Miller Homes Holdings Limited

Directors' Report and Financial Statements

31 December 2006
Registered Number SC255430

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Directors' Report

The directors present their annual report and audited accounts for the year ended 31 December 2006

Principal activity

The principal activity of the group is housebuilding with these accounts reflecting the Miller Group's combined housing interests

Business review

Strategy

Miller Homes comprises nine largely autonomous regional businesses which are capable of growing their annual volume from the current level of approximately 4,000 houses a year The business is firmly placed in the Top 10 UK house builders We have traditionally benefited from economies of scale associated with strong businesses in Scotland, the North East and East Midlands and following the Fairclough acquisition we are seeing the benefit of greater penetration in other parts of the UK

The UK housing market offers significant opportunities for us to grow the business further Not least because there are large regional markets where we are not yet represented, but also because of Government recognition of, and commitment to, the need to increase housing output by 50,000 additional new homes per year The government's aim is to create prosperous, inclusive and sustainable communities for the 21st century We share the vision and our growth plans will help fulfil this objective

Corporate activity in the sector is high, driven by a new wave of consolidation and the entry of financial buyers Values have responded positively, increasing to record highs We remain committed to growing the business, both organically and by acquisition where we have played our own part in the consolidation process However, timing, in particular regarding acquisitions, will be crucial in securing good value, and we will evaluate all opportunities critically

Performance

2006 was an extremely successful year, with the enlarged business delivering fully on our expectations following the Fairclough acquisition Operating profit before rationalisation costs increased by 36% to £96 6m (2005 £77 1m)

Total housing completions (including joint ventures) rose 41% to 3,960 (2005 2,801) The increase in volume reflects both a full year contribution from Fairclough as well as underlying growth in several of our other regional businesses, most notably North East and the Southern region which was launched in 2004 and achieved 169 completions in 2006 (2005 – 32) Joint venture completions fell to 240 (2005 317) due to a reduced number of new projects Joint ventures remain an integral part of our strategy, however given the strength of our own business we are increasingly selective about which projects we will undertake We completed 267 (2005 162) affordable housing units during the year, and would expect to see this increase in coming years in line with the growing requirements of local authorities and housing associations

Turnover increased by 44% to £707m (2005 £489m) with the average selling price remaining at £185,000 (2005 £185,000) This reflects the increased level of completions from the North of England which have a lower average selling price and experienced limited price inflation during 2006, offsetting higher average selling prices in the South and Midlands We believe that a broad range of products and affordability are key to achieving our future growth targets

Operating margins reduced slightly to 14% (2005 16%), in line with our expectations following the acquisition of Fairclough and the reduced levels of price inflation experienced during 2006

Directors' Report *(continued)*

Market overview

The market was broadly stable throughout 2006 and unaffected by the two increases in interest rates Visitor and reservation levels increased by 7% and 12% respectively However, we did require the continued use of incentives to stimulate sales This creates downward pressure on margins but has been offset by house price increases on better located sites We expect to see a continued but selective use of such incentives to ensure our targeted level of sales in 2007 is achieved

Operations

We are passionate about improving customer satisfaction and this is a key performance indicator for the business Surveys of all of our customers are undertaken approximately 6 weeks after occupation and the results are compiled by independent consultants During the whole of 2006, 85% of respondents stated that they would recommend Miller Homes to their best friend, with a peak score of 89% achieved in the third quarter This is a real testimony to our success and provides a platform for the Miller Homes brand to be synonymous with quality We became the first national housebuilder to publish the results of our customer surveys and we have given a commitment to continue to do so

Customer satisfaction cannot be achieved by service alone and we have to ensure we provide good quality products built to the very best of standards One independent assessor of quality standards is the National House Building Council (NHBC) Their Pride in the Job Award Scheme rewards site managers who, in their opinion, delivered the best in construction quality A total of 12 site managers representing Miller Homes won Quality Awards during 2006 of which five went on to earn a Seal of Excellence and two became Regional Winners One of our Regional Winners, Bill Hughes, won the NHBC's Supreme Pride in the Job Award This is an outstanding achievement and the fourth consecutive time that Bill has won this particular award

