Miller Homes Holdings Limited

Directors' Report and Financial Statements

31 December 2004
Registered Number SC255430

Directors' Report and Financial Statements

Contents

Directors' Report

The company was incorporated on 5 September 2003 as Dunwilco (1089) Limited and changed its name to Miller Homes Holdings Limited on 11 December 2003. On 1 January 2004, the housebuilding investments of The Miller Group Limited were transferred to the company. The directors present their first annual report and audited accounts for the period ended 31 December 2004.

Principal activity

The principal activity of the group is housebuilding.

Business review

Financial performance
The business delivered excellent results in 2004 its first year as a stand alone company. Operating profits where £59.6m (2003 - £48.6m), and operating margin increased by 25% to 15% (2003 - 12%). Both operating profits and margins are at record levels for the business.

Turnover was in line with the prior year at £394m (2003 - £399m) and average selling prices grew by 14% to £175,000. Housing completions (including joint ventures) were 2,505 (2003 – 2,871). This slight reduction was anticipated and reflected the emphasis on margin improvement, as well as the timing of site starts on certain high density schemes. We completed 240 (2003 – 117) affordable housing units for Housing Associations in the year.

Strategy
We have 8 regional housing businesses with plans to grow organically to deliver 3,500 completions and to maintain operating margins at our current level which we believe is sustainable in the long term.

We launched a new Southern Region in January 2004, based in Basingstoke, Hampshire. We have invested more than £50m in land in the region and have already commenced work on three sites with further sites due to contribute in 2005. This is well ahead of expectations and will enable the region to exceed the financial targets set when it was established.

We support the Government's Sustainable Communities Plan and expect to increase volumes of lower cost affordable housing both for open market sale and also for rent in conjunction with Registered Social Landlords. We have registered an interest in securing the Social Housing Grant which the Housing Corporation intends to make available to the private sector.

Key to delivering this strategy is ensuring each of the regional housing businesses achieves critical mass, which broadly means an annual output of around 400 units per annum. Our land acquisition programme has seen significant progress being made during 2004, and we remain on target to deliver this goal.

Market overview
The buoyant trading conditions experienced in 2003 continued throughout the first half of 2004. However, following five successive interest rate rises, downbeat announcements made by the Governor of Bank of England and some rather frenzied speculation of an imminent crash in house prices, it was inevitable that visitor and reservation levels moderated during the second half. We had anticipated the market slowing and pursued a policy to forward sell whilst the market was at its strongest.

In the short term, we have seen the return of normal market conditions and expect prices to remain relatively stable during 2005. We have an increased number of selling outlets which will deliver the anticipated growth for the business. We also have confidence in the quality of our site locations and products, together with proven marketing skills.

Operations
The 8 regional house building businesses are spread throughout the UK. Local knowledge and expertise is combined with central functions of design, procurement, health & safety, finance, legal and marketing to avoid duplication, drive cost efficiencies and achieve consistency and quality.

We build homes in sizes ranging from 1 – 5 bedrooms. We also deliver affordable housing for rent in conjunction with Housing Associations. 61% of homes in 2005 were built on brownfield land.

We achieve high levels of quality of construction in all of our products and this is borne out by the results of independent inspections of our properties during the course of construction which show a consistent level of improvement over the last two years.

Site Managers achieved 6 (2003 – 3) Quality Awards in the NHBC Pride in the Job Awards Scheme in 2004. This is an independent assessment of the construction quality standards achieved. We were delighted Bill Hughes was chosen as the Supreme Award winner in the large builder category for the second year in succession. This is a tremendous achievement considering over 18,000 site managers are eligible for the Awards Scheme.

The quality of our products and the service we provide to our customers has been the focus of much improvement. Independent consultants undertake surveys of all of our customers 6 weeks after occupation to determine our performance and NHBC also conduct surveys and provide feedback after 9 months of occupation. The most recent sample shows that 85% of respondents to our independent customer satisfaction survey 'would recommend Miller Homes to their best friend' and this is well ahead of the survey results published by The Housing Forum and also the industry targets set by Kate Barker in her review of housing supply published in 2004. There is no greater accolade than a customer testimonial and customer satisfaction will remain a key performance measure for our business.

Product design is subject to increased scrutiny by Government and various agencies such as CABE and English Partnerships. Planning policies and in particular PPG3 also have an increased influence on product design requiring us to build at increased densities and often bespoke designs. There is also a trend toward more community involvement as site designs evolve. We support this development, provided it delivers the promised more consistent and timely determination of planning applications.

We have invested in our procurement function and reduced our supplier numbers significantly. With an emphasis on partnering this has controlled build cost while also providing certainty of supply.

