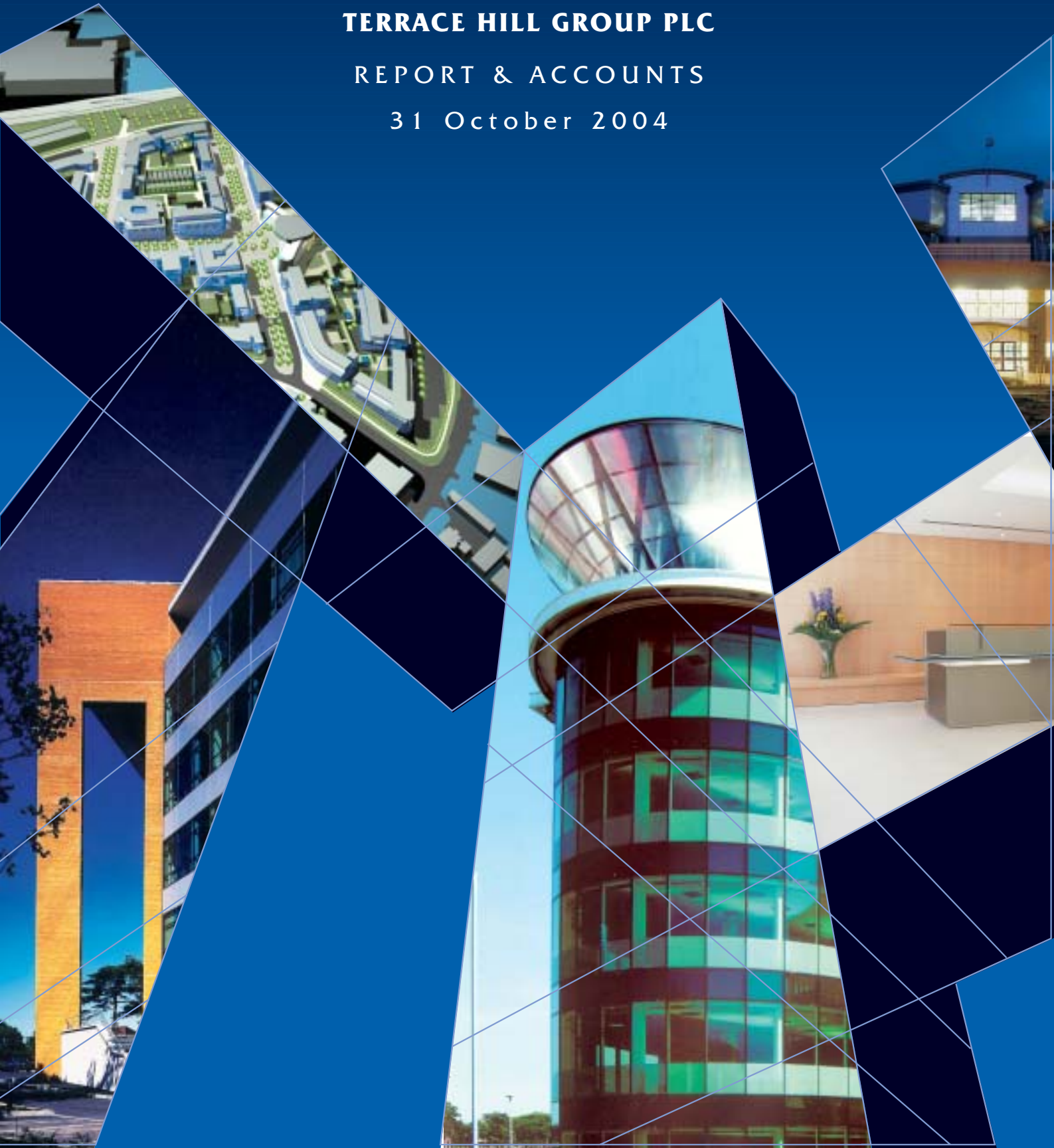




**TERRACE
HILL**

TERRACE HILL GROUP PLC
REPORT & ACCOUNTS
31 October 2004





Baltic Business Quarter, Gateshead

YEAR TO 31 OCTOBER 2004

- Successful year on all fronts
- Profit Before Tax £4.08 million
- Triple NAV 39.99p per Share
- Net Assets £70.8 million (31 October 2003: £46.5 million)
- NAV per share 38.12p (increase of 26.14%)
- Proposed Final dividend 0.5p per Share (2003: 0.15p)
- Development Programme end value approaching £600 million including joint ventures
- Substantial institutional investment following placing
- Confidence in future

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CHAIRMAN'S STATEMENT

Year to 31 October 2004

I am pleased to present our results for the Year to 31 October 2004 which illustrate the progress we continue to make towards our goal of enhancing shareholder value.

Profit and Loss account to 31 October 2004

Profit before tax for the Year amounted to £4,083,801 (18 months to 31 October 2003: £5,092,831). Operating Profit for the year of £5,259,244 exceeded Operating Profit for the previous 18 month period to 31 October 2003 of £3,295,314.

Triple Net Asset Value

Our Net Asset Value (NAV) increased in the Year from £46.5 million to £70.8 million. NAV per share increased in the same period from 30.22p per share to 38.12p, an increase of 26.14%.

We announced on 13 April 2004 that we would in future provide figures for Triple Net Asset Value ("TNAV") which is common practice amongst quoted companies in the property sector. Our TNAV per share at 31 October 2004 was 39.99p. The increase in TNAV over the year to 31 October 2004 was over 25%. In our case the principal adjustments required from Net Asset Value to arrive at TNAV are, on a realistic basis, to revalue current work-in-progress to current realisation value and to allow for tax that would be payable were we to realise our assets at their revalued amounts. This is more fully explained on page 15.

At 31 October 2004 our development programme had a total end value approaching £600 million (30 April 2004: £500 million), a figure which includes joint ventures. Gearing inside development vehicles and entering into joint ventures allow us to greatly increase the range of our activities while reducing risks. In most joint ventures we are entitled to project coordination fees and enhancement of our equity dependent on results. We anticipate that our development programme is capable of providing significant financial returns to the Group over the next five years.

Balance Sheet at 31 October 2004

Total Group assets at 31 October 2004 stood at £180,581,071 compared to £125,315,628 at 31 October 2003, and net assets, after minority interests, at £70,841,074, an increase of 52.24% over net assets at 31 October 2003 of £46,532,000.

Bank debt of £75.6 million net of £17.8 million cash stood at 81.6% of equity (2003: 119.1%). Of the bank debt 68.35% was with limited (interest etc.) or no recourse to the parent company. Properties held as investments were £91.3 million (£40.4 million residential and £50.9 million commercial) compared to £83.5 million last year. Work-in-progress was £55.7 million (£50.7 million commercial and £5 million residential) compared to £18 million last year.

Management

We have decided to appoint Philip Leech as Managing Director with effect from 26 January 2005. Philip joined Terrace Hill in 1993. Aged 41, he is a Chartered Surveyor, having spent seven years with Strutt and Parker before joining Dixons Commercial Properties and then Terrace Hill. Philip has very successfully run the North East office since 1994 which has been consistently and substantially profitable. Philip has also in recent times procured important new development projects, such as Baltic Business Quarter, Gateshead (expected to be developed out over some 10 years with an end value expected to be well over £100 million) along with other projects referred to in the Operational Review. We all look forward to a successful future with Philip at the helm.

With effect from 26 January Nigel Turnbull and Ross Macdonald will step down from their roles of Joint Managing Directors as part of their planned, phased retirement. Nigel and Ross, now in their 60's, have expressed the wish to have more leisure time. As you are aware, the Group was formed by the amalgamation in September 2002 of Capitaltech PLC (of which Ross had been Chief Executive since its incorporation in 1994) with Westview and Terrace Hill Limited (which Nigel had joined also in 1994). Nigel and Ross, both with Scottish professional backgrounds, have worked very well together.

CHAIRMAN'S STATEMENT

I would like to thank Nigel and Ross for their hard and diligent efforts in establishing and growing Terrace Hill and their successful efforts in getting us to our current position of strength. I am pleased that both Nigel and Ross will be remaining as Executive Directors which will greatly assist Philip and me.

Dividend

Showing our confidence in the future we have decided to recommend a final dividend for the Year to 31 October 2004 of 0.5p per share (previous period final dividend 0.15p per share) making a total dividend for the year of 0.8p per share (the total dividend for 18 months to 31 October 2003 was 0.405p per share). This dividend will be payable on 1 April 2005 to shareholders on the register at 18 March 2005.

Institutional Investment

The group placed on 29 April 2004 28,600,000 shares with institutions at 29p each raising £8.128 million net of costs. We were pleased with this as it gives us for the first time a substantial institutional component to our shareholder base. We are also aware of subsequent substantial institutional purchases of shares on the market. The largest institutional shareholder is Caledonia Investments plc with 7.53%.

Current and Future Trading

Further details of current activity and projects are given in the Operational Review following, so I shall not comment further on these in this statement.

As we have said before we look forward to continuing to deliver increased shareholder value over the years ahead. We are now even more confident about our ability to do so.