In keeping with the Government's target for 60% of new housing to be provided on previously used land, we are increasing the specialist skills required to deal with contaminated sites and regeneration In 2006 80% of our output was built on brownfield land and this type of site formed 73% of our owned landbank for future development In addition, our new business, Miller Regeneration, exchanged a framework agreement in partnership with Inspired Living to regenerate areas of Salford with the first phase of 230 new homes to commence development at the former Kersal High School during the coming year We aim to expand this business into other geographic areas to complement our existing private development activities

We have trialled various modern methods of construction aimed at keeping abreast of changing technologies, delivering quality products in more predictable timescales and deskilling some of the work on site We have also commenced a review of various renewable energy technologies as we respond to the Government's stated aim for the industry to deliver carbon neutral homes by 2016 We have already piloted photovoltaic roof tiles, solar panels and rainwater recycling

We recognise the growing importance of Information Technology and the majority of our site offices and sales centres are now connected directly to our information systems via broadband or satellite links

Our aim is to further improve the service to our customers with information which is up to date and accurate Many of our sales leads now come via the internet which is further justification for greater use of IT on sites Our website, www millerhomes co uk is designed to help our customers find the home of their dreams It is increasingly popular with an 82% increase in the volume of traffic using the site during the year We have been able to identify that 36% of our customers first registered on our website and subsequently went on to purchase a Miller home Customers can register their needs and receive notification of new releases that match their criteria via text / SMS messages or a variety of traditional media Customers who proceed to reserve a new home are given access to a dedicated website, www mymillerhome com where they can find updates on progress with their home All of our marketing initiatives are designed to remove the stress of buying a new home and lead to increased customer loyalty, satisfaction and brand awareness

Directors' Report *(continued)*

Land bank

One of the key challenges we faced in 2006 was to significantly step up our level of land acquisition to ensure that we acquired more land than we consumed, and to provide a solid platform for future growth We have had a successful year and acquired 4,100 plots during 2006 At 31 December 2006 we owned approximately 12,500 plots with implementable planning permission In addition, we control approximately 2,500 plots under conditional contract which will be acquired if we successfully secure planning consent for residential development, and have a further 2,500 plots with terms agreed and legal agreements being progressed Our owned and controlled land bank represents more than three and a half years supply at the forecast rate of consumption for the coming year and has a development value of approximately £2 8bn

The geographic spread of our owned landbank is split 29% Scotland, 40% North and 31% Midlands and South Our future plans are to expand operations in the South and provide a more even spread of business throughout the UK

We have options over approximately 3,500 acres of land which may be developed over a longer time frame During the year we have made substantial progress in promoting several major sites, and would expect to strengthen our owned land bank through the transfer of at least 500 plots from our strategic land holdings during 2007

Result for the year

The results for the year are set out in the profit and loss account on page 6 The profit for the year to 31 December 2006 is £43,369,000 (2005 £26,991,000) A dividend of 9 528 pence (2005 – 19 456 pence) per share was paid during the year

Directors

The directors who held office during the year were as follows

KM Miller
JS Richards
T Hough
ET Anderson
SG Mills

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Auditors

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

By order of the Board

Pamela Smyth
Secretary

25 July 2007

Statement of Directors' Responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the group and the parent company financial statements in accordance with UK Accounting Standards

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985 They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities

Independent auditors' report to the members of Miller Homes Holdings Limited

We have audited the group and parent company financial statements of Miller Homes Holdings Limited for the year ended 31 December 2006 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets and the related notes These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Practice) are set out in the Statement of Directors' Responsibilities on page 4

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements In addition we 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 the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and parent 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 financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2006 and of the group's profit for the year then ended,
- 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

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG
13 August 2007

Consolidated Profit and Loss Account
for the year ended 31 December 2006

		Note	2006 £000	2005 £000
Turnover.	Group and share of joint ventures	1	**706,860**	489,495
Less	Share of joint ventures' turnover		**(25,252)**	(29,263)
Group turnover			**681,608**	460,232
	Existing operations		**681,608**	386,009
	Acquisitions			74,223
Cost of sales			**(537,299)**	(352,467)
Gross profit			**144,309**	107,765
Administrative expenses			**(51,168)**	(35,623)
Rationalisation costs arising from acquisition				(14,173)
Group operating profit			**93,141**	57,969
	Existing operations		**93,141**	65,885
	Acquisitions			(7,916)
Share of profit in joint ventures			**3,447**	4,956
Share of loss in associates			**(1)**	
Operating profit			**96,587**	62,925
Interest payable and similar charges		5	**(34,537)**	(22,617)
Interest receivable and similar income		6	**651**	496
Profit on ordinary activities before taxation		2	**62,701**	40,804
Tax on profit on ordinary activities		7	**(19,332)**	(13,813)
Profit for the financial year		17	**43,369**	26,991

