Terrace Hill Group PLC

Annual Report and Accounts 2006
Registration number SC149799

Glasgow

Teesside

Bristol

London

Operational and Financial Highlights

EXCELLENT RESULTS FOR THE YEAR

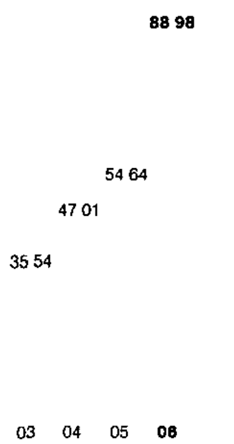
ADJUSTED DILUTED NAV PER SHARE 89.0P (2005: 54.6P) INCREASE 62.8%

DEVELOPMENT PROGRAMME END VALUE IN EXCESS OF £1.0 BILLION INCLUDING JOINT VENTURES

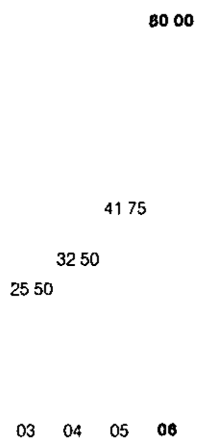
TOTAL SHAREHOLDER RETURN 95% TSR ON AN IRR BASIS OF 58% PER ANNUM SINCE 2002

RESIDENTIAL INVESTMENT PORTFOLIO UNDER MANAGEMENT OF £344.2 MILLION

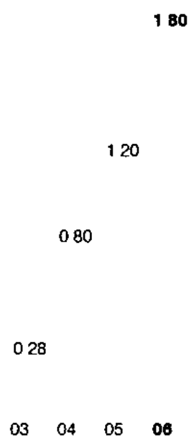
PROPOSED FINAL DIVIDEND 1.1P PER SHARE TOTAL DIVIDEND 1.8P PER SHARE (2005: 1.2P)



Adjusted diluted net asset value (pence per share)



Share price (pence)



Total dividend (pence per share)

Corporate Statement

Terrace Hill Group PLC (THG) is a regionally based UK property development and investment group. Formed in 1986, THG is listed on AIM with a market capitalisation in excess of £200 million.

The group has offices in **London**, the **North East**, the **South West** and **Scotland**, offering national presence with local knowledge. The business has three main divisions:

- Commercial development and investment
- Residential investment
- Housebuilding

THG manages a total commercial development and investment programme with a completed value of £1.072 billion, a residential investment portfolio of £344.2 million and a housebuilding landbank in Scotland with potential for over 1,200 units. The group has grown considerably since inception, consistently providing above average returns to shareholders.

Corporate Strategy

Terrace Hill is a UK property development and investment company. We aim to maximise shareholder returns through consistent growth in underlying assets by using:

- our development skills to create value
- vigorous asset management
- efficient and flexible financing
- a rigorous approach to managing risk
- an entrepreneurial, professional and experienced team

Commercial Portfolio by Location

Offices
Retail
Industrial

Current Commercial Development Programme

Total % end value by sector
Offices (79 6%)
Retail (9 9%)
Industrial (10 5%)

Total % end value by region
London (26 8%)
South East (29 9%)
South West (2 7%)
Midlands (4 9%)
North East (32 4%)
Scotland (3 3%)

Chairman's Statement

"I am pleased to announce another set of excellent results for the year to 31 October 2006. Our adjusted diluted net asset value (ADNAV) has increased by an exceptional 62 8% to 89 0p per share (2005 54 6p per share) in the year showing impressive returns on shareholders' capital employed in the business "

In 1986 I formed Terrace Hill as a small property company in central London Now in our 20th year of successful trading, I am pleased to announce another set of excellent results for the year to 31 October 2006 Our adjusted diluted net asset value (ADNAV) has increased by an exceptional 62 8% to 89 0p per share (2005 54 6p per share) in the year showing impressive returns on shareholders' capital employed in the business The triple net asset value (TNAV), which is calculated by deducting from ADNAV the deferred tax on the revaluation of the investment properties and contingent tax liability on the gains from trading properties, has increased by 50 9% to 73 6p per share (2005 48 8p per share) This significantly exceeded our target of growing the value of the business by 20–25% per annum Our average growth in TNAV since 2003 has been 27 2% per annum

Profits before tax are £4 7 million (2005 £4 2 million) It is the nature of our business that accounting profits vary from year to year depending on the timing of disposals and for this reason we focus on the growth of our ADNAV as a more appropriate reflection of the performance of the company

These excellent results enable the continuation of our progressive dividend policy and the board is recommending a final dividend of 1 1p per share to be paid on 30 March 2007 Taken with the interim dividend of 0 7p per share paid in August 2006 the total dividend in respect of the year to 31 October 2006 will be 1 8p per share, an increase of 50 0% over last year's figure We intend to maintain a progressive dividend policy

Our total shareholder return (TSR) for the year was 95 0%, and on an internal rate of return (IRR) basis the TSR since October 2002 has been 57 7% per annum TSR is the growth in the ordinary share price as quoted on the London Stock Exchange plus dividends received for the period expressed as a percentage of the share price at the beginning of the period

We remain focused on UK property development and investment with a strong regional presence, through our four offices, exploiting opportunities that arise in local markets Using our detailed and in depth local knowledge we create value by a combination of our development skills, efficient and flexible financing and vigorous asset management

1986
- Terrace Hill founded by Robert F M Adair

1989
- New head office in Sackville Street Mayfair

1993
- Philip Leech and Rob Lane join Terrace Hill to expand commercial development

1994
- Teesside office opens

1996
- The London headquarters 1 Portland Place developed
- Hylton Retail Park, Sunderland completed

1998
- Honda's European headquarters completed a landmark building at J5 of the M4
- Inaugural Terrace Hill *team building ski trip*

Above all we apply extreme care and attention to detail at every level of our business with skilled management and exceptional teamwork, acting nimbly to allocate and reallocate capital across sectors and types of property

A selection of operational highlights for the year include the launch of our first external development fund, the purchase of the at home Nationwide residential portfolio, in partnership, for just over £272 6 million and the formation of a series of financial development joint ventures providing greatly enhanced returns on equity This is in addition to the ongoing success of our core commercial development programme where significant progress has been made in terms of new lettings, sales of mature assets and the acquisition of new sites The total completed value of our current commercial development and investment programme is £1 072 billion (2005 £820 million)

The underlying strength of the UK property market appears to remain robust In the commercial market we foresee some levelling off of investment yields but further growth in rental values in selected sectors and locations, particularly offices The market's anticipated reduction in total returns from commercial investment property, as a result of lower capital growth, has encouraged a number of investors to seek out the higher returns achievable from commercial development These investors do not possess the requisite development skills to carry out projects on their own and look to form joint ventures with partners who have a proven track record in carrying out successful developments

This has increased the appetite for joint venture development opportunities and has allowed us to command increasingly attractive financial returns from our partnerships

In the residential market, most commentators are predicting further growth during the year ahead

Within our fledgling Scottish housebuilding business, we now have a full management team employed in a wholly owned subsidiary We continue to acquire sites judiciously and to complement the existing landbank, which now has the capacity for over 1,200 units It had previously been our intention to demerge this business as a separate AIM listed company early in 2007 However, we now believe more value will accrue to shareholders by delaying the demerger and growing the business further within Terrace Hill We intend to continue to add to the landbank and build a strong trading track record, both of which will undoubtedly increase the value on the demerger of the business

It has been our stated aim to increase our fee income In the year to October 2006 this amounted to £2 3 million (2005 £1 3 million) and has largely been generated from development management fees from our joint ventures and the new development fund These are paid during the development process, independent of the financial performance of the project We expect this income to grow significantly through 2007 and beyond as our commercial development programme expands and we increase our joint venture opportunities

The most important factor in our success is the dedication, professionalism and entrepreneurial flair of our personnel and during the year we introduced a Long Term Incentive Plan (LTIP) to provide further incentive to management We continue to strengthen our team, and we are pleased to welcome Nicky Wilden as our new Corporate Finance Director, who comes with an enviable track record of corporate and structured finance in the property sector

We have great confidence in our continuing ability to deliver enhanced returns to our shareholders

Robert F M Adair
Chairman
21 February 2007

1999
- The South West office opens for business One of the first schemes was a 30,000 sq ft leisure scheme at Wrexham
- Peak Village Derbyshire completed, a factory outlet and leisure scheme

2001
- 64 Clarendon Road Watford pre let

2002
- Terrace Hill Group PLC created from the merger of CapitalTech Plc and gains AIM listing on the London Stock Exchange
- The Cube, Newcastle, a headquarters office development sold to owner occupiers

2003
- Acquisition of Grosvenor Land Holdings PLC
- Development of 16 Berkeley Street, London W1 completed

2005
- The North East office moves into Westminster Teesdale Business Park
- UB One Uxbridge a speculative development of 80,000 sq ft let to Hertz

2006
- Acquisition of the at home portfolio
- Acquisition of Howick Place, Victoria, for a £180 million redevelopment
- On site at Baltic Business Quarter Gateshead

Review of Operations

"... regional strength coupled with astute financial structures helps us keep ahead of our competitors and generate above average risk weighted returns for our shareholders."

Business model

Our business model is based on utilising the local knowledge of our regional offices to exploit opportunities arising in local markets across the UK This regional strength coupled with astute financial structures helps us keep ahead of our competitors and generate above average risk weighted returns for our shareholders

Commercial development

The geographic diversification provided to us by our regional offices, along with sector selection, is important We have a total current and pending commercial development programme of £1 053 billion, by end value Of this £915 7 million (86 9%) is in the office sector which is currently showing the highest rates of rental growth and occupier demand of all the sectors Our exposure to retail development, totalling £91 5 million (8 7%), is virtually all in the retail warehouse sector where work does not commence until schemes are substantially pre let In the industrial and distribution sectors (£46 2 million, 4 4%) we aim to operate in regions where there is strong supply/demand imbalance sustaining values, for example in the South East for industrial and West Midlands for distribution

The outlook for commercial development remains strong with good occupier demand in selected sectors Of the developments on site at our year end, 40 2% by value was pre let or under offer to occupiers

We carry out most of our developments in joint ventures where our returns are enhanced through performance related profit shares and also development management fees, which are independent of the financial performance of the developments An example of this is the Terrace Hill Development Partnership (THDP) which closed in April 2006 We expect our internal rate of return (IRR) to be in the region of 153% per annum from this fund, including development management fees in excess of £1 million

At the year end we held ten schemes in joint ventures with a total end value of £256 million

I set out below a selection of some of the achievements during the year in our commercial development programme

- Temple Circus, Bristol was successfully completed This 90,000 sq ft city centre office headquarters had been pre sold to Stonemartin plc for £25 8 million
- Time Central, the 83,000 sq ft office development at Gallowgate in Newcastle city centre, was fully pre let a year ahead of completion with lettings to regional law firm Robert Muckle LLP and stockbrokers Brewin Dolphin Since the year end this development has been forward sold to clients of F & C for £32 5 million (4 52% net initial yield) We believe this is a record yield for a Newcastle office investment

  At Baltic Business Quarter, Gateshead, we started the construction of a new turnkey facility for Gateshead College which will comprise 180,000 sq ft of new education facility at a cost of £25 0 million

HQ Office Park Pinewood, Wokingham

This 20 acre site was unconditionally purchased from Hewlett Packard, with vacant possession, in April 2005 A variety of environmental and planning policy issues were overcome and detailed planning consent was granted in December 2006 for a low density, heavily landscaped business park At the same time terms were agreed with Johnson & Johnson Medical UK to construct a new 200,000 sq ft HQ office and training facility on the whole business park Johnson & Johnson Medical UK were persuaded by the merits of the scheme and the structuring of the financial proposal

Main Artist impression of Pinewood HQ
Bottom left Aerial photograph of Pinewood site