Robert F M Adair, Chairman

OPERATIONAL REVIEW

The year to 31 October 2004 has been a period both of considerable growth and progress.

The Commercial Division

London office and the South East

As was indicated in the last report, West End tenant demand in 2003 was relatively subdued and the current year opened on the same note. As the year progressed optimism returned to the market induced by a lack of available supply of category A space and increased business confidence.

This has been reflected in the success the Group has had in achieving almost 100% occupancy of the joint venture office developments at No. 11 and No. 16 Berkeley Street with achieved rents rising through the year. This tenant confidence is expected to continue in 2005.



11 Berkeley Street, W1

(1,600 sq m / 17,600 sq ft)

A West End freehold office building extended and comprehensively refurbished.



16 Berkeley Street W1

(3,200 sq m / 34,500 sq ft)

A newly built West End freehold office building.

OPERATIONAL REVIEW

Similarly, a development in King Street being primarily 10,500 sq ft of offices by Serah Properties plc (in which we earlier acquired a minority interest) in joint venture with Canada Life, although completed in autumn 2002, had lacked tenant or purchaser interest. During the year under review we were able, at an attractive price, to increase our holding in Serah to 83.13% and to arrange a sale of the offices to The Royal Bank of Scotland Group plc for £9.2 million for its own occupation. There remain four shops of which two have now been let.



22 King Street, SW1

(976 sq m / 10,500 sq ft)

A West End freehold office building extended and refurbished to provide high quality air-conditioned space.

The office market around the M25 continued to suffer from relatively limited tenant interest but subsequent to the year end, the Hertz Corporation committed at £22 psf to take all the space in the 69,000 sq ft office development, UB1, in Uxbridge (a joint venture with Liberty Property Trust). The intention is to hold this investment to benefit from anticipated strong rental growth from the current low base.

In contrast to mixed tenant demand there has been strong interest from institutional investors. This was reflected in a price of £6.6 million and a yield of 6.65% obtained on the sale of the Southend, Essex leisure facility occupied by Virgin Active. In addition, in the light of strong purchaser interest, an opportunity was taken to dispose of office investments in Slough and Crawley for £1.6 million and £5.5 million respectively, the latter just after the year end.

A highlight of the year was the acquisition for £6.76 million satisfied in shares and cash of Grosvenor Land Holdings plc. This Company's portfolio consists of principally serviced business accommodation. As a corporate acquisition the purchase was at a good discount to full property asset value and as at the year end, benefiting from a further fall in investment yields, NAV amounted to £9.25 million. Since acquisition a retail property at Rushden has been sold for £1.3 million.

OPERATIONAL REVIEW

Outside London and the M25 conurbation, demand in the South East has been strong. A 43,200 sq ft development of foodstore, fitness centre and children's nursery at Guildford was successfully completed and sold. In phase I of the small office development at the same site 8 out of 13 units have been sold. Construction on the second phase will commence in early 2005.



Queen Elizabeth Park, Guildford

(3,948 sq m /42,000 sq ft).

Phase I of 26 speculative freehold offices.

Particularly strong interest from purchasers has been experienced at Tunbridge Wells where construction is well underway on the first two phases of Decimus Park, a 170,000 sq ft industrial park.

Decimus Park

(10.5 acre site)

Phases I and II under construction.



Looking to the future, commitments have been made to several new developments in the region. During the year an income producing 4.2 acre industrial estate was purchased in Edmonton, North London for £5 million. Alternative planning uses including residential are being considered.

OPERATIONAL REVIEW

Pinewoods, formerly occupied by Hewlett Packard, a 20 acre site south of Bracknell has been purchased with a view to the development in phases of up to 150,000 sq ft of offices.



Pinewoods (20 acre site)

Proposed development of a 13,900 sq m / 150,000 sq ft office park.

Since the year end the Group has completed the purchase of Davis House, Victoria, for £16.1 million. While planning permission exists for office and residential redevelopment, Terrace Hill's intention is to improve the existing consent to create a 130,000 sq ft mixed use scheme.

Most recently, the Group has acquired a 17 acre site in Farnborough, adjoining the Farnborough Aerospace Centre, suitable for office and industrial development.

The North East and Scotland

Good progress has been made over the year in the North East Region, both in terms of disposing of mature assets and the start of development of new schemes.

On the disposals front Westminster, a multi-let office development at the Teesdale Business Park was sold to private investors for £5.57 million, representing a record net initial yield for the Park of 6.7%. Also at Teesdale Business Park a 0.75 acre site was sold with the benefit of detailed planning consent for £1.5 million, representing a significant mark up on cost. At King Albert Chambers in Hull, work commenced on the refurbishment of the two ground floor retail units with one being pre let to Ethel Austin. Simultaneously the upper parts have been sold to a residential developer who is carrying out an 11 unit apartment scheme.

Westminster
(2,250 sq m / 24,400 sq ft)

A multi-let office development sold to private investors.



OPERATIONAL REVIEW

After a long lead in period two significant developments commenced. At Baltic Business Quarter, a 50 acre site on the south bank of the Tyne at Gateshead, construction has started on the infrastructure for the first phase comprising approximately 16 acres. Pre sale agreements for new buildings for Gateshead College of Further Education 193,106 sq ft and One North East 60,000 sq ft are now in solicitors hands and a detailed planning application has also been submitted for a further three office buildings totalling 90,000 sq ft.



Baltic Business Quarter

(50 acre site)

Commencement of infrastructure work on Phase I of 16 acres.

At Middlehaven, Middlesbrough, construction has commenced on the first office building of the Manhattan Gate development which has planning consent for a total of 160,000 sq ft. This development is being carried out in Joint Venture and the first building of 30,700 sq ft. will be available for occupation in July 2005.

Manhattan Gate

(2,852 sq m/30,700 sq ft)

Development of high quality offices under construction.



OPERATIONAL REVIEW

In Newcastle City Centre planning consent has been obtained for an 83,000 sq ft. net seven storey office development on Gallowgate. This proposed development is a joint venture with the landowner, Whitehall upon Tyne Ltd.



Gallowgate

(7,710 sq m /83,000 sq ft)

Proposed development of a prominent headquarters building.

Two industrial investments in Blyth and Bishop Auckland have been acquired with a view to conversion to retail use. Planning applications have been submitted on both sites for a total of 170,500 sq ft. non-food retail space.

Also, on an industrial site in Galashiels, a purchase agreement has been exchanged with completion conditional upon obtaining retail planning consent for 45,000 sq ft.

The West Country and Wales

The Group's 44,000 sq. ft. office development at 33 Colston Avenue, Bristol (in joint venture with Northridge Capital Ltd) once let, was sold at a better than expected sale price of £11.7 million to an institutional investor, reflecting a yield of 7%.

Two new developments have started on site.

In Bristol demolition is now complete and construction is due to start on Templar House, 90,000 sq ft of high quality office space located near to Temple Meads Station. This is Terrace Hill's fourth joint venture with Northridge Capital Ltd.

Templar House

(8,300 sq m /90,000 sq ft)

Development of new headquarters offices in Bristol.



OPERATIONAL REVIEW

The Group's first venture in Swansea has resulted, in conjunction with the Welsh Development Agency, in the commencement of construction of 40,000 sq ft of offices on Swansea Waterfront.



Swansea Waterfront

(3,700 sq m /40,000 sq ft)

High quality office building presently under construction.

At the date of this report, the Group now has a development programme approaching £600 million of which approaching £200 million is underway. A strength for the future is the increasing number of long-term projects notably Baltic Business Quarter, the Pinewoods purchase and Farnborough. The pipeline of future activity continues to grow as does the management team employed to run this expanding range of projects.

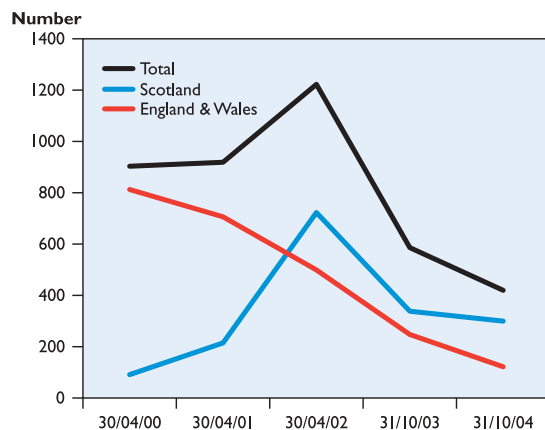
OPERATIONAL REVIEW

The Residential Division

Residential Property

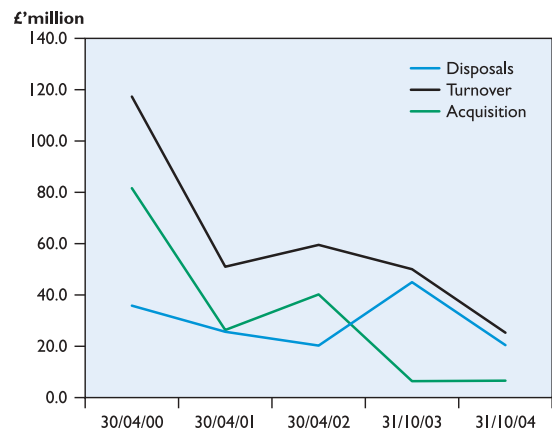
The Group commenced its residential property investment activity in mid 1999, acquiring portfolios of flats and houses at discounts to open market value from financial institutions and former Business Expansion Schemes in what was seen as a rising market. This investment activity peaked in the year ended 30 April 2002, the balance sheet at that date having showed residential property held worth some £75 million. While the overall market continued to rise, higher rental yields, and greater capital growth were achieved, in the North of England and Scotland than elsewhere, resulting in the portfolio becoming focused away from the South East. Achieving an improving portfolio by buying large holdings and retaining the desirable, and shifting the emphasis north, has involved a substantial turnover in five years of such activity.