There are no recognised gains or losses other than the retained profit for the year

Consolidated Balance Sheet
at 31 December 2006

	Note	2006 £000	2006 £000	2005 £000	2005 £000
Fixed assets					
Goodwill	9		**22,677**		24,115
Tangible assets	10		**2,157**		2,180
Investment in joint ventures	11				
Share of gross assets		**22,687**		34,522	
Share of gross liabilities		**(22,557)**		(34,504)	
Loans to joint ventures		**6,300**		6,354	
			6,430		6,372
Investment in associates	11		**98**		116
			31,362		32,783
Current assets					
Stocks and work in progress	12	**901,046**		847,860	
Debtors	13	**25,256**		22,879	
Cash at bank and in hand		**2,475**		3,034	
		928,777		873,773	
Creditors amounts falling due within one year	14	**(448,595)**		(418,688)	
Net current assets			**480,182**		455,085
Total assets less current liabilities			**511,544**		487,868
Creditors. amounts falling due after more than one year	15		**(385,813)**		(403,845)
Net assets			**125,731**		84,023
Capital and reserves					
Called up share capital	16		**25,000**		25,000
Profit and loss account	17		**100,731**		59,023
Shareholders' funds	18		**125,731**		84,023

These accounts were approved by the board of Directors on 25 July 2007 and were signed on its behalf by

Ewan Anderson
Director

Company Balance Sheet
at 31 December 2006

	Note	2006 £000	2005 £000
Fixed assets			
Investments	11	**218,897**	207,758
Current assets			
Debtors	13	**123,852**	158,763
Creditors: amounts falling due within one year	14	**(63,957)**	(89,025)
Net current assets		**59,895**	69,738
Total assets less current liabilities		**278,792**	277,496
Creditors. amounts falling due after more than one year	15	**(250,000)**	(250,000)
Net assets		**28,792**	27,496
Capital and reserves			
Called up share capital	16	**25,000**	25,000
Profit and loss account	17	**3,792**	2,496
Shareholders' funds	18	**28,792**	27,496

These accounts were approved by the board of Directors on 25 July 2007 and were signed on its behalf by

Ewan Anderson
Director

Notes

(forming part of the financial statements)

1 Accounting policies

Basis of accounting

The accounts are prepared under the historical cost convention and in accordance with applicable Accounting Standards

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

In these financial statements FRS 20 'Share based payments' has been adopted for the first time The effect of adopting FRS 20 has been to reduce the profit in the year by £721,000 The effect on the previous year was to reduce profit by £200,000 however in light of the insignificant amount involved, no prior year adjustment has been made on the adoption of FRS 20 There is a corresponding credit to the profit and loss reserve, and accordingly there is no net effect on net assets at the end of the year

The company is exempt from the requirement of Financial Reporting Standard 1, to prepare a cash flow statement, as it is a wholly owned subsidiary of The Miller Group Limited and its cash flows are included within the consolidated cash flow statement of that company

As the company is a wholly owned subsidiary of The Miller Group Limited, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group The consolidated financial statements of The Miller Group Limited, within which this company is included, can be obtained from the address give in note 25

Basis of consolidation

The consolidated accounts include the accounts of the parent company and all its subsidiary undertakings made up to 31 December each year The results of subsidiary undertakings acquired or disposed of during the year are included in the accounts from or to the effective date of acquisitions or disposal As permitted by Section 230 of the Companies Act 1985 the profit and loss account of the parent company is not presented

Goodwill

Goodwill, representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired, is capitalised in the balance sheet and amortised in equal annual instalments over its useful economic life Provision is made for any impairment On disposal of a previously acquired business, the goodwill previously written off to reserves is included in determining the profit or loss on disposal

Joint ventures and associates

An associate is an undertaking in which the group has a long term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence A joint venture is an undertaking in which the group has a long term interest and over which it exercise joint control The group's share of the profits less losses of associates and of joint ventures is included in the consolidated profit and loss account and its interest in their net assets is included in the consolidated balance sheet