London

Time 10 30
Date· 20/12/06
Name. Robert Lane
Director, Development

After graduating from Reading University, Robert spent five years in Conrad Ritblat's development agency department before joining Terrace Hill in 1993 A chartered surveyor, he is the London director of commercial development, focusing on new development schemes in the capital and the South East With 14 years' development experience, Robert is responsible for many of the group's highest profile schemes As well as bringing up a young family, his interests outside of Terrace Hill include serious skiing and regular cycling to keep fit

Robert is supported by the rest of his London based team which comprises Ken Grundy (L), Nigel Wakefield (R) and Richard Myers (Far L, page 6)

Review of Operations

- New retail warehouse developments commenced at Blyth and Galashiels following substantial pre letting of both schemes with bulky goods and open A1 planning consents respectively They have both been forward sold and funded by Morley for a total of £27 8 million at net initial yields of 5 15% and 4 75%
- Cyprium, our two phase 70,000 sq ft office development at Swansea Waterfront was completed and fully let to the Welsh Development Agency who subsequently sub let the scheme to Admiral Insurance Plc The investment was sold to a private investor for £16 7 million reflecting a yield of 4 89%
- Construction has progressed well at 129 Wilton Road in Victoria, where occupational demand in the office sector has seen rents move ahead rapidly This rental growth, combined with significant yield compression since we purchased the site, points towards returns far exceeding our original expectations from the development Since the year end all 32 affordable and private residential units have been forward sold
- At Vanwall Business Park, Maidenhead we completed the purchase of an office development site from Abbott Laboratories, having previously submitted a planning application almost doubling the amount of built space on the site The site has been transferred into a joint venture which allows us to receive the benefit of a substantial profit from the increased value of the site following the receipt of planning We have a 20% equity interest in the joint venture in a development agreement which allows us to earn at least 50% of the development profits as well as development management fees Planning has been obtained since the year end
- At Pinewood, Wokingham a planning application was submitted for a 200,000 sq ft office headquarters for Johnson & Johnson Medical UK which we will develop on a turnkey basis Since the year end planning consent has been obtained which, under the development arrangements, will allow us to crystallise a profit from the enhanced site value as well as earn development management fees
- At Kean House in Covent Garden, we commenced refurbishment of a 24,600 sq ft office building with ground floor retail The scheme will have a completed value of approximately £20 8 million and is due for completion in Summer 2007 Tenant demand for mid town offices is strengthening as a result of shortages of available space in the core West End market
- The group has purchased an option to acquire a prominent office development site overlooking the river Thames at Hammersmith Located close to Hammersmith Bridge, the site has potential to accommodate a new office building of 110,000 sq ft with retail units fronting a new riverside walkway We expect construction to commence in 2008 and the scheme will have a completed value of around £63 7 million
- Other notable transactions include the sale of industrial units in Tunbridge Wells, Crawley, Eastbourne, Farnborough and Thanet totalling £20 4 million, obtaining outline planning for 85,500 sq ft of retail at Bishop Auckland, the sale of a mixed use residential and retail scheme in Hull, the completion of Stockton Riverside College Phase 2 and the sale of an office refurbishment in Watford for £7 0 million

Since the year end we have

- Acquired, in joint venture, House of Fraser's office headquarters in Victoria, London with a view to redeveloping the site for new offices and residential units with a prospective end value of £180 million
- Acquired a 16 5 acre mixed use and retail warehouse site in Middlesbrough with an existing planning consent for 63,000 sq ft which we believe we can expand to over 90,000 sq ft
- At our site at George Street, Croydon we have submitted a planning application for a 204,000 sq ft office scheme where we expect to start construction in late 2007
- We have been appointed preferred developer by Persimmon Homes to develop an 80 acre business park, to be known as Weston Park, on the

City Centre Office Scheme Temple Circus, Bristol

The long leasehold interest of this half acre city centre site, with a vacant four storey 1970's office building, was purchased from Bristol City Council following a competitive tender The Bristol team went on to masterplan and obtain planning consent for a new seven storey HQ office development The £13 million building contract was started in 2004, and became the largest office to be speculatively developed in Bristol for over ten years The building was forward sold 15 months prior to practical completion for £25 8 million to Stonemartin plc

Stonemartin took possession of the entire 90,000 sq ft building in October 2006

Main Temple Circus Bristol
Top left Cyprium Swansea
Bottom left Artist impression office unit at Filton Phase 1

Bristol

Time 14 32
Date. 14/11/06
Name. Adam Pratt
Director, Development

Adam joined Terrace Hill in 1996 and specialises in commercial development and investment projects He set up the South West office in 1999 and opened our new Bristol office in March 2006 He is director in charge of developments in the South West, North West and Wales Prior to Terrace Hill, Adam worked at Hunting Gate Developments and Strutt & Parker His interests include shooting, skiing and fishing Adam lives with his young family in Wiltshire

Adam is supported by his Bristol development colleague, Henry Burlingham (L) and office manager, Andrea Huggins

Review of Operations

old Weston airfield close to Junction 21 of the M5 The development will comprise around one million sq ft of commercial space and associated leisure and hotel facilities

- Acquired Canningford House a multi let city centre office building in Victoria Street, Bristol

We are making good progress in assembling a landbank of sites in various stages of the site assembly, planning and development process which will provide a long term development pipeline and sustain future returns to shareholders We continue to explore new geographic areas for business growth and are optimistic of securing substantial opportunities in the North West during 2007

Commercial fund management
In April we closed on our first external fund launch, the Terrace Hill Development Partnership (THDP) The fund was seeded with seven development sites with an aggregate sales value of over £90 million and allows investors access to Terrace Hill's diversified commercial development programme, including offices, retail, industrial and trade counter schemes across the UK The fund develops schemes with completed development values of between £5 million – £20 million and has a four year investment period

Terrace Hill has provided 20% of the equity in the fund and expect to receive over 40% of the development profit as well as development management fees in excess of £1 million

Residential fund management
In July we substantially completed the acquisition of the at home Nationwide portfolio in a partnership with the group holding a 49% interest Of the other 51%, 49% is held by the Skye Investments group and 2% by our Chairman, Robert Adair Skye Investments Limited is a company ultimately owned by family trusts for the benefit of Robert Adair and family The portfolio consists, in total, of 2,253 units throughout England and Scotland, principally let on assured shorthold tenancies, and the agreed purchase price was £272 6 million The value of the transferred properties at the year end was £307 0 million and a small number of properties remain to be transferred once specific conveyancing issues are resolved

Location of at home Nationwide portfolio by % value
London (46 2%)
South West (2 0%)
Midlands (5 8%)
North East (1 4%)
North West (12 9%)
Scotland (31 8%)

The portfolio was historically managed in house by a subsidiary of Nationwide The property management business (including staff) was transferred to Allsop Residential Investment Management who continue to carry out the day to day management and letting of the properties under a new subsidiary, trading as UK Home Lets (www ahn co uk) We have identified several areas for improving the performance of the portfolio, including reducing voids and maintenance costs and increasing rental levels

We are actively managing the portfolio and are currently in the process of disposing of some non core properties We are also investigating whether it would be beneficial for THG to transfer the majority of the portfolio into a residential investment fund

Our remaining core portfolio of 330 units was valued at the year end at £37 2 million and sales of selected stock are ongoing

The high quality of our residential investments and the low average value (£140,500 per unit) gives us confidence that they are less susceptible to house price volatility than poorer located or higher unit value stock We foresee reasonable increases in the value of the portfolio over the coming year

Residential Portfolio Acquisition UK Wide

On 31 July 2006 after considerable negotiation and due diligence, the acquisition was completed of the at home Nationwide portfolio This was one of the largest residential portfolios to come to the market in recent years The team saw considerable opportunities to add value to the portfolio through active asset management

Since acquisition, a number of properties have been sold at levels well above the purchase price Targeted disposals will continue in order to streamline the portfolio

The team has an enviable track record of astute acquisitions and an ability to realise profits through active management and strategic sales

Top left, right and bottom right Selection of at home portfolio assets
Bottom left Example of Scottish housebuilding product

Glasgow

Time· 10 42
Date: 15/11/06
Name. Miranda Kelly
Director and Group Company Secretary

Mandy graduated from Strathclyde University before qualifying as a solicitor with Glasgow firm McGrigor Donald LLP Mandy joined Terrace Hill in 1996 and heads up the Glasgow registered office where she specialises in residential investment and development

She is also the Group Company Secretary and oversees the FSA subsidiary Most of her spare time is spent with her three young children however she does enjoy skiing and socialising with friends

Mandy works closely with her commercial investment colleague, Philip Littlehales

Review of Operations

Housebuilding and land development
We have created a wholly owned housebuilding subsidiary with its own highly experienced management to carry forward our housebuilding and land development business in Scotland

During the course of the year we have acquired new sites at Patna (Ayrshire) and Ayr town centre and we now have a landbank capable of developing at least 1,200 units (or 200 units per year from 2008 onwards)

The housebuilding strategy is principally to acquire brownfield sites which will show a good uplift in value on planning and create large and sustainable margins The focus is predominantly in the West of Scotland in areas where there is good potential for growth The strategy is to exploit opportunities as they arise but generally to avoid high value apartment developments in Glasgow and Edinburgh and to aim at the middle family market Our aim is to achieve a turnover of 500 units per year within a five to six year period

Corporate social responsibility
As a leading property investment and development company involved in the acquisition, development and management of commercial and residential properties, the board recognises that our business activities have both a direct and indirect impact on the communities, environment and economies within which we operate

Our policy is implemented through an internal management system that supports targeting and achieving continuous improvements in our environmental performance

Environmental policy
The group is committed to maintaining high environmental standards in all its operations and to minimise the impact of its activities on the surrounding environment The nature of the work that Terrace Hill is involved in, means that the group has an opportunity, not only to minimise the negative impact on the environment, but also to enhance and improve the environment in which we all live and work

The group's policy is to minimise the risk of any adverse affect on the environment associated with its development activities, through the thoughtful consideration of such key areas of focus as energy use, pollution, transport, land use, ecology, renewable resources, health and wellbeing

Terrace Hill also aims to ensure that its contractors meet with their legislative and regulatory requirements and that codes of best practice are met and exceeded

The group's London office has recently had a review of its work practices from an environmental perspective The action points from this, which are being progressed, include waste and paper recycling, as well as encouraging a green transport policy

Notable examples of where our practices reflect our environmental aims include the use of a ground source heat pump system for heating and cooling at our office scheme in Victoria where we are seeking to achieve 10% renewable energy, improving energy saving by increasing rooflight coverage from 10% to 15% at our high bay warehouse at Redditch, and the development of a new M&S Simply Food "green" store at our Galashiels retail warehouse park which will be their first carbon neutral store

Local community
We actively promote public realm art in the community We have recently commissioned sculptures at Middlehaven in the North East and at Temple Circus in Bristol

Philip Leech
Group Managing Director
21 February 2007

Town Centre Retail Warehouse Park
Galashiels, Scotland

This 3 3 acre site in the centre of Galashiels was acquired in mid 2004 Planning was successfully obtained for a 43,500 sq ft retail scheme, anchored by Marks & Spencer Subsequently tenants including Next, New Look and Au Naturale have committed to take space on the site with the latest rents being achieved at £18 psf, showing significant rental growth since lettings commenced

The scheme was forward sold to Morley Fund Management in 2006 at a net initial yield of 4 75%

Main Artist impression Gala Retail Park Galashiels
Top left Hudson Quay Middlehaven
Bottom left Artist impression Time Central Newcastle

Teesside

Time: 11 54
Date 30/09/06
Name Duncan McEwan
Director, Retail Development

Duncan joined Terrace Hill's Teesside office in 2003, having worked in the Scottish development market for 15 years Duncan is responsible for the company's retail development activity throughout the UK He also deals with more general commercial development in Scotland and the North East

Duncan is an energetic and enthusiastic individual who enjoys shooting, skiing and golf, as well as bringing up a young family

Duncan is part of a close-knit team at the Teesside office, which includes Pam Holland and, pictured (L to R) Richard Hepworth, Martin Vickerman, Kath Rowe and Ed Bell