Number of Residential Units



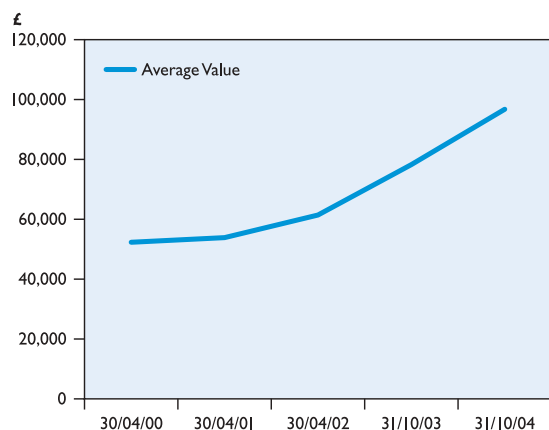
Although the number of units held has been substantially reduced in our last two financial periods, in a rising market the average value of units retained has continued to rise and the total amount invested in residential property has not declined proportionately to the number of units.

Acquisitions and Disposals of Residential Units



In the last two years, having expected a slowing in the market, particularly in England, the total number of units held, especially in Southern England and London has fallen as a result of sales.

Average Value of Residential Units



OPERATIONAL REVIEW

During the year, the major residential property acquisition was a traditional block of 36 flats in a good quality residential area on the junction of Spath Road and Holme Road, West Didsbury, Manchester. This property, together with Sallyport House, Newcastle, now form the bulk of the English holdings.



Spath Holme, Manchester

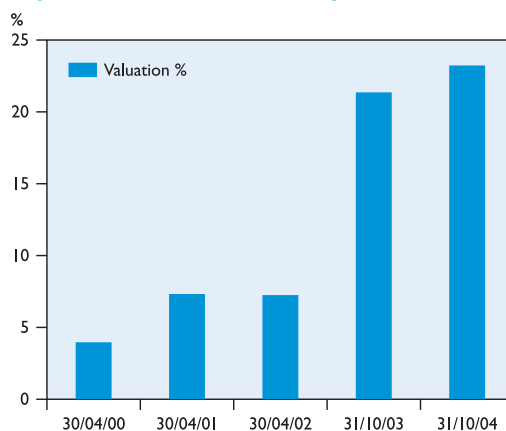


Sallyport House, Newcastle

The Group also acquired 24 flats at Paisley near Glasgow Airport, in an exchange arrangement with at home nationwide to whom were transferred 12 flats in Aberdeen and a number of units in London. Disposed of during the year under review were 163 units in England and Wales and 63 units in Scotland.

The resultant portfolio is now heavily focused on Glasgow and West Central Scotland where values continue to rise.

Valuation increase obtained in financial period of portfolio retained at end of period



OPERATIONAL REVIEW

During the year the Group acquired a site adjoining Glasgow Green, in the east side of Glasgow, for the development of 60 new build flats, targeted at lower price levels than existing competition, together with the sympathetic reinstatement of a listed building to create four houses.



Glasgow Green



A joint venture was formed with the long established Scottish Group, Lithgows Ltd, to maximise residential development value from a number of Lithgows' brickwork sites in central and western Scotland. These sites have the potential to deliver around 700 plots which can either be sold to other developers or developed by ourselves for further profit. From this joint venture the Group acquired an 11.1 acre Annandale Works site at Kilmarnock and has since extended its ownership to the adjoining Ellerslie Inn. The Group has also commenced a site assembly in North Lanarkshire.

Corporate Finance

The FSA Regulated Corporate Finance Subsidiary, Mercantile Securities (Scotland) Limited, which, as does the Residential Division, operates out of the Glasgow Office, acted for the Group in the acquisitions of Grosvenor Land Holdings PLC and of an increased stake in SERAH Properties PLC, and in the Group's buyback by tender of 1,410,022 Ordinary Shares in August 2004. Terrace Hill believes that having this capability enhances its ability to make corporate purchases on a cost effective basis and minimises the risk of abortive costs.

Registrars

Park Circus Registrars Limited, the company registrar subsidiary, also operates from Glasgow; currently it acts for 10 publicly traded companies and another 31 investment vehicles (see website www.pcregistrars.co.uk). It provides a cost effective service that represents good value compared to competitors.

Triple Net Asset Value (unaudited)

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

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

The Table below shows the calculation in detail.

Proforma Triple Net Asset Value per Share

	31 October 2004
	£
Shareholders' Funds (per Audited Consolidated Balance Sheet and after Minority Interests)	70,841,074
Revaluation to market value of property etc held in work-in-progress	17,737,168
Less: Minority Interests in Revaluation	1,224,853
	<hr/>
Revaluation after Minority Interests	16,512,315
Deferred Tax (Note 8 to Accounts)	(7,804,824)
Estimated taxation on Revaluation	(4,690,787)
Goodwill	(546,256)
	<hr/>
Proforma Triple Net Asset Value	74,311,522
	<hr/>
Proforma Triple Net Asset Value per Share	39.99p

D Ross Macdonald, Joint Managing Director

Nigel J C Turnbull, Joint Managing Director

DIRECTORS & ADVISERS

DIRECTORS

R F M Adair MA ACA CTA FGS (Chairman)
D R Macdonald BL NP (Joint Managing Director)
N J C Turnbull LLB CA (Joint Managing Director)
T G Walsh B Comm FCA (Finance Director)
K W Grundy FRICS
M A Kelly LLB NP
R E Lane BSc MRICS
P A J Leech MRICS
K M Hudson MA ACA (Non-Executive)
D Blausten MA FRICS (Non-Executive)
G T P Brennan MA (Non-Executive)
C R L Phillips (Non-Executive)
W P Wyatt (Non-Executive)

SECRETARY

M A Kelly LLB NP

REGISTERED OFFICE

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

REGISTERED AUDITORS

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

REGISTRARS

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

NOMINATED ADVISER

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

NOMINATED BROKER

Seymour Pierce Limited
Bucklersbury House, 3 Queen Victoria Street,
London EC4N 8EL

DIRECTORS' REPORT

The Directors submit their report and the group accounts for the year ended 31 October 2004.

RESULTS AND DIVIDENDS

The group profit for the period, after taxation and minority interests amounted to £3,830,510. The directors recommend the payment of a final dividend of 0.5p per share.

PRINCIPAL ACTIVITY AND REVIEW OF BUSINESS

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

The Chairman's Statement and Operational Review on pages 3 to 15 include a review of the development of the business of the company and its subsidiaries during the period.

ACQUISITIONS

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

Details of these acquisitions are included at note 26.

DIRECTORS AND THEIR INTERESTS

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

	At 31 October 2004 Ordinary shares	At 31 October 2003 (or date of appointment) Ordinary shares
R F M Adair	128,423,549	128,373,549
D R Macdonald	558,522	549,522
N J C Turnbull	174,000	116,000
T G Walsh	30,000	24,000
K W Grundy	10,000	10,000
M A Kelly	108,302	105,302
R E Lane	15,000	–
P A J Leech	69,000	10,000
K M Hudson	–	–
W P Wyatt (appointed 22 June 2004)	–	–
D Blausten (appointed 22 June 2004)	–	–
C R L Phillips (appointed 22 June 2004)	–	–
G T P Brennan (appointed 22 June 2004)	148,484	148,484

No director had any interest in the shares of any of the subsidiary companies except for PAJ Leech who held 15 ordinary shares in Terrace Hill North East Limited at 31 October 2004 and at 31 October 2003.

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

DIRECTORS' REPORT

SHARE CAPITAL

On 25 February 2004, 10 March 2004 and 26 March 2004 a total of 638,296 ordinary shares of 2p each were issued at a price of 30p each in exchange for 255,319 ordinary shares of 50p in Serah Properties plc.

On 8 March 2004, 16 March 2004, 26 March 2004, 19 April 2004, 27 April 2004, 14 May 2004, 21 June 2004 and 28 June 2004 a total of 4,019,696 ordinary shares of 2p each were issued at a price of 27p each in exchange for 6,035,636 ordinary shares of 1p each in Grosvenor Land Holdings plc.

On 29 April 2004 28,600,000 ordinary shares of 2p each were issued for 29p each.

On 13 August 2004 1,410,022 ordinary shares of 2p each were repurchased by the company at a price of 28p each.

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 group had an average of 45 days (2003 – 45 days) purchases outstanding in trade creditors.