Notes *(continued)*

1 Accounting policies *(continued)*

Turnover

Turnover represents the amounts (excluding value added tax) derived from the sale of new houses and build contracts Turnover from house sales represents the selling price for the unit, net of any cash incentives, and is recognised on legal completion and receipt of cash Turnover from build contracts is recognised in line with the stage of completion

Depreciation

Depreciation of plant and equipment is provided on a straight line basis over the estimated useful lives of the assets concerned The useful lives are as follows

Plant and equipment 3 to 10 years
Freehold land and buildings 50 years

Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value

Leasing

Expenditure on operating leases is charged to the profit and loss account on a straight line basis over the lease period

Taxation

The charge for taxation is based on the profit for the year and takes in to account taxation deferred or accelerated because of timing differences between the treatment of certain items for taxation and accounting purposes Deferred taxation is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19

Pensions

The group participates in The Miller Group Pension Scheme, a defined benefit pension scheme and The Miller Group Limited Personal Pension Plan, a defined contribution scheme Details of both schemes can be found in note 22

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements

Notes *(continued)*

1 Accounting policies *(continued)*

Share based payments

The share option programme allows employees to acquire shares of The Miller Group Limited The fair value of options granted after 7 November 2002 and those not yet vested as at the effective date of FRS 20 is recognised as an employee expense with a corresponding increase in equity The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where variations are due only to share prices not achieving the threshold for vesting

2. Profit on ordinary activities before taxation

This is stated after charging the following		**2006 £000**	2005 £000
Depreciation		**374**	623
Operating lease rentals	land and buildings	**1,771**	1,106
	other	**1,826**	1,486
Auditors remuneration			
Audit of these financial statements		**2**	2
Amounts receivable by auditors and their associates in respect of			
Audit of financial statements of subsidiaries pursuant to legislation		**75**	68
Other services relating to taxation		**41**	52
Other services		**12**	
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the company or the group		**43**	142

3 Staff numbers and costs

The average number of persons employed by the group, including directors, during the year was as follows

	2006 Number	2005 Number
Construction	**646**	486
Administration	**532**	435
Sales	**186**	117
	1,364	1,038

The aggregate payroll costs of these persons were as follows	**2006 £000**	2005 £000
Wages and salaries	**49,073**	34,362
Social security costs	**5,099**	3,832
Other pension costs	**2,180**	1,533
	56,352	39,727

Notes *(continued)*

4. Remuneration of directors

	2006	2005
	£000	£000
Emoluments	**959**	558
Amounts receivable under long term incentive schemes	**911**	417
Company contributions to money purchase pension schemes	**93**	80
	1,963	1,055

The number of directors who were members of pension schemes was as follows	**2006**	2005
	Number	Number
Money purchase schemes	**3**	3
Defined benefit schemes	**2**	2
	5	5

The aggregate of emoluments, bonus and amounts receivable under long term incentive schemes of the highest paid director was £998,226 (2005 £650,687) He is a member of a defined contribution pension scheme, with contributions of £55,000 (2005 £47,500) being paid by the company during the year

5 Interest payable and similar charges

	2006	2005
	£000	£000
Interest payable		
On bank loans and overdrafts	**33,135**	21,318
Other	**61**	12
	33,196	21,330
Associates and joint ventures		
Joint ventures – bank loan and overdraft interest	**1,313**	1,255
Associates – bank loan and overdraft interest	**28**	32
	34,537	22,617

6. Interest receivable and similar income

	2006	2005
	£000	£000
Bank and other interest receivable	**651**	496

Notes *(continued)*

7 Tax on profit on ordinary activities

	2006 £000	2005 £000
Corporation tax		
Current year	**17,618**	13,230
Prior year	**1,148**	
Share of joint ventures' and associates' tax	**567**	1,193
Total current tax	**19,333**	14,423
Deferred tax		
Current year	**1,091**	(976)
Prior year	**(1,092)**	366
Total deferred tax (note 13)	**(1)**	(610)
Tax on profit on ordinary activities	**19,332**	13,813

Factors affecting the tax charge for the current year

The current tax charge for the year is higher than (2005 higher than) the standard rate of corporation tax in the UK (30%) (2005 30%) The differences are explained below