Financial Review

Basis of accounting
The key 2006 figures are summarised in the financial highlights on page 1 of this report These have been prepared under UK financial reporting standards (UK GAAP) This will be the last year that the group's results will be prepared on this basis All AIM listed companies will be required to adopt International Financial Reporting Standards (IFRS) for periods commencing on or after 1 January 2007 However, we have decided to adopt IFRS a year earlier than required and will present our results for the year ending 31 October 2007 under these regulations

The Balance Sheet at 31 October 2005 has been restated to reflect the accounting treatment of dividends paid by FRS 21 Events after the Balance Sheet Date This requires the final dividend to be accounted for in the year in which it is actually declared rather than accrued as a liability at the year end

International Financial Reporting Standards
The application of IFRS will not affect the economic value of the business but it will lead to differences in the level of profits and net assets reported A reconciliation of the results for the year ended 31 October 2006 and the Balance Sheet at that date prepared under UK GAAP and IFRS is presented on pages 48 to 52 of this report

The principal adjustments to convert UK GAAP to IFRS are

- Valuation surpluses or deficits on investment properties during the year will be reported in the Income Statement rather than as a movement in the revaluation reserve
- The capital gains tax that would be payable if the investment properties were sold at their current balance sheet valuation will be included in the Balance Sheet as a deferred tax liability Previously this has been disclosed only as a note to the accounts
- Lease incentives granted to tenants will be amortised over the longer period to lease expiry rather than to the next rent review

Whilst it is believed these figures will be our comparative results in our report for next year, the interpretation of IFRS continues to evolve and this may lead to changes when the 2007 figures are published

Adjusted diluted net asset value (ADNAV)
In line with many publicly quoted property companies we have chosen to highlight ADNAV as the principal measure of the group's performance, publishing this figure for the current and the previous year The following adjustments are made to the audited net asset value in arriving at our ADNAV

(1) Property revaluation properties and rights to properties held as current assets are revalued from cost (or realisable value if less) to market value The valuation has been performed by relevant directors qualified as chartered surveyors based on advice from CB Richard Ellis and takes account of development costs to complete and whether or not the property has been let and/or sold

(2) Share dilution the nominal value of shares to be issued under the employee long term incentive plan is added to net assets

We also include a Triple Net Asset Value (TNAV) figure in our Annual Report The following adjustments are made to ADNAV in arriving at our TNAV

(3) 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 ADNAV calculation has been deducted This includes deferred tax that would be payable on the 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

(4) Goodwill positive and negative goodwill is excluded

Profit and Loss Account
Turnover in the period including our share of joint ventures was £80 6 million (2005 £28 1 million) an increase of 186%

Calculation of ADNAV and TNAV (unaudited)

	Notes	31 10 2006 £ 000	Number of shares 000s	31 10 2006 pence per share	31 10 2005 restated £ 000	Number of shares 000s	31 10 2005 pence per share
Audited net asset value		106 651	187 219	57 0	77 646	187 219	41 5
Shares to be issued under the LTIP	2	57	2 836				
Revaluation of property held as current assets	1	62 401	190 055	32 8	24 655	187 219	13 2
Adjusted diluted net asset value		**169,109**	**190,055**	**89 0**	**102,301**	**187,219**	**54 6**
% increase				**62 8%**			
Estimated taxation on revaluation of current assets unrealised gains and availability of tax losses	3	(25 993)	190 055	(13 7)	(7 718)	187,219	(4 1)
Goodwill	4	(3,284)	190 055	(1 7)	(3 287)	187 219	(1 7)
Diluted TNAV		**139,842**	**190,055**	**73 6**	**91,295**	**187,219**	**48 8**
% increase				**50 9%**			

Group operating profit at £7 8 million is up from £3 9 million in 2005, an increase of 100% The operating profit margins for this year and 2005 were 9 7% and 14 7% respectively

The profit margin for the year has been reduced by the acquisition of a property in Maidenhead and its simultaneous sale at cost (£9 3 million) Additional consideration of £8 5 million has been earned since the year end following the receipt of planning and will be reflected in next year's profit

Our investment in associated undertakings produced a loss for the year This is primarily due to our investment in Terrace Hill Residential PLC the company that acquired the at home Nationwide residential portfolio Our share of the company is 49% and that contributed £0 8 million of the £0 9 million loss shown on the Profit and Loss Account In our Statement of Recognised Gains and Losses we have included our share of the unrealised surplus arising from the revaluation of the portfolio amounting to £21 9 million The other significant difference between profit in 2006 and 2005 is the profit on sale of investment properties which was £0 2 million in 2006 compared with £3 5 million for 2005 Profit before tax for the period was £4 7 million (2005 £4 2 million) an increase of 12%

Balance Sheet
Total group assets were £216 7 million (2005 £173 4 million) an increase of 25 0%

The net assets at the end of the year after deducting minority interests were £107 0 million (2005 £78 0 million) an increase of 37 2%

Of significance is the move away from 100% ownership of our properties whether trading or investment Through our investment in the Terrace Hill Development Partnership and other funds, all accounted for as associates, we participate in development schemes with an end value of £256 million while our equity is limited to £9 1 million

The single most significant transaction affecting the Balance Sheet was our share of the acquisition of the at home Nationwide residential investment portfolio Our share of the acquisition was 49% and that contributed to an increase in investment in associates and revaluation reserve at the year end of £21 9 million

Gearing
Bank debt at the year end was £70 4 million (2005 £66 million) net of cash of £8 6 million (2005 £12 million) This represented 66% of equity (2005 86 5%) Of this 60 8% (2005 49 7%) was with limited or no recourse to the parent company

The bank debt primarily relates to the group's development assets which are generally held for relatively short periods, hence the group is not exposed to medium or longer term movements in interest rates Interest rate hedging is in place for much of the debt used to finance the acquisition of the at home Nationwide residential investment portfolio

The group had £28 million of undrawn bank facilities at the year end

Dividends
Dividends paid in the year being the final dividend of 0 7p for 2005 and the interim dividend of 0 7p for 2006 amounted to 1 4p per share (2005 1 2p restated) and in accordance with FRS 21 these have been accounted for through reserve movement rather than in the Profit and Loss Account The board is recommending to shareholders at the Annual General Meeting on 30 March 2007 a final dividend of 1 1p per share, making a total dividend for the year of 1 8p The final dividend will be paid on 30 March 2007 to all shareholders on the register of the company as at 16 March 2007

Earnings per share
Basic earnings per share was 2 15p, up from 1 86p in 2005, an increase of 15 6% Diluted earnings per share was 2 11p, also up from 1 86p in 2005, an increase of 13 4%

Total Shareholder Return (TSR)
The table below shows the TSR to the shareholders since 31 October 2002 On an internal rate of return (IRR) basis the TSR since October 2002 was 57 7% per annum while the total TSR since that date is 504%

Overall our financial results demonstrate an excellent year for the group with significant growth in the key performance measures of ADNAV and TSR

Tom Walsh
Group Finance Director
21 February 2007

Total Shareholder Return

	2006	2005	2004	2003
Share price at end of the year	**80 00p**	41 75p	32 50p	25 50p
Share price at start of the year	**41 75p**	32 50p	25 50p	13 75p
Movement	**38 25p**	9 25p	7 00p	11 75p
Dividend paid per share	**1 40p**	1 00p	45p	26p
Total return	**39 65p**	10 25p	7 45p	12 01p
% return	**95 0%**	31 5%	29 2%	87 4%

Directors and Advisers

Robert F M Adair MA, ACA, CTA, FGS **(50)**
Executive Chairman
Robert founded Terrace Hill in 1986 After graduating in geology from Oxford University he qualified as a chartered accountant with Arthur Andersen & Co and then gained corporate finance experience in the City He is executive chairman of Melrose Resources plc, a listed oil and gas company and non executive chairman of Plexus Holdings plc, a company producing innovative wellheads for the oil industry also quoted on AIM Robert is also a non executive director of Chameleon Trust Plc, a quoted investment trust

Philip Leech (43)
Group Managing Director
Philip, a chartered surveyor, worked for Strutt & Parker's investment agency team before joining Terrace Hill in 1993 He established and ran the North East office from 1994 before being appointed Group Managing Director in 2005

Kelvin Hudson (45)
Non executive Director
A chartered accountant and managing director of Saffery Champness Guernsey Kelvin has worked in the fiduciary sector in Guernsey since 1995 and prior to that spent six years as finance director of Network Security (Holdings) Limited, a London group specialising in the detection and prevention of fraud He is also a non executive director of Melrose Resources plc

Tom Walsh s London finance team (L to R)
Dominic Sykes Janet Li Tienzo Davinya Principe Olu Ogunleye and Frances Chan

Some of Eric Beaven s London project management team (L to R)
James Rosier Sharon Marchant and Steve Lee-Sang

Tom Walsh (45)
Group Finance Director
Tom is a qualified chartered accountant who has worked in the property sector since 1988 He joined Terrace Hill in 1996 and is Group Finance Director Previously Tom worked with Rush & Tomkins and Vestey Estates

Will Wyatt (38)
Non executive Director
A director of Caledonia Investments plc, Will is also a non executive director of Avanti Screenmedia Group, a specialist media and satellite company, Cobepa, a Belgian based investment company, Melrose Resources plc and Chairman of the Advisery Board of TGE Holdings GmbH, a specialist gas engineering business Prior to joining Caledonia Investments, Will was with Close Brothers Corporate Finance

Registered office
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144 West George Street
Glasgow G2 2HG

Registered number
SC149799

Company Secretary
M A Kelly LLB NP

Nominated adviser
Noble & Company Limited
76 George Street
Edinburgh EH2 3BU

Nominated broker
Oriel Securities Ltd
125 Wood Street
London EC2V 7AN

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

Operations Board

Nicky Wilden
Corporate Finance Director

Duncan McEwan
Director, Retail Development

Adam Pratt
Director, South West Development

Eric Beaven
Director, Projects

Mandy Kelly
Director, Residential and Group Company Secretary

Philip Littlehales
Director, Investment

Robert Lane
Director, London Development

Martin Vickerman
Director, North East Development

Terrace Hill Portfolio

Office development programme

Current schemes
Sites completed, under construction or with detailed planning permission

Development	Region	Size (sq ft)	Description	Timing	Potential value at completion (£ million)
Victoria, SW1 129 Wilton Road	London	130,000	Substantial mixed use scheme of office, retail, private and affordable residential All residential pre sold	On site Completes late 2007	£87 2
Farnborough Phase 1, Aeropark Cirrus	South East	36,300	Development of 15 small office units ranging in size from 1,793–2,975 sq ft Located adjacent to Farnborough Airfield and Aerospace Business Park One unit sold	Completed	£9 2
Guildford Phase 2, Parklands	South East	18,400	Mixed use scheme 14 small office units ranging in size from 1,500 1,650 sq ft Eight sold	Completed	£2 6
Wokingham Pinewood	South East	200,000	Planning consent received December 2006 for new Johnson & Johnson headquarters building and training centre in parkland setting	On site Spring 2007	£40 0
Maidenhead Phase 1 & 2 Vanwall Business Park	South East	120,000	Planning received December 2006 for two buildings on prime business park	On site early 2007	£62 0
Newcastle Time Central Gallowgate	North East	83,000	Seven storey office development, fully pre let and forward sold	On site Autumn 2007	£32 5
Teesside Phase 1, Hudson Quay Middlehaven	North East	30,700	First speculative office building on a planned 160,000 sq ft office park adjoining Middlesbrough FC	Completed	£7 0
Teesside Resolution Teesdale Business Park	North East	60,000	Prime development site on Teesdale Business Park, with detailed planning consent	Awaiting pre let	£15 3
Teesside Phase 2 Stockton Riverside College Teesdale Business Park	North East	20,000	Second phase of college development on Teesdale Business Park Sold	Completed	£4 0
Teesside 3 Acre Site Teesdale Business Park	North East	55,000	Office scheme of five buildings Phase 1 comprises three buildings totalling 33,000 sq ft	On site February 2007	£14 5
Gateshead Baltic Business Quarter Buildings A, B & C	North East	70,000	Detailed planning for three office buildings	Anticipated start on site late 2007	£17 3
Gateshead Gateshead College	North East	180,000	College development for owner occupier	On site Completes late 2007	£25 0
Filton, Bristol Phase 1 & 2 Brabazon Office Park	South West	42,000	Small unit office scheme for owner occupation or to let	Phase 1 completes March 2007	£11 9
Kean House Covent Garden, WC1	London	24,600	Substantial refurbishment of an existing office building arranged over nine floors with two ground floor retail units	On site Completes June 2007	£20 8