AUDITORS

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

On behalf of the Board

M A Kelly
Director and Secretary

25 January 2005

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and of the group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We have audited the financial statements of Terrace Hill Group PLC for the year ended 31 October 2004 on pages 21 to 50. These financial statements have been prepared under the accounting policies set out on pages 26 to 28.

Respective responsibilities of directors and auditors

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

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

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

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, Operational Review and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

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

BDO STOY HAYWARD LLP

Chartered Accountants
and Registered Auditors
Glasgow

25 January 2005

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

GROUP PROFIT AND LOSS ACCOUNT

for the 12 months ended 31 October 2004

	Notes	12 months ended 31 October 2004 £	18 months ended 31 October 2003 £
TURNOVER			
Group:			
Continuing operations		24,601,571	39,646,355
Acquisitions		2,889,953	–
		<u>27,491,524</u>	<u>39,646,355</u>
Share of joint venture		3,739	–
	2	<u>27,495,263</u>	<u>39,646,355</u>
GROUP OPERATING PROFIT			
Continuing operations		4,340,552	3,295,314
Acquisitions		962,002	–
		<u>5,302,554</u>	<u>3,295,314</u>
Share of joint venture operating loss		(43,310)	–
	3	<u>5,259,244</u>	<u>3,295,314</u>
Gain on disposal of fixed asset investments		780	22,996
Amounts written off other investments		(143,796)	(201,507)
Net gain on disposal of investment property	5	3,252,070	7,123,244
Permanent diminution in value of an investment property		(279,436)	(300,000)
Gain/(loss) on liquidation of former subsidiary		142,551	(4,321)
Interest receivable		545,821	490,103
Interest payable	4	(4,693,433)	(5,332,998)
		<u>–</u>	<u>–</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			
	5	4,083,801	5,092,831
Taxation credit/(charge)	8	3,000	(872,196)
		<u>4,086,801</u>	<u>4,220,635</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAX			
Minority Interest		(256,291)	(150,123)
		<u>3,830,510</u>	<u>4,070,512</u>
PROFIT ATTRIBUTABLE TO MEMBERS OF PARENT COMPANY			
Dividends	9	(1,486,588)	(624,487)
		<u>2,343,922</u>	<u>3,446,025</u>
TRANSFER TO RESERVES			
Basic and diluted earnings per share	10	2.238p	3.033p

All amounts relate to continuing operations.

The notes on pages 26 to 50 form part of these financial statements.

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the 12 months ended 31 October 2004

	12 months ended 31 October 2004 £	18 months ended 31 October 2003 £
Profit attributable to members of the parent company excluding share of losses of joint venture company	3,887,585	4,070,512
Share of joint venture loss for the year	(57,075)	–
Profit attributable to members of the parent company	3,830,510	4,070,512
Unrealised surplus on revaluation of investment properties	13,160,860	8,145,414
Unrealised surplus on revaluation of unlisted investments	11,558	1,887
TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR	<u>17,002,928</u>	<u>12,217,813</u>

NOTE OF HISTORICAL COST PROFITS AND LOSSES

for the 12 months ended 31 October 2004

	12 months ended 31 October 2004 £	18 months ended 31 October 2003 £
Reported profit on ordinary activities before taxation	4,083,801	5,092,831
Realised surplus on previously revalued property	5,083,620	4,235,277
Historical cost profit on ordinary activities before taxation	<u>9,167,421</u>	<u>9,328,108</u>
Historical cost profit for the period retained after taxation, minority interests and dividends	<u>7,427,542</u>	<u>7,681,302</u>

The notes on pages 26 to 50 form part of these financial statements.

GROUP BALANCE SHEET

at 31 October 2004

		31 October 2004	31 October 2003 As restated
	Notes	£	£
FIXED ASSETS			
Intangible assets	11		
Positive goodwill		2,467,835	2,583,058
Negative goodwill		(1,921,579)	(1,307,356)
		<u>546,256</u>	<u>1,275,702</u>
Tangible assets	12	91,380,965	83,545,057
		<u>91,927,221</u>	<u>84,820,759</u>
Investments	13		
Joint venture – share of gross assets		4,032,545	–
Joint venture – share of gross liabilities		(3,939,620)	–
		<u>92,925</u>	<u>–</u>
Investments in associates		–	1,053,516
Other fixed asset investments		446,101	84,706
		<u>539,026</u>	<u>1,138,222</u>
		<u>92,466,247</u>	<u>85,958,981</u>
CURRENT ASSETS			
Work in progress	14	55,687,146	18,046,537
Debtors	15	14,626,625	7,297,480
Cash at bank and in hand		17,801,053	14,012,630
		<u>88,114,824</u>	<u>39,356,647</u>
CREDITORS: amounts falling due within one year	16	(64,222,764)	(35,218,287)
NET CURRENT ASSETS		<u>23,892,060</u>	<u>4,138,360</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		116,358,307	90,097,341
CREDITORS: amounts falling due after more than one year	16	(44,671,808)	(42,986,307)
PROVISIONS FOR LIABILITIES AND CHARGES	17	(121,618)	(476,779)
NET ASSETS		<u>71,564,881</u>	<u>46,634,255</u>
CAPITAL AND RESERVES			
Called up share capital	19	3,716,467	3,079,508
Shares to be issued		–	192,551
Share premium account	20	19,368,539	11,822,703
Revaluation reserves – investment properties	20	21,474,093	13,396,853
Revaluation reserves – other	20	17,566	6,008
Capital redemption reserve	20	849,430	821,230
Merger reserve	20	8,115,384	8,227,582
Profit and loss account	20	17,299,595	8,985,565
		<u>70,841,074</u>	<u>46,532,000</u>
EQUITY SHAREHOLDERS' FUNDS	21	70,841,074	46,532,000
MINORITY INTERESTS		<u>723,807</u>	<u>102,255</u>
		<u>71,564,881</u>	<u>46,634,255</u>

Approved by the Board

D R Macdonald
Director

T G Walsh
Director

25 January 2005

The notes on pages 26 to 50 form part of these financial statements.

COMPANY BALANCE SHEET

at 31 October 2004

	Notes	31 October 2004 £	31 October 2003 £
FIXED ASSETS			
Investments	13	<u>34,245,644</u>	<u>34,241,046</u>
CURRENT ASSETS			
Debtors	15	47,007,700	30,751,642
Cash at bank and in hand		4,323,658	4,754
		<u>51,331,358</u>	<u>30,756,396</u>
CREDITORS: Amounts falling due within one year	16	<u>(45,929,983)</u>	<u>(32,136,501)</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>5,401,375</u>	<u>(1,380,105)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>39,647,019</u>	<u>32,860,941</u>
NET ASSETS		<u>39,647,019</u>	<u>32,860,941</u>
CAPITAL AND RESERVES			
Called up share capital	19	3,716,467	3,079,508
Shares to be issued		–	192,551
Share premium account	20	19,368,539	11,822,703
Revaluation reserves – other	20	17,566	6,008
Capital redemption reserve	20	849,430	821,230
Merger reserve	20	8,115,384	8,227,582
Profit and loss account	20	7,579,633	8,711,359
EQUITY SHAREHOLDERS' FUNDS		<u>39,647,019</u>	<u>32,860,941</u>

Approved by the Board

D R Macdonald
Director

T G Walsh
Director

25 January 2005

The notes on pages 26 to 50 form part of these financial statements.

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 October 2004

	Notes	12 months ended 31 October 2004	18 months ended 31 October 2003 As restated
		£	£
Cash (outflow)/inflow from operating activities	23(a)	(7,086,432)	14,993,819
Returns on investments and servicing of finance	23(b)	(3,986,845)	(4,829,877)
Taxation		(7,500)	(97,994)
Capital expenditure and financial investment	23(b)	20,306,374	50,475,725
Acquisitions and disposals	23(b)	(9,681,722)	275,360
Equity dividends paid		(788,434)	(393,524)
Cash (outflow)/inflow before liquid resources and financing		(1,244,559)	60,423,509
Financing	23(b)	5,093,411	(49,215,710)
Increase in cash	23(c)	3,848,852	11,207,799

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	12 months ended 31 October 2004	18 months ended 31 October 2003 As restated
	£	£
Increase in cash	3,848,852	11,207,799
Cash flow from debt repaid	2,615,068	48,547,012
Change in net debt arising from cash flows	6,463,920	59,754,811
Long term debt acquired with subsidiaries	(8,718,097)	(63,351,213)
Debt issue costs	(142,840)	–
MOVEMENTS IN NET DEBT DURING THE PERIOD	(2,397,017)	(3,596,402)
Opening net debt	(55,401,806)	(51,805,404)
CLOSING NET DEBT	(57,798,823)	(55,401,806)

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

The notes on pages 26 to 50 form part of these financial statements.

NOTES TO THE ACCOUNTS

at 31 October 2004

I ACCOUNTING POLICIES

Accounting convention

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

Basis of consolidation

The consolidated financial statements incorporate the results of Terrace Hill Group PLC and all of its subsidiary undertakings as at 31 October 2004 using the acquisition method of accounting. The results of subsidiary undertakings are included from the date of acquisition.