Miller Homes has its own dedicated Safety Health & Environment Manager and has introduced SH&E management systems based on the principles outlined in ISO 14001, an environmental management standard and OHSAS 18001, an assessment specification for occupational health and safety management systems. NHBC is used to undertake independent SH&E inspections of all sites in England and in the last year we strengthened the department to facilitate our own inspections in Scotland. The sharing of best practise and learning is at the heart of our management of SH&E.

We have achieved many industry awards for our performance which reflects our growing status amongst our peer group. Of particular note were silver awards at both the What House Awards and Daily Express Housbuilder. Awards as well as Best City Development at the Your New Home Awards for our development at Lancefield Quay, Glasgow.

Our website millerhomes.co.uk is designed to help our customers find the home of their dreams. It is increasingly popular with a 17.5% increase in the volume of traffic using the site during the uear. 28% of people registering on our website went on to purchase a Miller home. Customers can register their needs and reiceve 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, mymillerhome.co.uk where they can find updates on progress with their home. All marketing initiatives are designed to remove the stress of buying a new home and do lead to increased customer loyalty, satisfaction and brand awareness.

Land bank
We invested heavily in land during the year spending a record £200m (2003 - £140m). The number of plots controlled currently comprises 8,050 plots and has a developed value of £1,400m which represents approximately 3.5 years supply at current levels of output. In addition, we control a further 2,400 plots under conditional contract which will be acquired if we successfully secure planning consent for residential development. We also have 2,870 acres of land held under option which may be developable over a longer timeframe.

Prospects
Having concentrated on margin improvement in 2004, we plan to increase completions again in 2005. We own all of the land and have planning permission to achieve these plans. Looking further ahead, the fundamentals for the housing market remain positive with high employment and affordability, historically low interest rates and record low levels of housing output.

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 2004 is £32,956,000. The directors do not recommend that a dividend be paid.

Directors and directors' interests

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

D W Director 1 Limited	(appointed 5 September 2003, resigned 11 December 2003)
DW Company Services	(appointed 5 September 2003, resigned 11 December 2003)
KM Miller	(appointed 11 December 2003)
JS Richards	(appointed 11 December 2003)
T Hough	(appointed 11 December 2003)
ET Anderson	(appointed 11 December 2003)
SG Mills	(appointed 11 December 2003)

Auditors

KPMG LLP were appointed auditors during the period. 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

4 July 2005

Statement of Director's 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 profit or loss for that period. In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Independent Auditors' Report to the Members of Miller Homes Holdings Limited

We have audited the financial statements on pages 6 to 17.

The 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 a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the Directors' Report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the company is not disclosed.

Basis of Audit Opinion

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

We planned and performed out audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonably 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.

Opinions

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2004 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP.

KPMG LLP
Chartered Accountants
Registered Auditor
Edinburgh

4 July 2005

Consolidated Profit and Loss Account
for the period ended 31 December 2004

		Note	2004 £000
Turnover:	Group and share of joint ventures		394,443
Less:	Share of joint ventures' turnover		(34,324)
Group turnover			360,119
Cost of sales			(274,736)
Gross profit			85,383
Administrative expenses			(28,652)
Group operating profit			56,731
Share of profit in joint ventures			2,871
Share of loss in associates			(1)
Operating profit			59,601
Net interest payable		5	(13,063)
Profit on ordinary activities before taxation		2	46,538
Taxation		6	(13,582)
Retained profit for the period		15	32,956

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

Consolidated Balance Sheet
at 31 December 2004

	Note	2004 £000	2004 £000
Fixed assets			
Goodwill	7		11,623
Tangible assets	8		1,025
Investment in joint ventures:	9		
Share of gross assets		37,044	
Share of gross liabilities		(36,794)	
Loans to joint ventures		10,839	
			11,089
Investment in associates	9		148
			23,885
Current assets			
Stocks and work in progress	10	450,780	
Debtors	11	13,345	
Cash at bank and in hand		3,623	
		467,748	
Creditors: amounts falling due within one year	12	(318,370)	
Net current assets			149,378
Total assets less current liabilities			173,263
Creditors: amounts falling due after more than one year	13		(111,367)
Net assets			**61,896**
Capital and reserves			
Called up share capital	14		25,000
Profit and loss account	15		36,896
Equity shareholders' funds	16		**61,896**

These accounts were approved by the board of Directors on 4 July 2005 and were signed on its behalf by:

Ewan Anderson
Finance Director

Company Balance Sheet
at 31 December 2004

	Note	2004 £000
Fixed assets		
Investments	9	104,769
Current assets		
Debtors	11	25,000
Creditors: amounts falling due within one year	12	(100,741)
Net current liabilities		(75,741)
Net assets		**29,028**
Capital and reserves		
Called up share capital	13	25,000
Profit and loss account	14	4,028
Equity shareholders' funds	15	**29,028**

These accounts were approved by the board of Directors on 4 July 2005 and were signed on its behalf by:

Ewan Anderson
Finance 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 company is exempt from the requirement of Financial Reporting Standard 1, to prepare a cash flow statement, as it is 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 FRS8 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 20.