Baltic Business Quarter Gateshead

129 Wilton Road Victoria

Cirrus Farnborough

Resolution Teesside

Terrace Hill Portfolio

Office development programme

Pending schemes
Medium term developments held prior to detailed planning

Development	Region	Size (sq ft)	Description	Timing	Potential value at completion (£ million)
Croydon George Street	South East	204,000	Office development site in prime location opposite East Croydon railway station Planning application submitted for an HQ office scheme	Anticipated start on site late 2007	£75 0
Teesside Phase 2–5, Hudson Quay Middlehaven	North East	130,000	Office park with option to drawdown sites under development agreement with English Partnerships	Subject to letting of Phase 1	£20 0
Gateshead Balance of site at Baltic Business Quarter	North East	34 acres	Unserviced land with benefit of OPP Whole 50 acre site has planning consent for 1 5 million sq ft of business use	Ten year programme	£127 0
Hammersmith, W6	London	110,000	Option to acquire freehold of existing 30,000 sq ft office building with vacant possession Currently seeking planning consent	Anticipated start on site 2008	£63 7
Stevenage Knebworth Innovation Park	South East	40 acres	Ten year option from March 2002 for employment use (such as business or science park) Currently negotiating planning consents	Anticipated planning consent 2009	£30 0
Farnborough HQ/Hotel site Aerospace Park	South East	273,000	Remaining site comprising 11 5 acres with planning consent for mixed use Seeking pre lets	Anticipated start on site 2008	£70 8
Victoria, SW1 Howick Place	London	200,000	Substantial mixed use development of House of Fraser HQ	Anticipated start on site late 2008	£180 0

Retail development programme

Current schemes
Sites completed, under construction or with detailed planning permission

Development	Region	Size (sq ft)	Description	Timing	Potential value at completion (£ million)
Blyth, Northumberland Phase 1, Blyth Retail Park	North East	55,000	A bulky goods retail park 90% let Forward sold to a UK institution	On site Completes May 2007	£13 4
Galashiels, Scotland Gala Retail Park	Scotland	43,500	Retail park with open A1 non food retail 90% let Forward sold to UK institution	On site Completes August 2007	£14 5
King Street W1	London	6 000	Three unit retail scheme Sold since year end	Completed	£2 3
Bishop Auckland Phase 1	North East	85,500	Proposed retail warehouse with ancillary garden centre and builder's yard Outline planning consent obtained	Anticipated start on site 2008	£13 2

Pending schemes
Medium term developments held prior to detailed planning

Development	Region	Size (sq ft)	Description	Timing	Potential value at completion (£ million)
Blyth, Northumberland Phase 2, Blyth Retail Park	North East	15,000	Adjacent to Phase 1, planning consent being sought for bulky goods retail warehousing	Anticipated start on site late 2007	£3 4
Galashiels, Scotland Phase 2, Gala Retail Park	Scotland	15,000	Strategic ownership of site which forms access to Phase 2 land Site assembly and planning consent required	Anticipated start on site 2008	£4 5
Helston Retail Warehouse Site	South West	55,750	Option to acquire 5 25 acre site adjacent to Flambards tourist attraction Planning sought for retail warehouse scheme	Anticipated planning consent 2008	£14 2
Site at Darlington	North East	24 acres	An option to acquire the site which will run until a planning consent is obtained	Anticipated planning consent 2009	£15 0
Penrith Retail Warehouse Site	North West	40,000	Option on proposed scheme for non food, bulky goods, retail accommodation and an A3 restaurant Planning application submitted and determination awaited	Anticipated start on site 2008	£11 1

Hudson Quay Middlehaven

Vanwall Business Park Maidenhead

Kean House Covent Garden WC1

Howick Place Victoria SW1

Industrial development programme

Current schemes
Sites completed, under construction or with detailed planning permission

Development	Region	Size (sq ft)	Description	Timing	Potential value at completion (£ million)
Eastbourne Brampton Business Park	South East	103,000	5 1 acres for redevelopment of mixed use industrial and trade counter scheme Three units pre sold/let	On site Completes March 2007	£11 0
Farnborough Phase 1, Aeropark Nimbus	South East	40,000	Small unit industrial scheme 50% sold	Completed	£5 0
Tunbridge Wells Unit F2, Phase 2 Decimus Park	South East	10,800	Completed industrial unit Last unit available on Decimus Park	Completed	£1 3
Redditch REDD 42 Ravensbank Business Park	Midlands	232,680	High bay distribution warehouse	Completed	£21 4
Edmonton, N18 Bull Lane	London	4 5 acre	Industrial development site	Considering sale 2007	£7 5

Commercial investment portfolio

Commercial investments with development potential

Development	Sector	Region	Size (sq ft)	Description	Current value (£ million)
Platts Eyot, TW12	Residential	London	12 acres	Listed island on the Thames at Hampton, with residential potential	£5 0
Sheffield Castle Gate House and 22 22 Haymarket	Mixed use	North	110,000	Vacant department store let to BHS and an occupied adjacent retail unit Redevelopment potential for mixed use scheme	£10 7
Bristol Canningford House 38 Victoria Street	Offices	South West	20,500	Multi let office building on long leasehold with potential redevelopment	£2 5

Residential investment portfolio

Residential investments

Property portfolio	No of units	Description	Vacant possession value (£ million)
TH "Portfolio One"	330	Mixed portfolio of residential units, principally in Scotland, with small representation in England	£37 2
TH Residential PLC	2115	Acquired from at home Nationwide in July in an associated company in which Terrace Hill Group PLC has a 49% interest Portfolio of residential properties located one third Scotland, two thirds England Transfer of the remaining units is ongoing	£307 0

Brampton Trade Park Eastbourne

Nimbus Farnborough

REDD 42 Redditch

Decimus Park Tunbridge Wells

Terrace Hill Portfolio

Scottish housebuilding programme

Scottish housebuilding sites

Development	Size (acres)	Description	Timing
Irvine Road, Kilmarnock	18	Former brickwork site Planning application submitted for 174 units	Anticipated planning consent 2008
Torbothie Road/ Benhar Road, Shotts	22	Former brickwork site Planning application submitted for 169 houses	Anticipated planning consent late 2007
Carnshalloch Avenue Patna	2	Strip of ground which gives access to the caravan park Planning permission for 16 units Development well under way	Currently on site
Patna Caravan Park	30	Former Caravan Park Potential for 250 units Draft Local Plan currently allocates 160 units Existing planning permission for conversion of derelict country house and outbuildings to 15 units on three acres of the site	Anticipated planning consent (Phase 1) 2008
The County Hotel Wellington Square, Ayr	0 45	Refurbishment of a former hotel into 16 flats and three storey office building	On site Completes 2007
"Caponacre" Cairn Road, Cumnock	1 55	Potential for 18 units	Anticipated planning consent 2007
Lower Bathville, Armadale	62	Industrial brownfield land Partly owned in JV Potential for 500 units	Anticipated planning consent 2009
Carluke Mayfield	10 9	Industrial brownfield land Currently owned in JV Potential for 90 units	Anticipated planning consent 2009
Carluke Boghall Road	10	Currently owned in JV Potential for 48 units	Anticipated planning consent 2009

Raleigh Close

The Quadrant

Spath Holme

Scottish housebuilding product

Financial Contents

Directors' Report

The directors submit their report and the group financial statements for the year ended 31 October 2006

Results and dividends
The group profit for the period, after taxation and minority interests amounted to £4,015,650 The directors recommend the payment of a final dividend of 1 1p per share making a total dividend for the year of 1 8p per share

Principal activity and review of business
The group's principal activities are property investment, development and trading

The Chairman's Statement, Review of Operations and Financial Review on pages 4 to 15 include a review of the development of the business of the company and its subsidiaries during the period

Acquisitions and disposals
During the period the group acquired a property investment company and details of the acquisition are included in Note 27

A number of subsidiaries engaged in property development were sold in the period and details of the disposals are also shown in Note 27

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

	At 31 October 2006 Ordinary shares	At 1 November 2005 (or date of appointment) Ordinary shares
R F M Adair	**129,258,549**	129,258,549
D R Macdonald (resigned 6 February 2006)	–	558,552
N J C Turnbull (resigned 6 February 2006)		231,355
P A J Leech	**1,584,447**	1,564,447
T G Walsh	**40,000**	35,000
K W Grundy (resigned 6 February 2006)	–	15,000
M A Kelly (resigned 6 February 2006)	–	108,302
R E Lane (resigned 6 February 2006)		40,000
K M Hudson		–
W P Wyatt	–	–
D Blausten (resigned 27 February 2006)	–	–
G T P Brennan (resigned 6 February 2006)	–	148,484

Under a long term incentive scheme the following maximum number of share awards were granted at 46 75p per share on 7 February 2006

	At 31 October 2006	At 1 November 2005
R F M Adair	**534,759**	–
P A J Leech	**534,759**	–
T G Walsh	**320,855**	

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

Details of directors' material interests in contracts are given in Note 28 to the financial statements

Financial instruments
Details of the use of financial instruments by the company and its subsidiary undertakings are contained in Note 18 to the financial statements

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 19 days' (2005 33 days') purchases outstanding in trade creditors

Auditors
The directors have made themselves aware of any information needed by the company's auditors for the purposes of their audit and have established that the auditors are aware of that information The directors are not aware of any relevant audit information which has not been disclosed to the 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

M A Kelly
Company Secretary
21 February 2007

Statement of Directors' Responsibilities

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

- select suitable accounting policies and apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements 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

The maintenance and integrity of the company's website is the responsibility of the directors, the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that have occurred to the information contained in the financial statements since they were initially presented on the website

Auditors' Report

We have audited the group and parent company financial statements (the "financial statements") of Terrace Hill Group PLC for the year ended 31 October 2006 which comprise the Group Profit and Loss Account, the Group and Parent Company Balance Sheets, the Group Statement of Cash Flows the Group Statement of Total Recognised Gains and Losses and the related notes The financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with those financial statements We also report to you if, in our opinion, 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 other transactions 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 Directors' Report, Chairman's Statement, Review of Operations and Financial Review 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 International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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

Opinion
In our opinion

- the group financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's affairs as at 31 October 2006 and of its profit for the year then ended,
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice of the state of the parent company's affairs as at 31 October 2006,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

BDO Stoy Hayward LLP

BDO Stoy Hayward LLP
Chartered Accountants and Registered Auditors
Glasgow
27 February 2007

Group Profit and Loss Account
for the year ended 31 October 2006

	Notes	Year ended 31 October 2006 £'000	Year ended 31 October 2005 £'000
Turnover			
Group and share of joint venture		**80,562**	28,119
Less share of joint venture		**69**	1,269
Group turnover	2	**80,493**	26,850
Group operating profit		**7,844**	3,966
Share of joint venture operating (loss)/profit		**(85)**	202
Share of associated undertakings operating (loss)		**(902)**	–
	3	**6,857**	4,168
Gain/(loss) on disposal of fixed asset investments		**126**	(1)
Amounts written off other investments		**(2)**	(12)
Net gain on disposal of investment properties	5	**195**	3,495
Gain/(loss) on disposal/liquidation of subsidiaries	27	**575**	(108)
Income from other fixed asset investments		**193**	15
Interest receivable		**386**	637
Interest payable	4	**(3,605)**	(3,957)
Profit on ordinary activities before taxation	5	**4,725**	4,237
Taxation (charge)	8	**(711)**	(763)
Profit on ordinary activities after tax		**4,014**	3,474
Minority interest		**2**	4
Profit for the financial year		**4,016**	3,478
Basic earnings per share	10	**2 145p**	1 864p
Diluted earning per share	10	**2 113p**	1 864p