Comparative figures

Certain balance sheet figures as at 31 October 2003 and cash flow information for the period then ended, have been restated to reflect a change in accounting for a joint arrangement. There is no change to net assets as previously reported nor any impact on the profit and loss account.

Joint ventures

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

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

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

Positive and negative goodwill

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

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

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

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

NOTES TO THE ACCOUNTS

at 31 October 2004

I ACCOUNTING POLICIES (continued)

Listed and unlisted investments

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

Work in progress

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

Depreciation

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

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

Investment properties

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

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

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

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

Leasing

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

NOTES TO THE ACCOUNTS

at 31 October 2004

I ACCOUNTING POLICIES (continued)

Turnover and cost of sales

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

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

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

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

Sales of investment property

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

Pension costs

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

Financial instruments

In relation to the disclosures made in note 18:

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

Deferred taxation

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

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

Deferred tax balances are not discounted.

Cost of raising finance

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

NOTES TO THE ACCOUNTS

at 31 October 2004

2 TURNOVER

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

Acquisitions are disclosed in note 3.

	2004 £	2003 £
Sales of development properties	20,012,483	28,363,538
Rents receivable	7,309,569	10,534,201
Management fees and other income	169,472	748,616
	<u>27,491,524</u>	<u>39,646,355</u>
Share of joint venture turnover	3,739	–
	<u>27,495,263</u>	<u>39,646,355</u>

3 OPERATING PROFIT

	Total 2004 £	Acquisitions 2004 £	Ongoing operations 2004 £	Ongoing operations Total 2003 £
Turnover	27,491,524	2,889,953	24,601,571	39,646,355
Cost of sales	(16,936,686)	(1,627,108)	(15,309,578)	(28,379,501)
Gross profit	10,554,838	1,262,845	9,291,993	11,266,854
Administrative expenses	(5,252,284)	(300,844)	(4,951,440)	(7,971,540)
Group operating profit	<u>5,302,554</u>	<u>962,001</u>	<u>4,340,553</u>	<u>3,295,314</u>
Share of joint venture (loss)	(43,310)			–
Total operating profit	<u>5,259,244</u>			<u>3,295,314</u>

Set out in the table above is the post acquisition operating results of individual companies acquired in the year.

The above analysis of operating results is before interest charges.

NOTES TO THE ACCOUNTS

at 31 October 2004

4 INTEREST PAYABLE

	2004	2003
	£	£
On loan and overdrafts	4,793,151	6,330,913
Amortisation of issue costs	229,745	205,638
Interest capitalised	(343,228)	(1,203,553)
Total group interest payable	4,679,668	5,332,998
Share of joint venture interest payable	13,765	–
	<u>4,693,433</u>	<u>5,332,998</u>

5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2004	2003
	£	£
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Auditors' remuneration – audit services	208,607	165,596
Auditors' remuneration – non-audit services	2,250	1,700
Depreciation of owned fixed assets	80,564	75,385
Operating lease charges – rent of properties	1,429,593	1,608,617
Positive goodwill – amortisation	168,790	307,581
Gain on disposal of investment properties	(2,889,821)	(4,405,326)
Release of negative goodwill	(362,249)	(2,717,918)
Net gain on disposal of investment property	(3,252,070)	(7,123,244)
Investment property rental income (included in turnover)	(7,309,569)	(10,534,201)

6 DIRECTORS' EMOLUMENTS

	2004	2003
	£	£
Emoluments	986,808	1,409,780
Amounts paid to third parties in respect of directors services	87,250	110,675
Amounts receivable under long-term incentive schemes	152,208	47,604
Compensation for loss of office	–	50,000
Pension contributions	72,032	101,105

Pension contributions were made during the year in respect of six directors (2003 – six).

The emoluments of the highest paid director for the year including salary, bonuses and benefits were £250,000 (2003 – £397,924).

Pension contributions in respect of the highest paid director were £nil (2003 – £73,000).

NOTES TO THE ACCOUNTS

at 31 October 2004

7 STAFF COSTS

	2004 £	2003 £
Wages and salaries	1,701,078	1,887,056
Social security costs	157,640	215,559
Other pension costs	79,801	110,303
	<u>1,938,519</u>	<u>2,212,918</u>

The average monthly number of employees during the year was 24 (2003 – 17).

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of charge in year

	2004 £	2003 £
Current tax		
UK corporation tax on profits of the year	768,794	413,000
Adjustment in respect of prior periods:	(413,000)	(17,583)
Total current tax	355,794	395,417
Deferred tax		
Origination and reversal of timing differences	(358,794)	476,779
Tax on profit on ordinary activities	<u>(3,000)</u>	<u>872,196</u>

(b) Factors affecting the tax charge for the year

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

	2004 £	2003 £
Profit on ordinary activities before tax	<u>4,083,801</u>	<u>5,092,831</u>
Profit on ordinary activities multiplied by the standard rate of UK Corporation tax of 30%	1,225,140	1,527,849
Disallowables	185,518	172,540
Unutilised losses for the period	–	209,190
Capital gains	2,340,304	3,756,073
Gain on sale of properties	(1,393,190)	(1,290,290)
Wear and Tear allowances and capital allowances in excess of depreciation	(226,490)	(572,134)
Goodwill amortised	(197,623)	(721,706)
Capitalised interest	(22,603)	(222,393)
Losses brought forward utilised	(902,420)	(2,446,129)
Provisions released	(239,842)	–
	<u>768,794</u>	<u>413,000</u>
Adjustments in respect of previous years	(413,000)	(17,583)
Current tax charge for the period	<u>355,794</u>	<u>395,417</u>

NOTES TO THE ACCOUNTS

at 31 October 2004

8 TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

(c) Factors that may affect future tax charges

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

No provision has been made for deferred tax on gains recognised on revaluing property to its market value. The total amount unprovided is £7,804,824 (2003 – £3,315,925).

A deferred tax asset of £nil (2003 – £295,000) relating to unutilised trading losses has not been recognised at the balance sheet date.

9 DIVIDENDS

	2003 £	2002 £
Ordinary shares		
Interim paid of nil (2003 – 0.125p) per share	–	193,356
Interim paid of 0.30p (2003 – 0.13p) per share	557,471	200,168
Final proposed of 0.50p per share (2003 – 0.15p) per share	929,117	230,963
	<u>1,486,588</u>	<u>624,487</u>

10 EARNINGS PER ORDINARY SHARE

The calculation of basic and diluted earnings per ordinary share is based on a profit of £3,830,510 (2003 profit – £4,070,512) and on 171,192,098 (2003 – 134,207,985) ordinary shares, being the weighted average number of shares in issue during the period.

11 INTANGIBLE FIXED ASSETS

	Positive goodwill £	Negative goodwill £
Cost:		
At 1 November 2003	3,378,341	(6,436,820)
Acquisitions	53,567	(1,483,966)
At 31 October 2004	<u>3,431,908</u>	<u>(7,920,786)</u>
Amortisation:		
At 1 November 2003	(795,283)	5,129,464
(Charge)/release for the period	(168,790)	869,743
At 31 October 2004	<u>(964,073)</u>	<u>5,999,207</u>
Net book value:		
At 31 October 2004	<u>2,467,835</u>	<u>(1,921,579)</u>
At 31 October 2003	<u>2,583,058</u>	<u>(1,307,356)</u>

Positive goodwill continues to be amortised over the directors' estimate of economic useful life of 20 years or 5 years.

Negative goodwill is released to the profit and loss account as a result of the disposal of non-monetary assets.

NOTES TO THE ACCOUNTS

at 31 October 2004

12 TANGIBLE FIXED ASSETS

Group	Motor vehicles £	Office equipment £	Furniture and fittings £	Investment properties £	Total £
Cost or valuation:					
At 1 November 2003:					
As previously stated	5,977	79,774	2,264	89,853,454	89,941,469
Prior year adjustment	–	–	–	(6,330,000)	(6,330,000)
As restated	5,977	79,774	2,264	83,523,454	83,611,469
Additions	–	5,760	42,067	1,718,477	1,766,304
Acquisition of subsidiary undertakings	–	–	193,740	18,450,000	18,643,740
Disposals	–	(975)	–	(25,278,159)	(25,279,134)
Surplus on revaluation	–	–	–	13,158,866	13,158,866
Permanent diminution in value	–	–	–	(279,436)	(279,436)
At 31 October 2004	5,977	84,559	238,071	91,293,202	91,621,809
Whereof:					
Cost	5,977	84,559	238,071	–	328,607
Valuation	–	–	–	91,293,202	91,293,202
	5,977	84,559	238,071	91,293,202	91,621,809
Depreciation:					
At 1 November 2003	2,918	61,230	2,264	–	66,412
Charge for period	306	9,831	37,486	32,941	80,564
Acquisition of subsidiary undertakings	–	–	–	94,842	94,842
Disposals	–	(974)	–	–	(974)
At 31 October 2004	3,224	70,087	39,750	127,783	240,844
Net book value:					
At 31 October 2004	2,753	14,472	198,321	91,165,419	91,380,965
At 31 October 2003	3,059	18,544	–	83,523,454	83,545,057

The investment properties situated in Scotland owned by the group have been valued as at 31 October 2004 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, at 31 October 2004 having regard to professional advice during the period.