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 on 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 an its interest in their net assets is included in the consolidated balance sheet.

Turnover

Turnover comprises income from the sale of houses.

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

Notes *(continued)*

Stock and work in progress

Stock 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 charges 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 18.

2. Profit on ordinary activities before taxation

This is stated after charging / (crediting) the following:			**2004 £000**
Depreciation			321
Gain on sale of fixed assets			(6)
Auditors remuneration	-	audit fees	42
	-	non-audit fees	49
Operating lease rentals	-	*land and buildings*	*500*
	-	other	75

3. Staff numbers and costs

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

	2004 Number
Construction	437
Administration	320
Sales	71
	828

The aggregate payroll costs of these persons were as follows:	**2004 £000**
Wages and salaries	27,770
Social security costs	2,879
Other pension costs	1,165
	31,814

Notes *(continued)*

4. Remuneration of directors

	2004 £000
Emoluments	456
Amounts receivable under long-term incentive schemes	43
Company contributions to money purchase pension schemes	73
	572

The number of directors who were members of pension schemes was as follows:

Money purchase schemes	3
Defined benefit schemes	2
	5

The aggregate of emoluments, bonus and amounts receivable under long-term incentive schemes of the highest paid director was £290,808. He is a member of a defined contribution pension scheme, with contributions of £43,329 being paid by the company during the year.

5. *Net interest payable*

	2004 £000
Interest payable:	
On bank loans and overdrafts	11,641
Other	187
	11,828
Associates and joint ventures:	
Joint ventures – bank loan and overdraft interest	1,544
Associates – bank loan and overdraft interest	29
Bank and other interest receivable	(338)
	13,063

Notes *(continued)*

6. Taxation

	2004 **£000**
Corporation tax:	
Current year	14,204
Share of joint ventures' and associates' tax	62
	14,266
Deferred tax - current year	(111)
Deferred tax - prior year	(573)
	(684)
	13,582

Factors affecting the tax charge for the current period:

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

	2004 **£000**
Profit on ordinary activities before tax	46,538
Current tax at 30%	13,961
Effects of:	
Expenditure not deductible for tax purposes	464
Timing differences in respect of which deferred tax is provided	(111)
Utilisation of joint ventures tax losses	(48)
	14,266

7. Goodwill

	Group **£000**
Cost:	
At incorporation	-
Transferred from parent undertaking	12,389
At end of year	12,389
Amortisation:	
At incorporation	-
Charged during the period	766
At end of year	766
Net book value at end of period	11,623

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

Notes *(continued)*

8. Tangible fixed assets

	Group Plant and Equipment £000
Cost:	
At incorporation	-
Transferred from parent undertaking	588
Additions	758
Disposals	(271)
At 31 December 2004	1,075
Depreciation:	
At incorporation	-
Charge for the period	321
Disposals	(271)
At 31 December 2004	50
Net book value	
At 31 December 2004	1,025

9. Investments

	Group 2004 £000	Company 2004 £000
Investment in subsidiaries	-	93,780
Investment in joint ventures	11,089	10,841
Investment in associates	148	148
	11,237	104,769
Joint ventures:		
At incorporation	-	-
Transferred from parent undertaking	6,403	5,891
Share of profits less losses	1,265	-
Dividends received	(600)	-
Management fees receivable	(929)	-
New loans	4,950	4,950
At end of year	11,089	10,841

The total of the Group's profit before taxation from interests in joint ventures and associates is £1,297,000.