All amounts relate to continuing operations

The notes on pages 33 to 47 form part of these financial statements

Group Statement of Total Recognised Gains and Losses
for the year ended 31 October 2006

	Year ended 31 October 2006 £'000	Year ended 31 October 2005 £'000
Profit for the financial year excluding share of profit/(loss) of joint venture and associated undertakings	**5,054**	3,415
Share of joint venture (loss)/profit for the year	**(136)**	63
Share of associated undertakings (loss) for the year	**(902)**	–
Profit for the financial year	**4,016**	3,478
Unrealised surplus on revaluation of investment properties	**4,343**	3,735
Share of revaluation surplus in associated undertakings	**22,645**	–
Unrealised surplus on revaluation of unlisted investments	**328**	6
Total recognised gains and losses for the year	**31,332**	7,219

Note of Historical Cost Profits and Losses
for the year ended 31 October 2006

	Year ended 31 October 2006 £'000	Year ended 31 October 2005 £'000
Reported profit on ordinary activities before taxation	**4,725**	4,237
Realised surplus on previously revalued properties	**2,169**	7,942
Historical cost profit on ordinary activities before taxation	**6,894**	12,179
Historical cost profit for the period retained after taxation and minority interests	**6,185**	11,420

The notes on pages 33 to 47 form part of these financial statements

Group Balance Sheet
at 31 October 2006

	Notes	31 October 2006 £ 000	31 October 2005 restated £ 000
Fixed assets			
Intangible assets	11		
Positive goodwill		**4,149**	4,465
Negative goodwill		**(865)**	(1,178)
		3,284	3,287
Tangible assets	12	**57,003**	52,958
		60,287	56,245
Investments	13		
Joint venture – share of gross assets		**5,260**	4,958
Joint venture – share of gross liabilities		**(5,240)**	(4,802)
		20	156
Investment in associated undertakings		**23,893**	–
Other fixed asset investments		**1,409**	2,599
		25,322	2,755
		85,609	59,000
Current assets			
Work in progress	14	**75,693**	89,162
Debtors	15	**46,828**	13,207
Cash at bank and in hand		**8,591**	12,052
		131,112	114,421
Creditors amounts falling due within one year	16	**(49,759)**	(28,667)
Net current assets		**81,353**	85,754
Total assets less current liabilities		**166,962**	144,754
Creditors amounts falling due after more than one year	16	**(59,997)**	(66,758)
Net assets		**106,965**	77 996
Capital and reserves			
Called up share capital	19	**3,744**	3,744
Share premium account	20	**19,369**	19,369
Revaluation reserves – investment properties	20	**19,442**	17,268
Revaluation reserves – other	20	**22,996**	23
Capital redemption reserve	20	**849**	849
Merger reserve	20	**8,386**	8,386
Profit and Loss Account	20	**31,865**	28,007
Shareholders' funds	21	**106,651**	77,646
Minority interests		**314**	350
		106,965	77,996

The financial statements were approved by the board and authorised for issue on 21 February 2007

P A J Leech
Director

T G Walsh
Director

The notes on pages 33 to 47 form part of these financial statements

Company Balance Sheet
at 31 October 2006

	Notes	31 October 2006 £'000	31 October 2005 restated £'000
Fixed assets			
Investments	13	**32,786**	32,674
Current assets			
Debtors due within one year	15	**29,120**	24,243
Debtors due after more than one year	15	**26,176**	34,841
Cash at bank and in hand		**1,634**	1,283
		56,930	60,367
Creditors amounts falling due within one year	16	**(35,754)**	(35,134)
Net current assets		**21,176**	25,233
Net assets		**53,962**	57,907
Capital and reserves			
Called up share capital	19	**3,744**	3,744
Share premium account	20	**19,369**	19,369
Revaluation reserves – other	20	**32**	23
Capital redemption reserve	20	**849**	849
Merger reserve	20	**15,986**	15,986
Profit and Loss Account	20	**13,982**	17,936
Shareholders' funds		**53,962**	57,907

The financial statements were approved by the board and authorised for issue on 21 February 2007

P A J Leech Director

T G Walsh Director

The notes on pages 33 to 47 form part of these financial statements

Group Statement of Cash Flows
for the year ended 31 October 2006

	Notes	Year ended 31 October 2006 £ 000	Year ended 31 October 2005 £ 000
Cash (outflow) from operating activities	23(a)	**(13,033)**	(48,931)
Returns on investments and servicing of finance	23(b)	**(5,459)**	(6,138)
Taxation		**(585)**	(992)
Capital expenditure and financial investment	23(b)	**10,652**	54,102
Acquisitions and disposals	23(b)	**(4,418)**	(4,903)
Equity dividends paid		**(2,621)**	(1,865)
Cash (outflow) before liquid resources and financing		**(15,464)**	(8,727)
Financing	23(b)	**12,880**	2,735
(Decrease) in cash	23(c)	**(2,584)**	(5,992)

Reconciliation of Net Cash Flow to Movement in Net Debt

	Year ended 31 October 2006 £'000	Year ended 31 October 2005 £ 000
(Decrease) in cash	**(2,584)**	(5,992)
Cash flow from financing	**(12,880)**	(2,735)
Change in net debt arising from cash flows	**(15,464)**	(8,727)
Debt on acquisition of subsidiary	**(3,110)**	–
Debt on disposal of subsidiaries	**13,775**	–
Debt issue costs	**455**	495
Movements in net debt during the period	**(4,344)**	(8,232)
Opening net debt	**(66,031)**	(57,799)
Closing net debt	**(70,375)**	(66,031)

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

The notes on pages 33 to 47 form part of these financial statements

Notes to the Financial Statements

1 Accounting policies

Accounting convention
The financial statements 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 2006 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 Group 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 Group 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

Associates
An entity is treated as an associated undertaking where the group has a participating interest and exercises significant influence over its operating and financial policy decisions

In the group financial statements interests in associated undertakings are accounted for using the equity method of accounting The Group Profit and Loss Account includes the group's share of the operating results, interest, pre-tax results and attributable taxation of such undertakings based on audited financial statements In the Group Balance Sheet, the interests in associated undertakings are shown as the group's share of the identifiable net assets, including any unamortised premium paid on acquisition

Any premium on acquisition is dealt with under the goodwill policy

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 FRS 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

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 work in progress where appropriate Provision is made for any foreseeable losses 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 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

Notes to the Financial Statements

1 Accounting policies continued

Investment properties continued

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 financial statements 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

Rentals paid under operating leases are charged to income on a straight line basis over the term of the lease

Turnover and cost of sales

Sales of development properties are reflected in the financial statements 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 financial statements 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 financial statements 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 FRS 4 Capital Instruments, costs incurred in raising finance are netted off against the loan proceeds and amortised over the life of the loan

Events after the balance sheet date

The group has adopted FRS 21 Events after the Balance Sheet Date Previously, equity dividends declared after the balance sheet date were recognised as liabilities at the year end, as required by company law and SSAP 17 Accounting for post Balance Sheet Events In accordance with FRS 21 and recent changes to the law, if a final equity dividend is declared after the balance sheet date but before the financial statements are authorised for issue, the dividend is not recognised as a liability at the balance sheet date

The adoption of FRS 21 has resulted in an increase in shareholders funds of £1,311,000 at 31 October 2005 due to the write back of the proposed final dividend at 31 October 2005

Share based payments

The group provides share based payments in the form of performance share plan awards For the performance share plan, where non market conditions apply, the fair value of the awards is charged to the Profit and Loss Account over the vesting period on the best available estimate of the number of awards that are expected to vest Estimates are subsequently revised if there is any evidence that the number of awards expected to vest differs from previous estimates

Although FRS 20 Share based Payment only applies to unlisted and AIM listed companies for accounting periods commencing on or after 1 January 2006, the group has decided to adopt FRS 20 in the current period

2 Turnover

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

	2006 £'000	2005 £'000
Sales of development properties	**73,689**	20,129
Rents receivable	**4,422**	5,384
Management fees and other income	**2,382**	1,337
	80,493	26,850
Share of joint venture turnover	**69**	1,269
	80,562	28,119

3 Operating profit

	2006 £'000	2005 £'000
Turnover	**80,493**	26,850
Cost of sales	**(65,941)**	(18,854)
Gross profit	**14,552**	7 996
Administrative expenses	**(6,708)**	(4,030)
Group operating profit	**7,844**	3,966
Share of joint venture (loss)/profit	**(85)**	202
Share of associated undertakings (loss)	**(902)**	–
Total operating profit	**6,857**	4,168

4 Interest payable

	2006 £'000	2005 £'000
On loans and overdrafts	**5,072**	5,765
Amortisation of issue costs	**795**	241
Interest capitalised	**(2,312)**	(2,188)
Total group interest payable	**3,555**	3,818
Share of joint venture interest payable	**50**	139
	3,605	3,957

5 Profit on ordinary activities before taxation

	2006 £'000	2005 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting)		
Auditors' remuneration – audit fees	**128**	132
Auditors' remuneration – other fees	**–**	5
Depreciation of owned fixed assets	**69**	84
Loss on disposal of fixed assets	**–**	128
Operating lease charges – rent of properties	**1,332**	1,297
Positive goodwill – amortisation	**523**	469
Share based payment	**294**	–
Loss/(gain) on disposal of investment properties	**129**	(2,716)
Release of negative goodwill	**(324)**	(779)
Net gain on disposal of investment property	**(195)**	(3,495)
Investment property rental income (included in turnover)	**(4,422)**	(5,384)

Notes to the Financial Statements

6 Directors' emoluments

	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Emoluments	674	1,206	–	–
Amounts paid to third parties in respect of directors' services	91	127	12	25
Amounts receivable under long term incentive schemes	70	33	–	–
Compensation for loss of office	60	–	–	–
Pension contributions	78	42	–	–

Pension contributions to defined contribution schemes were made during the year in respect of 4 directors (2005 6)

The emoluments of the highest paid director for the year including salary, bonuses and benefits were £241,000 (2005 £292,000) Pension contributions in respect of the highest paid director were £NIL (2005 £NIL) Out of the share based payment charge of £294,000 (see Note 25) £89 000 (2005 £NIL) relates to share based payments to directors

7 Staff costs

	2006 £'000	2005 £'000
Wages and salaries	2,350	1,731
Social security costs	244	210
Other pension costs	99	49
	2,693	1,990

The average monthly number of employees during the year was 23 (2005 27) No staff costs were incurred by the company in the year

8 Tax on profit on ordinary activities

(a) Analysis of charge in year

		2006 £'000	2005 £'000
Current tax			
UK corporation tax on profits for the year		1,376	1,357
Adjustment in respect of prior periods		(537)	(476)
Total current tax		839	881
Deferred tax			
Origination and reversal of timing differences	– current year	(128)	(552)
	– prior year	–	434
Tax on profit on ordinary activities		711	763

(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

	2006 £'000	2005 £'000
Profit on ordinary activities before tax	4,725	4,237
Profit on ordinary activities multiplied by the standard rate of UK corporation tax of 30%	1,417	1,271
Disallowables	165	(22)
Provisions released	45	(94)
Capital gains	–	1,823
Gain on sale of properties	(52)	(803)
Wear and tear allowances and capital allowances in excess of depreciation	16	(505)
Goodwill amortised	46	(93)
Losses brought forward utilised	(34)	(220)
Consortium relief losses utilised	(456)	–
Unutilised losses carried forward	229	–
	1,376	1,357
Adjustments in respect of previous years	(537)	(476)
Current tax charge for the year	839	881