On a historical cost basis the group's investment properties would have been £69,691,326 (2003 – £76,456,601).

NOTES TO THE ACCOUNTS

at 31 October 2004

13 INVESTMENTS

Group

	<i>Joint ventures</i>	<i>Associates</i>	<i>Other investments other than loans</i>	<i>Total</i>
	£	£	£	£
Cost or valuation:				
At 1 November 2003	–	1,053,516	265,900	1,319,416
Additions	150,000	–	1,071	151,071
Acquisition of subsidiary undertakings	–	–	502,459	502,459
Associate now subsidiary	–	(1,053,413)	–	(1,053,413)
Disposals	–	–	(10,000)	(10,000)
Surplus on revaluation	–	–	11,558	11,558
Adjustment on revaluation	–	–	967	967
Reclassification	–	(103)	103	–
	<u>150,000</u>	<u>–</u>	<u>772,058</u>	<u>922,058</u>
At 31 October 2004	150,000	–	772,058	922,058
Whereof:				
Cost	150,000	–	–	150,000
Valuation	–	–	772,058	772,058
	<u>150,000</u>	<u>–</u>	<u>772,058</u>	<u>922,058</u>
Provision for diminution in value:				
At 1 November 2003	–	–	181,194	181,194
Loss for the year	57,075	–	–	57,075
Provided during the period	–	–	145,730	145,730
Adjustment on revaluation	–	–	(967)	(967)
	<u>57,075</u>	<u>–</u>	<u>325,957</u>	<u>383,032</u>
At 31 October 2004	57,075	–	325,957	383,032
Net book value:				
At 31 October 2004	<u>92,925</u>	<u>–</u>	<u>446,101</u>	<u>539,026</u>
At 31 October 2003	–	1,053,516	84,706	1,138,222

On a historical cost basis, other investments other than loans would have been included at a net book value of £428,182 (2003 – £78,699).

NOTES TO THE ACCOUNTS

at 31 October 2004

13 INVESTMENTS (continued)

<i>Company</i>	<i>Subsidiary undertakings £</i>	<i>Other investments other than loans £</i>	<i>Total £</i>
Cost or valuation:			
At 1 November 2003	34,557,763	285,899	34,843,662
Additions	1,002	1,071	2,073
Disposals	–	(10,000)	(10,000)
Surplus on revaluation	–	12,525	12,525
	<hr/>	<hr/>	<hr/>
At 31 October 2004	34,558,765	289,495	34,848,260
Whereof:			
Cost	34,558,765	–	34,558,765
Valuation	–	289,495	289,495
	<hr/>	<hr/>	<hr/>
	34,558,765	289,495	34,848,260
Provision for diminution in value:			
At 1 November 2003	401,423	201,193	602,616
Provided during the period	–	967	967
Adjustment on revaluation	–	(967)	(967)
	<hr/>	<hr/>	<hr/>
At 31 October 2004	401,423	201,193	602,616
Net book value:			
At 31 October 2004	34,157,342	88,302	34,245,644
At 31 October 2003	34,156,340	84,706	34,241,046

On a historical cost basis other investments other than loans would have been included at a net book value of £70,736 (2003 – £78,699).

NOTES TO THE ACCOUNTS

at 31 October 2004

13 INVESTMENTS (continued)

Details of the investments in which the group or the company, at 31 October 2004, held more than 20% of the nominal value of any class of share capital are as follows:

Principal companies of the group:

Subsidiary undertakings

<i>Name of company</i>	<i>Proportion of voting rights and ordinary shares held</i>	<i>Nature of business</i>
PCG Residential PLC	100%	Property investment
Paisley Pattern Homes Limited	100%	Property investment
Park Circus (Management) Limited	100%	Management and administration
Park Circus Registrars Limited	100%	Corporate registrars
Mercantile Securities (Scotland) Limited	100%	Corporate finance services
NC (Res) Limited	100%	Holding company /Property investment
South Eastern Recovery II Limited*	100%	Property investment
Pacific Shelf 1058 Limited	100%	Property investment
Belgrave Residential Assets Limited	100%	Property investment
Belgrave Residential Investments Limited	100%	Property investment
PCG Residential Lettings (No. 3) Limited	100%	Property investment
PCG Residential Lettings Limited	100%	Property investment
Spath Holme Limited*	100%	Property development
Terrace Hill (Central Scotland) Limited	100%	Property development
Terrace Hill (Kilmarnock) Limited	100%	Property development
Westview Group Limited	100%	Investment holding company
Westview Investments Limited	100%	Investment holding company
Terrace Hill Limited*	100%	Investment holding company
Terrace Hill Estates Limited*	100%	Property investment
Terrace Hill (Berkeley) Limited*	100%	Property investment
Terrace Hill Properties Limited*	100%	Property investment
Terrace Hill Developments Limited*	100%	Property development
Mount York Estates Limited*	100%	Project coordination and development
Tannochside Developments Limited*	100%	Property development
Terrace Hill Projects Limited*	100%	Project coordination and management services
Terrace Hill North East Limited*	85%	Property development
Terrace Hill (Newcastle) Limited*	85%	Property development
Terrace Hill (Westminster House) Limited*	85%	Property development
Terrace Hill (Baltic) Limited*	85%	Property development
Terrace Hill (Middlehaven) Limited*	85%	Property development
Terrace Hill (Thundersley) Limited*	100%	Property investment
Terrace Hill (Clarendon Road) Limited*	100%	Property development
Tannochside Estates Limited*	100%	Property investment
Terrace Hill (Guildford No. 1) Limited*	100%	Property development
Thanet Reach Estates Limited*	100%	Property development
Terrace Hill (Watford) Limited*	100%	Property development
Terrace Hill (Crawley) Limited*	100%	Property investment
PCG Investments Limited*	100%	Investment holding company
Peak Village Estates Limited*	100%	Property investment
Port Hampton Limited*	100%	Property investment and moorings hire
Outergolden Limited*	100%	Property investment
Platts Eyot Limited*	100%	Property investment
TH (One Portland Place) Limited*	100%	Property investment
TL Developments Limited*	100%	Property development
Terrace Hill (Swansea) Limited*	100%	Property development
Terrace Hill (Templar) Limited*	100%	Property development
Terrace Hill (Tunbridge Wells) Limited*	100%	Property development

NOTES TO THE ACCOUNTS

at 31 October 2004

13 INVESTMENTS (continued)

Principal companies of the group (continued):

Subsidiary undertakings	Proportion of voting rights and ordinary shares held	Nature of business
Name of company		
Grosvenor Land Holdings PLC*	100%	Property investment
Grosvenor Land North Limited*	100%	Property investment
Grosvenor Land South Limited*	100%	Property investment
Plymouth & Exeter Properties Limited*	100%	Property development
SERAH Properties PLC*	83.13%	Property investment

Joint Ventures and partnerships

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

Vine Street Joint Venture	20%	Property investment
Sixteen Berkeley Street Joint Venture	50%	Property investment
Eleven Berkeley Street Joint Venture	50%	Property investment
Colston Avenue Partnership	50%	Property development
Guildford Partnership	50%	Property development
Achadonn Limited	50%	Property development

* Shares held by subsidiary undertaking.

14 WORK IN PROGRESS

	Group 2004	Group 2003	Company 2004	Company 2003
	£	£	£	£
Development work in progress	55,687,146	18,046,537	–	–
Included in these figures is capitalised interest of	702,531	674,409	–	–

15 DEBTORS

	Group 2004	Group 2003	Company 2004	Company 2003
	£	£	£	£
Trade debtors	1,616,050	1,067,604	44,485	–
Prepayments and accrued income	1,252,341	1,341,722	217,145	19,430
Amount due from subsidiaries	–	–	46,583,138	30,725,273
ACT recoverable	–	7,871	–	–
Other debtors	11,758,234	4,880,283	162,932	6,939
	14,626,625	7,297,480	47,007,700	30,751,642

All amounts fall due for payment within one year except for other debtors (group) of £459,775 (2003 – £217,320), prepayments (group) of £110,928 (2003 – £nil) and amount due from subsidiaries (company) of £30,327,744 (2003 – £nil).