Notes *(continued)*

9. Investments *(continued)*

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

	Group 2004 £000
Share of assets:	
Share of current assets	37,044
Share of liabilities:	
Due within one year	(21,304)
Due after one year	(15,490)
	(36,794)
Loans provided to joint ventures	10,839
Share of net assets	11,089

The principal investments of the company as at 31 December 2004 were:

	Country of registration	Share capital %
Subsidiary undertakings:		
Miller Homes Limited	Scotland	100
Miller Craigmount Limited	Scotland	100
Miller Piershill Limited	Scotland	100
Miller Silverknowes Limited	Scotland	100
Miller Drylaw Limited	Scotland	100
Miller St Josephs Limited	Scotland	100
Miller Residential Services Limited	Scotland	100
Miller Homes (North Berwick) Limited	Scotland	100
Joint ventures:		
Lancefield Quay Limited	Scotland	50
Canniesburn Limited	Scotland	50
Miller Applecross (Edinburgh Quay) Limited	Scotland	50
Calmont Barrland Limited	Scotland	50
Norfolk Park Limited	England	50
Miller Gadsby (Castle Marina) Limited	England	50
Associates:		
New Laurieston Limited	Scotland	45

10. Stocks and work in progress

	Group 2004 £000
Work in progress	446,224
Houses for resale	4,556
	450,780

Notes *(continued)*

11. Debtors

	Group 2004 £000	Company 2004 £000
Trade debtors	3,481	-
Amounts recoverable on contracts	421	-
Amounts owed by parent undertaking	-	25,000
Prepayment and accrued income	897	-
Other debtors	6,390	-
Deferred tax (see note below)	2,156	-
	13,345	25,000

Deferred tax	Group 2004 £000
At incorporation	-
Transferred from parent undertaking	1,472
Credit to profit and loss account (note 6)	684
At end of period	2,156

The elements of the deferred tax asset are as follows:	
Difference between accumulated depreciation and capital allowances	80
Other timing differences	2,076
At end of period	2,156

12. Creditors: Amounts falling due within one year

	Group 2004 £000	Company 2004 £000
Bank overdraft (unsecured)	211,766	-
Trade creditors	36,315	-
Amounts owed to parent undertaking	5,222	-
Amounts owed to fellow subsidiary companies	788	100,741
Other creditors	4,665	-
Land creditors	41,389	-
Accruals and deferred income	18,225	-
	318,370	100,741

Notes *(continued)*

13. Creditors: Amounts falling due after more than one year

	Group 2004 £000
Amounts owed to parent undertaking	89,360
Bank loans	21,272
Land creditors	735
	111,367

	Group 2004 £000
Analysis of debt:	
Within one year	735
One to two years	15,180
Two to five years	6,092
Greater than 5 years	89,360
	111,367

The bank loans are in respect of assets owned by certain subsidiaries and in turn are secured over the assets of those subsidiaries. Interest is payable at LIBOR plus 1.0% - 1.75%.

14. Share capital

	Company 2004 £000
Authorised, allotted, called up and fully paid:	
25,000,000 Ordinary shares of £1 each	25,000

15. Profit and loss account

	Group £000	Company £000
At incorporation	-	-
Opening reserves of subsidiaries and joint ventures	3,940	-
Profit retained for the period	32,956	4,058
At end of year	36,896	4,058

Included in the Group's profit and loss reserves are pre-acquisition reserves in relation to certain subsidiaries and joint ventures. This accounting treatment does not comply with Financial Reporting Standard 2, Accounting for Subsidiary Undertakings which requires that pre-acquisition reserves be included in the calculation of goodwill. However, this sub-group was formed as part of a reorganisation of The Miller Group Limited and to adopt the treatment set out in FRS 2 would result in the creation of negative goodwill. The directors therefore consider the accounting treatment adopted is necessary in order for the financial statements to give a true and fair view of the state of affairs of the Group.

Notes *(continued)*

16. Reconciliation of movement in shareholders' funds

	Group £000	Company £000
At incorporation	-	-
New share capital issued	25,000	25,000
Opening reserves of subsidiaries and joint ventures	3,940	-
Profit retained for the period	32,956	4,058
Closing shareholders' funds	61,896	29,058

17. Commitments

The Group has commitments under non-cancellable operating leases to make payments in the year to 31 December 2005 as follows:

	Land & Buildings £000	Other £000
Leases expiring:		
Within one year	-	1
Between two and five years	256	74
Greater than five years	438	7
	694	82

18. Pensions

The company participates in The Miller Group Pension Scheme, a defined benefit pension scheme providing benefits based on final pensionable earnings. Contributions to the scheme are assessed in accordance with the advice of an independent qualified actuary, on the basis of triennial valuations, using the projected unit method and are based on pension costs across the group as a whole. This scheme was closed to new entrants on 1 October 1997.

Further details of the most recent actuarial valuation and the main actuarial assumptions are disclosed in the accounts of The Miller Group Limited.

The company also participates in The Miller Group Limited Group Personal Pension Plan. The assets of the scheme are held separately from these of the Group in an independently administered fund. The amounts charged against profit represent the contributions payable to the scheme in respect of the accounting period.

19. 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.

20. 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.