(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 £1,304,000 (2005 £502,000) net of tax relief in respect of capital losses of £NIL (2005 £5,114,000) The group's share of the unprovided deferred tax in respect of the gains recognised on revaluing property to its market value in associated undertakings is £5,978,000 (2005 £NIL)

(d) Associated undertakings and joint ventures

No tax charge arises on the results of the associated undertakings and joint ventures

9 Dividends

	2006 £'000	2005 restated £'000
Ordinary shares		
Final paid of 0 70p (2005 final dividend for 2004 of 0 50p) per share for the year ended October 2005	**1,311**	929
Interim paid of 0 70p per share (2005 0 50p) per share for the year ended October 2006	**1,310**	936
	2,621	1,865
Ordinary shares		
Final dividend after the year of 1 1p (2005 0 7p) per share	**2,059**	1,311

The proposed final dividend has not been accrued for as the dividend was declared after the balance sheet date

10 Earnings per ordinary share

The calculation of basic earnings per ordinary share is based on a profit of £4,015,650 (2005 profit £3,477,834) and on 187,218,824 (2005 186,576,536) ordinary shares, being the weighted average number of shares in issue during the period

The calculation of diluted earnings per ordinary share is based on a profit of £4,015,650 (2005 profit £3,477,834) and on 190,055,289 (2005 186,576,536) ordinary shares being the weighted average number of shares in issue during the period adjusted to allow for the issue of shares in relation to all performance related share awards

11 Intangible fixed assets

	Positive goodwill £'000	Negative goodwill £'000
Cost		
At 1 November 2005	5,898	(7,957)
Acquisitions	207	(11)
At 31 October 2006	**6,105**	**(7,968)**
Amortisation		
At 1 November 2005	(1,433)	6,779
(Charge)/release for the period	(523)	324
At 31 October 2006	**(1,956)**	**7,103**
Net book value		
At 31 October 2006	**4,149**	**(865)**
At 31 October 2005	4,465	(1,178)

12 Tangible fixed assets

Group

	Motor vehicles £'000	Office equipment £'000	Furniture and fittings £'000	Investment properties £'000	Total £'000
Cost or valuation					
At 1 November 2005	6	78	65	53,076	53,225
Additions	–	5	–	5,956	5 961
Acquisition of subsidiary undertakings	–	–	–	7,315	7,315
Disposals	–	(1)	(10)	(11,628)	(11,639)
Transfer to development work in progress	–		–	(1,869)	(1,869)
Surplus on revaluation	–	–	–	4,343	4,343
At 31 October 2006	**6**	**82**	**55**	**57,193**	**57,336**
Whereof					
Cost	6	82	55	–	143
Valuation	–	–		57,193	57,193
	6	82	55	57,193	57,336
Depreciation					
At 1 November 2005	4	65	21	177	267
Charge for period	–	8	12	49	69
Disposals	–	(1)	(2)		(3)
At 31 October 2006	**4**	**72**	**31**	**226**	**333**
Net book value					
At 31 October 2006	**2**	**10**	**24**	**56,967**	**57,003**
At 31 October 2005	2	13	44	52,899	52,958

The investment properties situated in Scotland owned by the group have been valued as at 31 October 2006 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 2006 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 is £37,525,000 (2005 £35,631,000)

Notes to the Financial Statements

13 Investments

Group

	Associated undertakings £ 000	Joint ventures £ 000	Other investments £ 000	Total £ 000
Cost or valuation				
At 1 November 2005	–	150	2,792	2,942
Additions	2,150	–	71	2,221
Disposals	–	–	(1,587)	(1,587)
Surplus on revaluation	–	–	328	328
At 31 October 2006	**2,150**	**150**	**1,604**	**3,904**
Whereof				
Cost	2,150	150		2,300
Valuation	–	–	1,604	1,604
	2,150	150	1,604	3,904
Share of retained profits				
At 1 November 2005	–	6	–	6
(Loss) for the year	(902)	(136)	–	(1 038)
At 31 October 2006	**(902)**	**(130)**	**–**	**(1,032)**
Share of revaluation surplus				
Surplus for the year	22,645	–	–	22,645
At 31 October 2006	**22,645**	**–**	**–**	**22,645**
Provision for diminution in value				
At 1 November 2005	–	–	193	193
Release	–	–	(1)	(1)
Provided during the period	–	–	3	3
At 31 October 2006	**–**	**–**	**195**	**195**
Net book value				
At 31 October 2006	**23,893**	**20**	**1,409**	**25,322**
At 31 October 2005	–	156	2,599	2,755

On a historical cost basis, the net book value of other investments is £1,058,000 (2005 £2,576,000)

Company

	Subsidiary undertakings £ 000	Other investments £'000	Total £ 000
Cost or valuation			
At 1 November 2005	33,004	275	33 279
Additions	100	1	101
Surplus on revaluation	–	9	9
At 31 October 2006	**33,104**	**285**	**33,389**
Whereof			
Cost	33,104	–	33,104
Valuation	–	285	285
	33,104	285	33,389
Provision for diminution in value			
At 1 November 2005	401	204	605
Provided during the period	–	(2)	(2)
At 31 October 2006	**401**	**202**	**603**
Net book value			
At 31 October 2006	**32,703**	**83**	**32,786**
At 31 October 2005	32,603	71	32,674

On a historical cost basis, the net book value of other investments other than loans is £51,000 (2005 £48,000)

13 Investments continued

Details of the investments in which the group or the company, at 31 October 2006, held more than 20% of the nominal value of any class of share capital are as follows

Principal companies of the group

Subsidiary undertakings

Name of company	Proportion of voting rights and ordinary shares held	Nature of business
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%	Investment 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
Britannic Global Income Trust PLC	100%	Investment holding company
Neill Clerk Energy US Limited	100%	Property investment
Terrace Hill (Armadale No 2) Limited	100%	Property development
Terrace Hill (Patna) Limited	100%	Property development
Terrace Hill Limited	100%	Investment holding company/Property development
Terrace Hill Properties Limited	100%	Property investment
Terrace Hill Developments Limited	100%	Property development
Mount York Estates Limited	100%	Property development
Terrace Hill Projects Limited	100%	Project coordination and management services
Terrace Hill North East Limited	100%	Investment holding company/Property investment
Terrace Hill (Baltic) Limited	100%	Property development
Terrace Hill (Middlehaven) Limited	100%	Property development
Terrace Hill (Guildford No 1) Limited	100%	Property development
Thanet Reach Estates Limited	100%	Property development
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
Terrace Hill (Croydon) Limited	100%	Property development
Terrace Hill Castlegate House Limited	100%	Investment holding company
Terrace Hill (Aeropark) Limited	100%	Property development
Terrace Hill (Galashiels) No 1 Limited	100%	Property development
Terrace Hill (Galashiels) No 2 Limited	100%	Property development
Terrace Hill (Awdry) Holdings Limited	100%	Investment holding company
Terrace Hill (Awdry) Limited	100%	Property investment
Terrace Hill (Maidenhead) 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 (Wilton Road) No 1 Limited	100%	Property development
Terrace Hill Blyth Limited	100%	Property development
Terrace Hill Blyth No 1 Limited	100%	Property development
Grosvenor Land Holdings Limited	100%	Investment holding company/Property investment
Grosvenor Land South Limited	100%	Property investment
SERAH Properties PLC	89%	Property investment
TH (Development Partnership) General Partner Limited	100%	Investment holding company
TH (Development Partnership) Limited	100%	Investment holding company

Notes to the Financial Statements

13 Investments continued

Principal companies of the group continued

Joint ventures and partnerships

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

	Proportion of voting rights and ordinary shares held	Nature of business
Guildford Partnership	50%	Property development
Templar Circus Partnership	63%	Property development
Achadonn Limited	50%	Property development
Wilton Road Partnership	50%	Property development
Associated undertakings		
Terrace Hill Residential PLC	49%	Property investment
Castlegate House Partnership	30%	Property investment
Devcap Partnership	50%	Property development
Terrace Hill Development Partnership	20%	Property development

Name of associate Date of acquisition	Terrace Hill Development Partnership 12 April 2006 £'000	Devcap Partnership 3 October 2006 £'000	Castlegate House Partnership 20 January 2006 £'000	Terrace Hill Residential PLC 31 July 2006 £'000	Total £'000
Turnover	9,728	–	426	3,759	13,913
Profit/(loss) before taxation	(681)	–	46	(1,592)	(2,227)
Taxation	–	–	–	–	–
Profit/(loss) after taxation	(681)	–	46	(1,592)	(2,227)
Fixed assets	–	–	10,720	306,984	317,704
Current assets	41,836	11,624	171	7,394	61,025
Liabilities due within one year	(8,271)	(1,706)	(118)	(2,706)	(12,801)
Net current assets	33,565	9,918	53	4,688	48,224
Liabilities due after more than one year	(34,246)	(9,914)	(10,726)	(266,749)	(321,635)
Net assets/(liabilities)	(681)	4	47	44,923	44,293
Terrace Hill Group PLC – shareholding	20%	50%	30%	49%	
Terrace Hill Group PLC – share of post acquisition gains/(losses)	(136)	–	13	21,866	21,743
Cost of investment	2,000	2	1	147	2 150
Share of net assets	1,864	2	14	22,013	23,893

Terrace Hill Residential PLC

Group share of bank loans secured on investment property

	£'000
Amounts due after more than one year	
In more than two years but less than five	126,404
Unamortised issue costs	(1,029)
	125,375

14 Work in progress

	Group 2006 £'000	Group 2005 £'000	**Company 2006 £'000**	Company 2005 £'000
Development work in progress	**75,693**	89,162	–	–
Included in these figures is capitalised interest of	**2,876**	2,531	–	–

15 Debtors

	Group 2006 £'000	Group 2005 £'000	**Company 2006 £'000**	Company 2005 £'000
Trade debtors	**3,320**	923	**17**	59
Prepayments and accrued income	**5,571**	1,301	**212**	217
Amount due from subsidiaries	–	–	**54,773**	58,777
Amounts due from associates and joint ventures	**13,564**	3,907	–	–
Other debtors	**24,373**	7,076	**294**	31
	46,828	13,207	**55,296**	59,084

All amounts fall due for payment within one year except for amounts due from associates and joint ventures (group) of £5,363,000 (2005 £NIL), prepayments (group) of £22,000 (2005 £22,000) and amount due from subsidiaries (company) of £26 176,000 (2005 £34,841,000)

16 Creditors

	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Amounts due within one year				
Bank overdraft	**206**	1,083	–	–
Bank loans	**25,763**	10,242	–	–
Trade creditors	**3,599**	3,561	**3**	52
Current corporation tax	**875**	662	–	–
Other taxation and social security costs	**510**	75	–	–
Accruals and deferred income	**11,420**	6,185	**176**	113
Other creditors	**7,386**	6,859	**576**	520
Amounts due to subsidiaries	–	–	**34,999**	34,449
	49,759	28,667	**35,754**	35,134

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

	Group 2006 £ 000	Group 2005 £ 000	Company 2006 £ 000	Company 2005 £ 000
Amounts due after more than one year				
Bank loans	**52,997**	66,758	–	–
Amounts due to associates and joint ventures	**3,000**	–	–	–
Other creditors	**4,000**	–	–	–
	59,997	66,758	–	–

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 2006 £ 000	Group 2005 £ 000	Company 2006 £'000	Company 2005 £ 000
Financial liabilities are due				
Bank loans and overdrafts				
In one year or less or on demand	**26,272**	11,798	–	–
Unamortised issue costs	**(303)**	(473)	–	–
	25,969	11,325	–	–
Bank loans and overdrafts				
In more than one year but less than two	**21,951**	35,283	–	–
In more than two years but less than five	**18,324**	31,789	–	–
In more than five years	**12,929**	–	–	–
Unamortised issue costs	**(207)**	(314)	–	–
	52,997	66,758	–	–

17 Deferred taxation

	Group 2006 £'000	Group 2005 £ 000	Company 2006 £ 000	Company 2005 £ 000
At 1 November 2005	–	122	–	–
(Credited) to Profit and Loss Account	**(128)**	(118)	**(128)**	–
Acquisition of subsidiary undertakings	–	(4)	–	–
At 31 October 2006	**(128)**	–	**(128)**	–