NOTES TO THE ACCOUNTS

at 31 October 2004

16 CREDITORS

	Group 2004	Group 2003 <i>As restated</i>	Company 2004	Company 2003
	£	£	£	£
Amounts due within one year:				
Bank overdraft	839,191	899,621	–	–
Bank loans	30,088,877	25,528,509	–	–
Trade creditors	2,586,043	3,087,142	31,517	20,879
Current corporation tax	761,294	413,000	–	–
Other taxation and social security costs	318,968	888,687	–	–
Accruals and deferred income	27,227,434	2,939,850	154,751	142,551
Other creditors	1,471,840	1,230,515	501,023	295,147
Proposed final ordinary dividend	929,117	230,963	929,117	230,963
Amounts due to subsidiaries	–	–	44,313,575	31,446,961
	<u>64,222,764</u>	<u>35,218,287</u>	<u>45,929,983</u>	<u>32,136,501</u>

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

	Group 2004	Group 2003	Company 2004	Company 2003
	£	£	£	£
Amounts due after more than one year:				
Bank loans	<u>44,671,808</u>	<u>42,986,307</u>	–	–

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

	Group 2004	Group 2003 <i>As restated</i>	Company 2004	Company 2003
	£	£	£	£
Financial liabilities are due:				
Bank loans and overdrafts:				
In one year or less or on demand	31,043,812	26,560,720	–	–
Unamortised finance costs	(115,744)	(132,590)	–	–
	<u>30,928,068</u>	<u>26,428,130</u>	–	–
Bank loans and overdrafts:				
In more than one year but less than two	24,790,991	2,958,645	–	–
In more than two years but less than five	18,329,085	33,103,763	–	–
In more than five years	1,727,440	7,035,353	–	–
Unamortised finance costs	(175,708)	(111,454)	–	–
	<u>44,671,808</u>	<u>42,986,307</u>	–	–

NOTES TO THE ACCOUNTS

at 31 October 2004

17 PROVISIONS FOR LIABILITIES AND CHARGES

<i>Deferred Tax</i>	<i>Group 2004</i>	<i>Group 2003</i>	<i>Company 2004</i>	<i>Company 2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
At 1 November 2003	476,779	–	–	–
(Credited)/charged to profit and loss account	(358,794)	476,779	–	–
Acquisition of subsidiary undertakings	3,633	–	–	–
At 31 October 2004	<u>121,618</u>	<u>476,779</u>	<u>–</u>	<u>–</u>

<i>Deferred Tax</i>	<i>Group 2004</i>	<i>Group 2003</i>	<i>Company 2004</i>	<i>Company 2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Accelerated capital allowances	721,261	254,420	–	–
Other timing differences	(599,643)	222,359	–	–
	<u>121,618</u>	<u>476,779</u>	<u>–</u>	<u>–</u>

18 FINANCIAL INSTRUMENTS

The group's principal financial instruments comprise loans, overdrafts, cash, short term deposits and equity investments in other enterprises. 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, and unlisted investments.

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

Interest rate risk

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

The group borrows cash in the form of loans and overdrafts, which are subject to interest at floating rates, recognising that rates will fluctuate according to changes in the bank base rate. It also manages its exposure to interest rate risk by entering into interest rate swaps to maintain a balance between borrowings that are subject to floating and fixed rates.

Liquidity risk

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

NOTES TO THE ACCOUNTS

at 31 October 2004

18 FINANCIAL INSTRUMENTS (continued)

Interest rate risk profile of financial assets and liabilities

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

	Total £	Floating rate financial assets £	Financial assets on which no interest is earned £
Sterling	17,801,053	17,801,053	–

Fixed rate financial liabilities

	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Total £	Fixed rate financial liabilities £	Floating rate financial liabilities £
Sterling	4.68	0.5	74,760,685	12,098,105	62,662,580

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 2003 was as follows:

	Total As restated £	Floating rate financial assets As restated £	Financial assets on which no interest is earned £
Sterling	14,012,630	14,012,630	–

Fixed rate financial liabilities

	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Total As restated £	Fixed rate financial liabilities £	Floating rate financial liabilities As restated £
Sterling	4.68	1	69,414,436	17,385,587	52,028,849

NOTES TO THE ACCOUNTS

at 31 October 2004

18 FINANCIAL INSTRUMENTS (continued)

The floating rate financial assets comprise:

- cash on deposit.

The floating rate financial liabilities comprise:

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

Borrowing facilities

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

At 31 October 2004:

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

As restated

At 31 October 2003:

	£
Expiring in one year or less:	2,194,880
Expiring in more than one year but not more than two:	3,071,310
Expiring in more than two years but not more than five:	8,192,530
Expiring in more than five years	150,000
	<u>13,608,720</u>

Subsequent to 31 October 2004 the maximum principal amount of a revolving credit facility has reduced from £30 million to £20 million.

Fair values of financial assets and liabilities

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

NOTES TO THE ACCOUNTS

at 31 October 2004

19 CALLED UP SHARE CAPITAL

	2004 £	2003 £
Authorised:		
250,000,000 ordinary shares of 2 pence each	5,000,000	5,000,000
200,000 cumulative 8% redeemable preference shares of £1 each	200,000	200,000
3,300,000 convertible shares of 20 pence each	660,000	660,000
	<u>5,860,000</u>	<u>5,860,000</u>
	£	£
Allotted, called up, and fully paid:		
185,823,377 (2003 – 153,975,407) ordinary shares of 2 pence each	<u>3,716,467</u>	<u>3,079,508</u>

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

On 25 February 2004, 10 March 2004 and 26 March 2004 a total of 638,296 ordinary shares of 2p each were issued at a price of 30p each in exchange for 255,319 ordinary shares of 50p in SERAH Properties plc.

On 8 March 2004, 16 March 2004, 26 March 2004, 19 April 2004, 27 April 2004, 14 May 2004, 21 June 2004 and 28 June 2004 a total of 4,019,696 ordinary shares of 2p each were issued at a price of 27p each in exchange for 6,035,636 ordinary shares of 1p each in Grosvenor Land Holdings plc.

On 29 April 2004 28,600,000 ordinary shares of 2p each were issued for 29p each.

On 13 August 2004 1,410,022 ordinary shares of 2p each were repurchased by the company at a price of 28p each.

NOTES TO THE ACCOUNTS

at 31 October 2004

20 RESERVES

<i>Group</i>	<i>Share premium</i>	<i>Revaluation reserve – Investment properties</i>	<i>Revaluation reserve – other</i>	<i>Capital redemption reserve</i>	<i>Merger reserve</i>	<i>Profit and loss account</i>
	£	£	£	£	£	£
At 1 November 2003	11,822,703	13,396,853	6,008	821,230	8,227,582	8,985,565
Profit for the year	–	–	–	–	–	3,830,510
Interim ordinary dividends	–	–	–	–	–	(557,471)
Final proposed ordinary dividend	–	–	–	–	–	(929,117)
Revaluation reserve released on disposal of assets in the year	–	(5,083,620)	–	–	–	5,083,620
Premium on allotment of ordinary shares	7,722,000	–	–	–	–	–
Repurchase of share capital	–	–	–	28,200	–	(394,806)
Premium on issue of share capital as part of acquisition	–	–	–	–	1,183,646	–
Surplus on revaluation of investment properties	–	13,160,860	–	–	–	–
Surplus on revaluation of unlisted investments	–	–	11,558	–	–	–
Expenses of share issue and repurchase	(176,164)	–	–	–	–	(14,550)
Merger reserve release	–	–	–	–	(1,295,844)	1,295,844
At 31 October 2004	<u>19,368,539</u>	<u>21,474,093</u>	<u>17,566</u>	<u>849,430</u>	<u>8,115,384</u>	<u>17,299,595</u>

The cumulative amount of goodwill deducted directly from group reserves net of goodwill relating to businesses disposed of as at 31 October 2004 is £234,010 (2003 – £234,010).

<i>Company</i>	<i>Share premium</i>	<i>Revaluation reserve – other</i>	<i>Capital redemption reserve</i>	<i>Merger reserve</i>	<i>Profit and loss account</i>
	£	£	£	£	£
At 1 November 2003	11,822,703	6,008	821,230	8,227,582	8,711,359
Loss for the period	–	–	–	–	(531,626)
Interim ordinary dividends	–	–	–	–	(557,471)
Final proposed ordinary dividend	–	–	–	–	(929,117)
Premium on allotment of ordinary shares	7,722,000	–	–	–	–
Repurchase of share capital	–	–	28,200	–	(394,806)
Premium on issue of share capital as part of acquisition	–	–	–	1,183,646	–
Surplus on revaluation of unlisted investments	–	11,558	–	–	–
Expenses of share issue and repurchase	(176,164)	–	–	–	(14,550)
Merger reserve release	–	–	–	(1,295,844)	1,295,844
At 31 October 2004	<u>19,368,539</u>	<u>17,566</u>	<u>849,430</u>	<u>8,115,384</u>	<u>7,579,633</u>

NOTES TO THE ACCOUNTS

at 31 October 2004

21 RECONCILIATION OF GROUP SHAREHOLDERS' FUNDS

	2004 Group	2003 Group As restated	2004 Company	2003 Company
	£	£	£	£
Total recognised gains and losses for the period	17,002,928	12,217,813	(520,068)	1,704,508
Ordinary dividends	(1,486,588)	(624,487)	(1,486,588)	(624,487)
New shares issued (net)	665,157	1,621,640	665,157	1,621,640
Merger reserve arising on new shares issued	1,183,648	6,518,810	1,183,648	6,518,810
Share premium arising on new shares issued	7,545,836	2,111,129	7,545,836	2,111,129
Purchase of ordinary shares	(409,356)	(471,640)	(409,356)	(471,640)
Release of shares to be issued	(192,551)	–	(192,551)	–
	<hr/>	<hr/>	<hr/>	<hr/>
Total movements during the period	24,309,074	21,373,265	6,786,078	10,859,960
Opening shareholders' funds	46,532,000	25,158,735	32,860,941	22,000,981
	<hr/>	<hr/>	<hr/>	<hr/>
Closing shareholders' funds	70,841,074	46,532,000	39,647,019	32,860,941

22 (LOSS)/PROFIT 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 period includes a loss after tax and before dividends paid of £531,626 (2003 – profit £1,702,621) which is dealt with in the financial statements of the parent company.