	2006 £000	2005 £000
Profit on ordinary activities before tax	**62,701**	40,804
Current tax at 30%	**18,810**	12,241
Effects of		
Expenditure not deductible for tax purposes	**530**	1,206
Timing differences in respect of which deferred tax is provided	**(1,091)**	976
Adjustment in respect of prior years	**1,148**	
Utilisation of joint ventures tax losses	**(64)**	
Total current tax	**19,333**	14,423

8 Dividends

	2006 £000	2005 £000
Ordinary dividend of 9 528 pence (2005 19 46 pence) per share paid	**2,382**	4,864

Notes *(continued)*

9 Goodwill

	Group £000
Cost	
At start and end of year	25,843
Amortisation	
At start of year	1,728
Charged during the year	1,438
At end of year	3,166
Net book value	
At 31 December 2006	**22,677**
As 31 December 2005	24,115

Goodwill is being written off over its estimated useful life of 20 years

10. Tangible fixed assets

	Freehold land and buildings £000	Plant and equipment £000	Group Total £000
Cost			
At start of year	1,390	1,262	2,652
Additions		351	351
Disposals		(120)	(120)
At end of year	1,390	1,493	2,883
Depreciation			
At start of year	4	468	472
Charge for the year	10	364	374
Disposals		(120)	(120)
At end of year	14	712	726
Net book value			
At 31 December 2006	**1,376**	**781**	**2,157**
At 31 December 2005	1,386	794	2,180

Notes *(continued)*

11. Investments

	Group 2006 £000	Group 2005 £000	**Company 2006 £000**	Company 2005 £000
Investment in subsidiaries			**212,686**	201,286
Investment in joint ventures	**6,430**	6,372	**6,113**	6,356
Investment in associates	**98**	116	**98**	116
	6,528	6,488	**218,897**	207,758

	Company £000
Investments in subsidiaries	
At start of year	201,286
Acquired during year (note 20)	11,400
At end of year	**212,686**

	Group 2006 £000	Group 2005 £000	**Company 2006 £000**	Company 2005 £000
Joint ventures				
At beginning of year	**6,372**	11,089	**6,356**	10,841
Share of profits less losses	**2,878**	4,403		
Dividends received	**(1,450)**	(2,738)		
Management fees receivable	**(1,322)**	(1,897)		
Movement in shareholder loans	**(48)**	(4,485)	**(243)**	(4,485)
At end of year	**6,430**	6,372	**6,113**	6,356

The total of the group's profit before taxation from interests in joint ventures and associates is £2,105,000 (2005 £3,669,000)

The amounts included in net assets in respect of joint ventures comprise the following

	Group 2006 £000	Group 2005 £000
Share of assets		
Share of current assets	**22,687**	34,522
Share of liabilities		
Due within one year	**(8,204)**	(16,703)
Due after one year	**(14,353)**	(17,801)
	(22,557)	(34,504)
Loans provided to joint ventures	**6,300**	6,354
Share of net assets	**6,430**	6,372

Notes *(continued)*

11. Investments *(continued)*

The principal investments of the company as at 31 December 2006 were

	Country of registration	**Share capital %**
Subsidiary undertakings		
Miller Homes Limited	Scotland	100
MF Development Company UK Limited	England	100
Miller Craigmount Limited	Scotland	100
Miller Kirkliston Limited	Scotland	100
Miller Residential Development Services Limited	Scotland	100
Miller (Cobblers Hall) Limited	England	100
Miller (Eccles) Limited	England	100
Miller (Barrow) Limited	England	100
Miller Airdrie Limited	Scotland	100
Miller (Telford South) Limited	Scotland	100
Miller Graysmill Limited	Scotland	100
Miller (Duloch 1) Limited	Scotland	100
Joint ventures		
Lancefield Quay Limited	Scotland	50
Canniesburn Limited	Scotland	50
Miller Gadsby (Castle Marina) Limited	England	50
Associates		
New Laurieston (Glasgow) Limited	Scotland	45

12. Stocks and work in progress

	Group 2006 £000	Group 2005 £000
Work in progress	**884,546**	824,644
Part exchange properties	**16,500**	23,216
	901,046	847,860