	Group 2006 £'000	Group 2005 £ 000	Company 2006 £'000	Company 2005 £'000
Other timing differences	**(128)**	–	**(128)**	–
	(128)		**(128)**	–

This balance is included in other debtors, Note 15

Notes to the Financial Statements

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

An analysis of the maturity of the bank debt of the group and of its associated undertaking, Terrace Hill Residential PLC is included at Note 13 and 16

The main risks arising from the group's financial instruments are interest rate risk, credit 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 time 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

Credit risk

The group's principal financial assets are cash and trade debtors The credit risk associated with cash is limited as the counterparties have high credit ratings The principal credit risk therefore arises from its trade debtors Trade debtors from the sales of properties are secured against those properties until the proceeds are received Rental debtors are unsecured but the group's exposure to tenant default is limited as no tenant accounts for more than 5% of total rent

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

Interest rate risk profile of financial assets and liabilities

The interest rate profile of financial assets and liabilities of the group at 31 October 2006 was as follows

	Total £ 000	Floating rate financial assets £ 000	Financial assets on which no interest is earned £ 000
Sterling	8,591	8,591	–

	Total £ 000	Fixed rate financial liabilities £ 000	Floating rate financial liabilities £ 000
Sterling	79,476	–	79,476

Floating rate financial liabilities bear interest at LIBOR or base rate plus margins of between 1 25% and 2 50%

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

	Total £ 000	Floating rate financial assets £ 000	Financial assets on which no interest is earned £ 000
Sterling	12,052	12,052	–

	Total £ 000	Fixed rate financial liabilities £ 000	Floating rate financial liabilities £ 000
Sterling	78,870	–	78,870

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

18 Financial instruments continued

Borrowing facilities

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

At 31 October 2006	£ 000
Expiring in one year or less	2,504
Expiring in more than one year but not more than two	5,072
Expiring in more than two years but not more than five	11,718
Expiring in more than five years	9,071
	28,365

At 31 October 2005	£ 000
Expiring in one year or less	577
Expiring in more than one year but not more than two	9,664
Expiring in more than two years but not more than five	20,957
	31,198

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

19 Called up share capital

	2006 £ 000	2005 £ 000
Authorised		
250,000,000 ordinary shares of 2p each	**5,000**	5,000
200,000 cumulative 8% redeemable preference shares of £1 each	**200**	200
3,300,000 convertible shares of 20p each	**660**	660
	5,860	5,860
Allotted, called up, and fully paid		
187,218,824 (2005 187,218,824) ordinary shares of 2p each	**3,744**	3 744

20 Reserves

Group

	Share premium £ 000	Revaluation reserve investment properties £ 000	Revaluation reserve other £ 000	Capital redemption reserve £ 000	Merger reserve £ 000	Profit and Loss Account £ 000
At 1 November 2005 as previously stated	19,369	17,268	23	849	8,386	26,696
Prior year adjustment (see Note 21)	–	–	–	–		1,311
As restated	–	–	–	–	–	28,007
Profit for the year	–	–	–	–	–	4,016
Interim ordinary dividends – 2006		–	–	–	–	(1,310)
Final ordinary dividend – 2005	–	–	–	–	–	(1,311)
Revaluation reserve released on disposal of assets in the year	–	(2,169)	–	–	–	2,169
Surplus on revaluation of investment properties	–	4,343	–		–	–
Share of revaluation surplus in associated undertakings	–	–	22,645	–	–	–
Surplus on revaluation of unlisted investments	–	–	328	–		–
Share based payment	–	–	–	–	–	294
At 31 October 2006	**19,369**	**19,442**	**22,996**	**849**	**8,386**	**31,865**

Company

	Share premium £'000	Revaluation reserve other £ 000	Capital redemption reserve £ 000	Merger reserve £ 000	Profit and Loss Account £ 000
At 1 November 2005 as previously stated	19,369	23	849	15,986	16,625
Prior year adjustment (see Note 21)	–	–	–	–	1,311
As restated	–	–	–		17,936
Loss for the year	–	–	–		(1,627)
Interim ordinary dividends – 2006	–	–	–	–	(1,310)
Final ordinary dividend – 2005	–	–	–	–	(1,311)
Surplus on revaluation of unlisted investments	–	9		–	–
Share based payment	–	–	–	–	294
At 31 October 2006	**19,369**	**32**	**849**	**15,986**	**13,982**

Notes to the Financial Statements

21 Reconciliation of shareholders' funds

	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Total recognised gains and losses for the year (see page 29)	**31,332**	7,219	**(1,618)**	18,638
Ordinary dividends	**(2,621)**	(2,247)	**(2,621)**	(2,247)
New shares issued (net)	**–**	28	**–**	28
Merger reserve arising on new shares issued	**–**	530	**–**	530
Purchase of own shares by subsidiary	**–**	(36)		–
Share based payment	**294**	–	**294**	–
Total movements during the year	**29,005**	5,494	**(3,945)**	16,949
Opening shareholders' funds	**77,646**	70,841	**57,907**	39,647
Prior year adjustment	**–**	1,311	**–**	1,311
Opening shareholders' funds – as restated	**77,646**	72,152	**57,907**	40,958
Closing shareholders' funds	**106,651**	77,646	**53,962**	57,907

Comparative figures for prior periods have been restated in line with the requirements of FRS 21 The effect of the restatement on the Balance Sheet is to increase the net assets at 31 October 2005 by £1,311,000 due to the write back of the proposed dividends at 31 October 2005

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 loss after tax and before dividends paid of (£1,627,000) (2005 profit £18,632,000) 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 inflow/(outflow) from operating activities

	2006 £'000	2005 £'000
Operating profit	**7,844**	3,966
Depreciation	**69**	84
Loss on sale of other tangible fixed assets	**–**	128
Positive goodwill amortisation and impairment losses	**523**	469
(Increase) in stocks	**(7,689)**	(41,893)
(Increase)/decrease in operating debtors	**(23,787)**	3,591
Increase/(decrease) in operating creditors	**10,007**	(15,276)
Net cash (outflow) from operating activities	**(13,033)**	(48,931)

(b) Analysis of cash flows for headings netted in the Group Statement of Cash Flows

	2006 £'000	2005 £'000
Returns on investment and servicing of finance		
Interest received	**355**	631
Interest paid	**(5,317)**	(5,733)
Dividends received	**193**	–
Debt issue costs	**(690)**	(1,036)
	(5,459)	(6,138)

	2006 £'000	2005 £'000
Capital expenditure and financial investment		
Purchase of investment property	**(2,152)**	–
Purchase of other tangible fixed assets	**(5)**	(451)
Sale of investment property	**11,316**	54,225
Purchase of investments	**(221)**	(1)
Sale of investments	**1,714**	329
	10,652	54,102

23 Group Statement of cash flows continued

(b) Analysis of cash flows for headings netted in the Group Statement of Cash Flows continued

	2006 £'000	2005 £'000
Acquisitions and disposals		
Purchase of subsidiaries		
Acquisitions – consideration	(4,418)	(4,362)
Acquisitions expenses	–	(400)
Disposal – consideration		2
Net cash on disposals	–	(143)
	(4,418)	(4,903)

	2006 £'000	2005 £'000
Financing		
New long term bank loans	38,807	39,838
Long term bank loans repaid	25,927	(37,103)
	12,880	2,735

(c) Analysis of net debt

	At 1 November 2005 £'000	Cash flow £'000	Acquisitions £'000	Disposals £'000	Other non cash changes £'000	At 31 October 2006 £'000
Cash at bank and in hand	12,052	(3,461)	–		–	8,591
Bank overdraft	(1,083)	877	–	–	–	(206)
	10,969	(2,584)	–	–	–	8,385
Debt due within one year	(10,242)	(16,155)	(3,110)	3,750	(6)	(25,763)
Debt due after one year	(66,758)	3,275	–	10,025	461	(52,997)
	(66,031)	15,464	(3,110)	13,775	455	(70,375)

£455,000 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 £503,000

25 Share based payments

The group operates an equity settled share based payment scheme for executive directors and certain senior management

Under the scheme, ordinary share awards will vest if Triple Net Asset Value per share increases by an average of 25% per annum plus retail price index over a three year period from the date of the Balance Sheet before the date of the grant Awards will lapse if not vested at the end of the vesting period

	2006 Share price at date of grant	2006 Number of share awards granted	2005 Share price at date of grant	2005 Number of share awards granted
Outstanding at the beginning of the year		–		–
Granted during the year	46 75p	4,577,540		–
Outstanding at the end of the year		4,577,540		–

None of the total number of share awards granted had vested at the year end The value of each share award granted during the year was 42 78p and the charge to the Profit and Loss Account for the year was £294,000 (2005 £NIL) The value of the shares awarded was calculated by discounting the share price at the date of the award by the anticipated dividend yield of 3% over the vesting period

Notes to the Financial Statements

26 Guarantees and financial commitments

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

	Group 2006 £'000 Land and buildings	Group 2005 £ 000 Land and buildings	Company 2006 £ 000 Land and buildings	Company 2005 £'000 Land and buildings
Operating leases which expire				
In less than one year	9	57	–	–
In two to five years	–	–	–	–
After five years	1,327	1,267	1,245	1,267
	1,336	1,324	1,245	1 267

Capital commitments

	Group 2006 £ 000	Group 2005 £ 000	Company 2006 £'000	Company 2005 £ 000
Contracted but not provided for	38,503	14,643	–	–

The group has given a guarantee of £15 0 million as part of the security arrangements for the bank facilities of Terrace Hill Residential PLC, one of its associated undertakings The Terrace Hill Residential PLC group had contracted to acquire properties costing £11 2 million subject to the resolution of conveyancing issues

The group has an obligation to pay additional consideration of £2 2 million in June 2009, or earlier depending on the outcome of a planning application for the acquisition of a site at Patna

27 Acquisitions and disposals of subsidiaries

(a) Acquisitions

Date of acquisition	Terrace Hill (Awdry) Limited (formerly UK & European Investments (Awdry) Limited) 20 April 2006 £ 000
Land and buildings	7,315
Creditors	(18)
Loan	(3,110)
	4 187
Goodwill on acquisition	123
Consideration	4,310

There was no difference between book value and fair value of the assets and liabilities at the date of acquisition

Represented by

	£ 000
Cash	4,310

Pre acquisition financial information in respect of the company acquired during the period

	Terrace Hill (Awdry) Limited
Start of the financial period	1 January 2006
Date of acquisition	20 April 2006
Rental income	33
Property costs	(5)
Interest payable	(108)
(Loss) in the period	(80)

(b) Disposals

Date of sale	31 January 2006 Terrace Hill (Clarendon Road) Limited	4 February 2006 Terrace Hill (Wilton Road) No 2 Limited	12 April 2006 Terrace Hill (Farnborough) Limited	12 April 2006 Terrace Hill (Ravensbank) Limited	12 April 2006 Terrace Hill (Filton) No 1 Limited	12 April 2006 Terrace Hill (Filton) No 2 Limited	12 April 2006 Terrace Hill (Eastbourne) No 1 Limited	12 April 2006 Terrace Hill (Eastbourne) No 2 Limited	Total
Current assets	4 847	9 840	6,118	5 663	1,167	1,167	2,459	2,459	33,720
Current liabilities	(6,532)	(9,840)	(6,118)	(5,663)	(1,167)	(1,167)	(2,459)	(2 459)	(35,405)
Net assets/(liabilities)	(1,685)	–	–	–	–	–		–	(1,685)
Proceeds	123	–	–	–	–		–	–	123
Selling costs	(123)	–	–	–	–	–		–	(123)
Guarantee and other arrangements on disposal	1,110	–	–	–	–	–	–		1,110
Profit on sale	575	–	–	–	–	–	–	–	575

