Chartered Accountant in 1985 moving to Guernsey in 1995 and is Managing Director of Saffery Champness, Guernsey.

Operations Board

Since the year end we have created an Operations Board comprising executives with key skills and geographic responsibility. The Board comprises:

Philip Leech and Tom Walsh

Mandy Kelly (35) Company Secretary – A qualified solicitor, Mandy is based in our Glasgow office and is additionally responsible for our residential investment division and compliance.

Robert Lane (39) MRICS – Robert joined the Group in 1993 from Conrad Ritblat and has responsibility for property development in London and South East.

Adam Pratt (42) MRICS – Previously with Strutt & Parker and Hunting Gate, Adam joined Terrace Hill in 1996. Now based in our South West office, he has responsibility for our property development programme in the South West and Wales.

Martin Vickerman (43) MRICS – Joined Terrace Hill in 2004 having previously been Estates Director of Reg Vardy PLC and before that working with GVA Grimley. Martin is responsible for property development in the North East and is based in our Teesside office.

Duncan McEwan (41) MRICS – has been working from our North East office since joining the Group in 2003. With extensive experience of the retail sector, Duncan is responsible for our retail development throughout the UK.

Eric Beaven (46) MRICS – has been with Terrace Hill since 1996. A specialist in all areas of project co-ordination and construction, he takes overall responsibility for construction procurement delivery and project management.

Philip Littlehales (39) MRICS – joined our London office in 2005 having spent the previous 15 years in property investment at Morley. Philip takes special responsibility for property investment and fund management.

Robert Adair, Executive Chairman, Nigel Turnbull and Ross Macdonald, sit on the Operations Board in an advisory capacity.

LONDON

1 Portland Place
London W1B 1PN
Telephone 020 7631 1666
Facsimile 020 7631 1126
info@terracehill.co.uk



NORTH EAST

Westminster
St Mark's Court
Teesdale
Stockton on Tees TS17 6QP
Telephone 01642 243444
Facsimile 01642 243500
north@terracehill.co.uk



SOUTH WEST

Old Stables Court,
27a The Parade,
Marlborough
Wiltshire SN8 1NE
Telephone 01672 515520
Facsimile 01672 514655
adam.pratt@terracehill.co.uk



REGISTERED OFFICE

James Sellars House
144 West George Street
Glasgow G2 2HG
Telephone 0141 332 2014
Facsimile 0141 332 2015
enquiries@terracehill.co.uk