13 Debtors

	Group 2006 £000	Group 2005 £000	**Company 2006 £000**	Company 2005 £000
Trade debtors	**3,660**	5,813		
Amounts recoverable on contracts	**375**	705		
Amounts owed by parent undertaking			**12,117**	12,462
Amounts owed by fellow subsidiary undertaking	**9**			
Amounts owed by subsidiary undertakings			**111,609**	146,246
Prepayment and accrued income	**2,279**	1,813		
Other debtors	**16,166**	11,782	**126**	55
Deferred tax (see note below)	**2,767**	2,766		
	25,256	22,879	**123,852**	158,763

Notes *(continued)*

13. Debtors *(continued)*

	Group 2006 £000	Group 2005 £000
Deferred tax		
At start of year	**2,766**	2,156
Credit to profit and loss account (note 7)	**1**	610
At end of year	**2,767**	2,766

The elements of the deferred tax asset are as follows

	Group 2006 £000	Group 2005 £000
Difference between accumulated depreciation and capital allowances	**269**	311
Other timing differences	**2,498**	2,455
At end of year	**2,767**	2,766

14 Creditors Amounts falling due within one year

	Group 2006 £000	Group 2005 £000	**Company 2006 £000**	Company 2005 £000
Bank overdraft (unsecured)	**119,703**	105,128	**4,877**	2,833
Bank loans (secured)	**14,564**			
Trade creditors	**55,312**	62,084		
Amounts owed to parent undertaking	**137,385**	137,694		
Amounts owed to fellow subsidiary companies	**730**	886	**55,358**	79,410
Corporation tax	**840**	385	**37**	
Other creditors	**6,709**	9,070	**738**	610
Land creditors	**89,997**	72,965		
Accruals and deferred income	**23,355**	30,476	**2,947**	6,172
	448,595	418,688	**63,957**	89,025

15. Creditors. Amounts falling due after more than one year

	Group 2006 £000	Group 2005 £000	**Company 2006 £000**	Company 2005 £000
Amounts owed to parent undertaking	**89,360**	89,360		
Bank loans (secured)	**32,086**	22,399		
Bank loans (unsecured)	**250,000**	250,000	**250,000**	250,000
Land creditors	**14,367**	42,086		
	385,813	403,845	**250,000**	250,000

Notes *(continued)*

15 Creditors: Amounts falling due after more than one year *(continued)*

	Group 2006 £000	Group 2005 £000	**Company 2006 £000**	Company 2005 £000
Analysis of debt				
Within one year	**134,267**	105,128	**4,877**	2,833
One to two years	**32,086**	7,520		
Two to five years	**250,000**	264,879	**250,000**	250,000
Greater than 5 years	**89,360**	89,360	**-**	
	505,713	466,887	**254,877**	252,833

16 Share capital

	Company 2006 £000	Company 2005 £000
Authorised, allotted, called up and fully paid		
25,000,000 Ordinary shares of £1 each	**25,000**	25,000

17 Profit and loss account

	Group £000	Company £000
At start of year	**59,023**	2,496
Profit for the year	**43,369**	3,678
Share based payments (note 19)	**721**	
Dividend (note 8)	**(2,382)**	(2,382)
At end of year	**100,731**	3,792

18. Reconciliation of movement in shareholders' funds

	Group £000	Company £000
Opening shareholders' funds	**84,023**	27,496
Profit for the year	**43,369**	3,678
Share based payments (note 19)	**721**	
Dividend (note 8)	**(2,382)**	(2,382)
Closing shareholders' funds	**125,731**	28,792

Notes *(continued)*

19. Share based payments

Details of provisional awards outstanding at the year end under the group's share schemes are given below

	Number	Exercise prices	Weighted average remaining contractual life	Maximum term
Performance Share Plan ("PSP")	228,255	£nil	28 months	40 months
Executive share option plan	595,000	£6 04 £8 49	93 months	10 years

Performance share plan

During the year the group introduced a Performance Share Plan ("PSP") under which, at the discretion of The Miller Group Remuneration Committee, shares can be provisionally allocated at nil value to selected employees Before the provisional share allocation vests predetermined performance conditions must be met Currently the performance condition requires cumulative profit before tax ("PBT") growth of at least 7 5% per annum over a three year period at which point 25% of the shares provisionally awarded vest For the provisional shares to vest in full, an increase in PBT equating to an aggregate of 20% per annum over a three year period is required This performance condition is considered a stretching target and an appropriate indicator of management's success in growing the business