With the exception of the disposals of Terrace Hill (Clarendon Road) Limited and Terrace Hill (Wilton Road) No 2 Limited, the other subsidiary disposals were made as part of the establishment of the Terrace Hill Development Partnership

28 Related party transactions

(a) Office facility and staff costs of £3,546,000 (2005 £2,683,000) were billed to the group from Terrace Hill Partnership Rent charges of £243,000 (2005 £250,000) were billed by the group to Terrace Hill Partnership R F M Adair, P A J Leech, and T G Walsh are partners in Terrace Hill Partnership

(b) Consultancy fees of £79,000 (2005 £107,100) were charged to the group from Fineluck Limited, a company in which N J C Turnbull a director of the company during the year is a director and shareholder

(c) Included in management fees for the period are amounts charged to the following partnerships and associates

	2006 £ 000	2005 £ 000
Guildford Partnership	**41**	23
Templar Circus Partnership	**230**	106
Wilton Road Partnership	**174**	–
Terrace Hill Development Partnership	**488**	–
Castlegate House Partnership	**11**	–
Terrace Hill Residential PLC	**483**	–

Of the amount of management fees above, £283,000 was due to the group from Terrace Hill Residential PLC at the year end

The following amounts due from the group's partnerships and associates are included in debtors at the year end

	2006 £'000	2005 £ 000
Guildford Partnership	**841**	1,216
Templar Circus Partnership	**1,900**	1,900
Wilton Road Partnership	**4,000**	–
Castlegate House Partnership	**678**	–
Terrace Hill Residential PLC	**5,234**	–

The relationship with the partnerships is disclosed in Note 13

The following amount due to the group's partnerships and associates is included in creditors at the year end

	2006 £'000	2005 £ 000
Wilton Road Partnership	**3,000**	–

(d) Property management fees of £8,000 (2005 £175,000) were charged to the group by Cyril Leonard & Co D Blausten a director of the company during the year is a partner of Cyril Leonard & Co

(e) Joint Venture Company – Achadonn Limited
The following transactions took place between the group and its joint venture during the year

	2006 £ 000	2005 £ 000
Net short term loan movements advances/(repayments)	**140**	–
Purchases of goods and services	**–**	1,700
Management fees received	**70**	70
Interest received	**51**	43

The following receivable balances relating to the joint venture undertakings were included in the Group Balance Sheet

	2006 £ 000	2005 £ 000
Short term loans	**790**	650
Management fees	**70**	83
Interest	**51**	58

(f) Terrace Hill Residential PLC
As stated in Note 13 the group has accounted for its 49% share of Terrace Hill Residential PLC as an associate company Of the other 51% shareholding in that company, 49% is held by the Skye Investments group and 2% by R F M Adair Skye Investments Limited is a company ultimately owned by family trusts for the benefit of R F M Adair and family As part of the security arrangements for the financing of the acquisition of the at home Nationwide portfolio by Terrace Hill Residential PLC, Skye has given a guarantee for £15 0 million Skye and R F M Adair also advanced £5 6 million by way of shareholder loans to assist in the funding of the acquisition of the portfolio

29 Controlling party

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

International Financial Reporting Standards

As we stated earlier in the Financial Review the financial statements for the year ended 31 October 2006 will be the last one that we will prepare under UK GAAP All AIM listed companies are required to prepare financial statements that comply with IFRS for accounting periods commencing 1 January 2007 The group has chosen to comply with IFRS for its year ending 31 October 2007 In the financial statements for the year ended 31 October 2006 we are taking the opportunity of restating the results for year ended 31 October 2006 and the Balance Sheet at that date in accordance with IFRS

The first step in this process is to restate the Balance Sheet of the group at 31 October 2005 This is necessary so that when we are reconciling the numbers between the Profit and Loss Account for the year ended 31 October 2006 and the Income Statement for the same period we have an opening Balance Sheet that has been restated in accordance with IFRS

The main differences between UK GAAP and IFRS as they impact on the group are as follows

Valuation surpluses or deficits on investment properties will be reported in the Income Statement rather than as a movement in the revaluation reserve

The capital gains tax that would be payable if the investment properties were sold at their current balance sheet valuation will be included in the Balance Sheet as a deferred tax liability Previously this was disclosed only as a note to the accounts

Lease incentives granted to tenants will be amortised over the longer period to lease expiry rather than to the next rent review

Negative goodwill is written off to reserves

In the following pages we set out

- Page 49 a reconciliation of the Group Balance Sheet at 31 October 2005 prepared under UK GAAP and IFRS
- Page 50 the reconciliation of the Profit and Loss Account for the year prepared under UK GAAP to the figures as they would appear in the Income Statement prepared under IFRS
- Page 51 a reconciliation of the Group Balance Sheet at 31 October 2006 prepared under UK GAAP and IFRS
- Page 52 a Group Balance Sheet at 31 October 2006 prepared under IFRS with comparatives for 2005

The information on pages 49–52 has not been reviewed by the Auditors

Reconciliation of the Group Balance Sheet as at 31 October 2005 prepared under UK GAAP and IFRS – unaudited

	UK GAAP 31 October 2005 restated £ 000	Adjustments: Negative goodwill £ 000	Adjustments: Revaluation reserves £ 000	Adjustments: Contingent taxation £ 000	IFRS 31 October 2005 £ 000
Fixed assets					
Intangible assets					
Positive goodwill	4,465				4,465
Negative goodwill	(1,178)	1,178			–
	3,287	1,178			4,465
Tangible assets	52,958				52,958
	56,245	1,178			57,423
Investments					
Joint venture – share of gross assets	4,958				4,958
Joint venture – share of gross liabilities	(4,802)				(4,802)
	156				156
Investment in associated undertakings	–				–
Other fixed asset investments	2,599				2,599
	2,755				2,755
	59,000	1,178			60,178
Current assets					
Work in progress	89,162				89,162
Debtors	13,207				13,207
Cash at bank and in hand	12,052				12,052
	114,421				114,421
Creditors amounts falling due within one year	(28,667)				(28,667)
Net current assets	85,754				85,754
Total assets less current liabilities	144,754	1,178			145 932
Creditors amounts falling due after more than one year	(66,758)				(66,758)
Provisions for liabilities	–			(502)	(502)
Net assets	77,996	1,178	–	(502)	78,672
Capital and reserves					
Called up share capital	3,744				3,744
Share premium account	19,369				19,369
Revaluation reserves – investment properties	17,268		(17,268)		–
Revaluation reserves – other	23		(23)		–
Capital redemption reserve	849				849
Merger reserve	8,386				8,386
Profit and Loss Account	28,007	1,178	17,291	(502)	45,974
Equity shareholders' funds	77,646	1,178	–	(502)	78 322
Minority interests	350				350
	77,996	1,178	–	(502)	78 672

International Financial Reporting Standards

Reconciliation of Group Profit and Loss Account for the year ending 31 October 2006 prepared under UK GAAP and Income Statement prepared under IFRS – unaudited

		Adjustments				
	Year ended 31 October 2006 £000	Negative goodwill £000	Gain on revaluation of property portfolio £000	Gain on revaluation of investments £000	Taxation £000	Year ended 31 October 2006 £000
Revenue	80,493					80,493
Direct costs	(65,941)					(65,941)
Gross profit	14,552					14,552
Administrative expenses	(6,708)					(6,708)
Profit\(loss) on disposal of investment properties	195	(313)				(118)
Gain on revaluation of investment properties			4,343			4,343
Gain on revaluation of investment properties in associates			22,645			22,645
Gain/(loss) on disposal of subsidiaries	575					575
Operating profit	8,614	(313)	26,988			35,289
Share of associated undertaking operating (loss)	(902)					(902)
Share of joint venture	(135)					(135)
Income/gain from fixed asset and other investments	317					317
Revaluation of investments				328		328
Profit before interest and taxation	7,894	(313)	26,988	328		34,897
Finance income	386					386
Finance expense	(3,555)					(3,555)
Profit on ordinary activities before taxation	4,725	(313)	26,988	328		31,728
Taxation	(711)				(6,818)	(7,529)
Profit on ordinary activities after tax	4,014	(313)	26,988	328	(6,818)	24,199
Minority interest	2					2
Profit attributable to members of parent company	4,016	(313)	26,988	328	(6,818)	24,201

Reconciliation of Group Balance Sheet as at 31 October 2006 prepared under UK GAAP and IFRS – unaudited

	UK GAAP 31 October 2006 £000	Adjustments: Negative goodwill £000	Adjustments: Revaluation reserves £000	Adjustments: Contingent taxation £000	IFRS 31 October 2006 £000
Fixed assets					
Intangible assets					
Positive goodwill	4,149				4,149
Negative goodwill	(865)	865			–
	3,284	865			4,149
Tangible assets	57,003				57,003
	60,287	865			61,152
Investments					
Joint venture – share of gross assets	5,260				5,260
Joint venture – share of gross liabilities	(5,240)				(5,240)
	20				20
Investment in associated undertakings	23,893				23,893
Other fixed asset investments	1,409				1,409
	25,322				25,322
	85,609	865			86,474
Current assets					
Work in progress	75,693				75,693
Debtors	46,828				46,828
Cash at bank and in hand	8,591				8,591
	131,112				131,112
Creditors amounts falling due within one year	(49,759)				(49,759)
Net current assets	81,353				81,353
Total assets less current liabilities	166,962	865			167,827
Creditors amounts falling due after more than one year	(59,997)				(59,997)
Provisions for liabilities	–			(7,320)	(7,320)
Net assets	106,965	865		(7,320)	100,510
Capital and reserves					
Called up share capital	3,744				3,744
Share premium account	19,369				19,369
Revaluation reserves – investment properties	19,442		(19,442)		–
Revaluation reserves – other	22,996		(22,996)		–
Capital redemption reserve	849				849
Merger reserve	8,386				8,386
Profit and Loss Account	31,865	865	42,438	(7,320)	67,848
Equity shareholders' funds	106,651	865	–	(7,320)	100,196
Minority interests	314				314
	106,965	865	–	(7,320)	100,510

International Financial Reporting Standards

Group Balance Sheet based on IFRS – unaudited

	31 October 2006 £ 000	31 October 2005 £ 000
Non current assets		
Investments properties	**56,967**	52,899
Plant and equipment	**36**	59
Investments	**25,322**	2,755
Goodwill	**4,149**	4,465
	86,474	60,178
Current assets		
Land, development and trading properties	**75,693**	89,162
Trade and other receivables	**46,828**	13,207
Cash and cash equivalents	**8,591**	12,052
	131,112	114,421
Total assets	**217,586**	174,599
Current liabilities		
Trade and other payables	**(22,915)**	(16,680)
Tax liabilities	**(875)**	(662)
Borrowings	**(25,969)**	(11,325)
	(49,759)	(28,667)
Non current liabilities		
Borrowings	**(52,997)**	(66,758)
Other creditors	**(7,000)**	–
Deferred tax provisions	**(7,320)**	(502)
	(67,317)	(67,260)
Total liabilities	**(117,076)**	(95,927)
Net assets	**100,510**	78,672
Equity		
Called up share capital	**3,744**	3,744
Share premium account	**19,369**	19,369
Capital redemption reserve	**849**	849
Merger reserve	**8,386**	8,386
Profit and Loss Account	**67,848**	45,974
Equity attributable to equity holders of the parent	**100,196**	78,322
Minority interests	**314**	350
Total equity	**100,510**	78,672

Shareholder Information

Financial calendar

Annual General Meeting	30 March 2007
Half year results	July 2007
Full year results	February 2008

Shareholder analysis (as at 31 October 2006)

Size of holding	No	No of shares	%
1 – 1000	142	73,316	0 039
1,001 – 10,000	800	4,101,453	2 191
10,001 – 100,000	637	17,605,568	9 403
100,001 – 1,000,000	34	8,276,220	4 421
1,000,001 and over	10	157,162,267	83 946
	1,623	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

2006 Share price (pence per ordinary share)

Start of year	41 75
End of year	80 00

Website

www terracehill co uk

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