Share options

In previous years the group operated an Executive Share Option Scheme under which, at the discretion of The Miller Group Remuneration Committee, options could be provisionally granted at market value to selected employees Before the options may be exercised predetermined performance conditions must be met The performance condition requires an increase in Group profit before tax equating to an aggregated 4% above the annual increase in the Retail Price Index over a three year period In addition, directors, along with other members of staff, participate in the Company's saving related share option schemes

The number of weighted average exercise price of share options and other awards are as follows

	Share options		**Weighted average exercise price**	
	2006 Number	2005 Number	**2006 £**	2005 £
At beginning of year	**750,000**	670,000	**7.27**	6 55
Granted	**228,255**	235,000		
Exercised	**(155,000)**	(155,000)	**6 09**	6 02
At end of year	**823,255**	750,000	**5 47**	7 27
Exercisable at end of year	**65,000**	220,000	**6.13**	6 10

The weighted average share price at the date of exercise of share options exercised during the year was £10 76 (2005 £8 49)

Notes *(continued)*

19. Share based payments *(continued)*

The fair value of these awards at the grant date is calculated using the Black Scholes model The key assumptions made in the model are as follows

Date of grant	PSP **1 May 2006**	2005 Executive share option scheme 1 October 2005	2005 Executive share option scheme 1 July 2005
Share price at date of grant	**£10 76**	£8 49	£8 49
Exercise price	**£nil**	£8 49	£8 49
Risk free interest rate	**4.1%**	4 1%	4%
Expected volatility	**15%**	15%	15%
Term of the option	**40 months**	36 months	36 months
Expected dividend growth	**15%**	15%	15%
Fair value of option	**£9 82**	£0 93	£0 91

The expected volatility is based on historical volatility of The Miller Group share price over the last five years

The total expense recognised in respect of share based payment transactions was £1,700,000 (2005 £550,000) of which £721,000 (2005 £nil) related to equity settled transactions

20. Acquisitions

On 4 September 2006, the company acquired the entire share capital of Miller Airdrie Limited from a fellow subsidiary undertaking Details of the acquisition are as follows

	Net book value of assets acquired £000	Fair value adjustment £000	Fair value of assets acquired £000
Stocks and work in progress	6,280	5,157	11,437
Debtors	45		45
Cash	(82)		(82)
Net assets	6,243	5,157	11,400
Goodwill arising			
Fair value of assets acquired			11,400
Represented by			
Consideration cash			11,400

Notes *(continued)*

21. Commitments

The group has commitments under non cancellable operating leases to make payments in the year to 31 December 2007 as follows

	Land and buildings £000	Other £000
Leases expiring		
Within one year		226
Between two and five years	822	1,215
Greater than five years	980	
	1,802	1,441

22. Pensions

The company is a member of a group pension scheme, which provides benefits based on final pensionable pay Because the company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis as permitted by FRS 17 "Retirement Benefits", the schemes have been accounted for, in these financial statements as if it was a defined contribution scheme There is a deficit on the group scheme of £10 0m (2005 £17 8m)

The latest full actuarial valuation of the scheme was carried out on 1 July 2004 and updated for FRS 17 purposes at 31 December 2006 and 31 December 2005 by a qualified independent actuary The company expects to contribute 40% of pensionable salaries

The company participates in The Miller Group Limited Group Personal Pension Plan The assets of the scheme are held separately from those of the Group in an independently administered fund The amount charged against profit represents the contributions payable to the scheme in respect of the accounting period

23. Related party transactions

During the year, Mr T Hough acquired a residential property from a subsidiary company at its full market value of £420,000

24. Cross guarantees

The company has with certain other subsidiaries, jointly guaranteed the unsecured multi currency revolving credit facilities available to the parent company, The Miller Group Limited In addition, the company has jointly guaranteed the unsecured multi-currency overdraft facility of The Miller Group Limited and certain subsidiaries

25. Ultimate parent company

The company's ultimate parent company is The Miller Group Limited a company registered in Scotland and incorporated in Great Britain and its accounts can be obtained from the Registrar of Companies, Companies House, 37 Castle Terrace, Edinburgh EH1 2EB