23 GROUP STATEMENT OF CASH FLOWS

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

	2004 £	2003 £
Operating profit	5,302,554	3,295,314
Depreciation	80,564	75,385
Loss on sale of other tangible fixed assets	–	133,483
Positive goodwill amortisation and impairment losses	168,790	307,581
(Increase)/Decrease in stocks	(36,757,727)	7,425,223
Decrease in operating debtors	1,804,789	7,973,653
Increase/(Decrease) in operating creditors	22,314,598	(4,216,821)
	<hr/>	<hr/>
Net cash (outflow)/inflow from operating activities	(7,086,432)	14,993,819

NOTES TO THE ACCOUNTS

at 31 October 2004

23 GROUP STATEMENT OF CASH FLOWS (continued)

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

	2004	2003
	£	As restated £
Returns on investment and servicing of finance:		
Interest received	545,821	490,103
Interest paid	(4,430,427)	(4,874,551)
Dividends paid to minority interests	(102,239)	(445,429)
	<u>(3,986,845)</u>	<u>(4,829,877)</u>
	2004	2003
	£	£
Capital expenditure and financial investment:		
Purchase of investment property	(1,717,850)	(12,621,424)
Purchase of other tangible fixed assets	(47,827)	(23,881)
Sale of investment property	22,212,342	62,989,771
Purchase of investments	(1,071)	(5,996)
Sale of investments	10,780	137,255
Investments in joint venture	(150,000)	–
	<u>20,306,374</u>	<u>50,475,725</u>
	2004	2003
	£	As restated £
Acquisitions and disposals:		
Purchase of subsidiaries:		
Acquisitions – consideration	(9,908,502)	(35,250)
Acquisitions expenses	(51,317)	–
Cash on acquisition (see note 26)	328,097	310,610
Compensation in respect of shares to be issued	(50,000)	–
	<u>(9,681,722)</u>	<u>275,360</u>
	2004	2003
	£	As restated £
Financing:		
Purchase of ordinary shares	(394,807)	(478,064)
Issue of ordinary shares	8,294,000	247,542
Expenses on issue of ordinary shares	(176,164)	(202,018)
Expenses on repurchase of ordinary shares	(14,550)	(30,520)
New long term bank loans	15,874,401	27,769,613
Long term bank loans repaid	(18,302,096)	(66,396,749)
Debt issue costs	(187,373)	(205,638)
Other loans repaid	–	(9,919,876)
	<u>5,093,411</u>	<u>(49,215,710)</u>

NOTES TO THE ACCOUNTS

at 31 October 2004

23 GROUP STATEMENT OF CASH FLOWS (continued)

(c) Analysis of net debt

	At 1 November 2003 As restated £	Cash flow £	Acquisitions £	Other non-cash changes £	At 31 October 2004 £
Cash at bank and in hand	14,012,631	3,460,325	328,097	–	17,801,053
Bank overdraft	(899,621)	60,430	–	–	(839,191)
	13,113,010	3,520,755	328,097	–	16,961,862
Debt due within one year	(25,528,509)	3,170,000	(883,749)	(6,846,619)	(30,088,877)
Debt due after one year	(42,986,307)	(554,932)	(7,834,348)	6,703,779	(44,671,808)
	(55,401,806)	6,135,823	(8,390,000)	(142,840)	(57,798,823)

	At 1 November 2003 As previously stated £	Prior year adjustment £	At 1 November 2003 As restated £
Cash at bank and in hand	14,048,620	(35,989)	14,012,631
Bank overdraft	(899,621)	–	(899,621)
	13,148,999	(35,989)	13,113,010
Debt due within one year	(29,043,211)	3,514,702	(25,528,509)
Debt due after one year	(42,986,307)	–	(42,986,307)
	(58,880,519)	3,478,713	(55,401,806)

(d) Effect on cash flows relating to acquisitions

	Acquisitions £
Cash inflow from operating activities	1,259,950
Returns on investment and servicing of finance	(139,853)
Capital expenditure and financial investment	(42,067)
Financing	(1,296,106)
Net cash outflow	(218,076)

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 £625,775.

NOTES TO THE ACCOUNTS

at 31 October 2004

25 GUARANTEES AND FINANCIAL COMMITMENTS

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

	Group 2004 £	Group 2003 £	Company 2004 £	Company 2003 £
	<i>Land and buildings</i>	<i>Land and buildings</i>	<i>Land and buildings</i>	<i>Land and buildings</i>
Operating leases which expire:				
In less than one year	62,000	–	–	–
In two to five years	–	62,000	–	–
After five years	1,506,732	1,463,620	1,266,712	21,500
	<u>1,568,732</u>	<u>1,525,620</u>	<u>1,266,712</u>	<u>21,500</u>
Capital commitments:				
	Group 2004 £	Group 2003 £	Company 2004 £	Company 2003 £
Contracted but not provided for	–	1,209,890	–	–

26 ACQUISITIONS

	<i>Companies Acquired</i>			<i>Total</i>
	<i>Spath Holme Limited</i>	<i>SERAH Properties plc</i>	<i>Grosvenor Land Holdings plc</i>	
Date of acquisition	31.03.2004	29.02.04	27.02.04	
	£	£	£	£
Goodwill – book value	–	–	32,300	32,300
– fair value adjustment	–	–	(32,300)	(32,300)
Investment property – book value	4,000,000	–	13,139,647	17,139,647
– fair value adjustment	–	–	1,215,511	1,215,511
Other tangible fixed assets – book and fair value	16,716	–	177,024	193,740
Investments – book value	–	250	527,613	527,863
– fair value adjustment	–	–	(25,404)	(25,404)
Development work in progress – book value	–	–	789,000	789,000
– fair value adjustment	–	–	211,000	211,000
Debtors – book and fair value	287,891	2,829,156	444,658	3,561,705
Cash at bank – book and fair value	(4,692)	8,427	324,362	328,097
Creditors – book value	(41,148)	(66,546)	(795,716)	(903,410)
– fair value adjustment	–	–	(128,064)	(128,064)
Long term loans – book and fair value	(735,097)	–	(7,983,000)	(8,718,097)
Provisions – book and fair value	–	–	(3,633)	(3,633)
Minority Interests – book and fair value	–	(467,516)	–	(467,516)
	<u>3,523,670</u>	<u>2,303,771</u>	<u>7,892,998</u>	<u>13,720,439</u>
Goodwill on acquisition	53,567	(354,504)	(1,129,462)	(1,430,399)
Consideration	<u>3,577,237</u>	<u>1,949,267</u>	<u>6,763,536</u>	<u>(12,290,040)</u>

NOTES TO THE ACCOUNTS

at 31 October 2004

26 ACQUISITIONS (continued)

Represented by:

	£	£	£	£
Ordinary Shares	–	191,489	1,085,319	1,276,808
Investment in prior period	–	1,053,413	–	1,053,413
Cash	3,577,237	704,365	5,678,217	9,959,819
	<u>3,577,237</u>	<u>1,949,267</u>	<u>6,763,536</u>	<u>12,290,040</u>

The principal fair value adjustments are to revalue properties acquired to reflect current market values at the respective acquisition dates and to write back or incorporate additional accruals.

Pre-acquisition financial information in respect of the companies acquired during the period:

	<i>Spath Holme Limited</i>	<i>SERAH Properties plc</i>	<i>Grosvenor Land Holdings plc</i>
Start of the financial period	1.04.2003	01.04.03	26.03.03
Date of acquisition	31.03.2004	29.02.04	27.02.04
	£	£	£
Turnover	<u>174,220</u>	<u>–</u>	<u>1,758,220</u>
Operating profit/(loss)	6,757	(124,271)	305,930
Share of associate loss	–	–	(35,832)
Interest receivable			
– group	–	25,486	11,289
– associate	–	–	13,637
Amount written off investments	–	(535,000)	(25,404)
Net interest payable	<u>(26,858)</u>	<u>–</u>	<u>(363,190)</u>
(Loss) before tax	<u>(20,101)</u>	<u>(633,785)</u>	<u>(93,570)</u>
Taxation	–	–	10,243
(Loss) after tax	<u>(20,101)</u>	<u>(633,785)</u>	<u>(83,327)</u>
Dividends	–	–	172,800
Loss after tax and dividends	<u>(20,101)</u>	<u>(633,785)</u>	<u>(256,127)</u>

There were no recognised gains or losses other than the losses for the periods.

The losses after tax for the previous financial year were as follows:

Loss after tax	<u>(30,332)</u>	<u>(47,851)</u>	<u>(244,946)</u>
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NOTES TO THE ACCOUNTS

at 31 October 2004

27 RELATED PARTY TRANSACTIONS

2004

- (a) Office facility and staff costs of £2,192,741 (2003 – £2,152,726) were billed to the group from Terrace Hill Partnership. Rent charges of £180,250 (2003 – £nil) were billed by the group to Terrace Hill Partnership. The balance outstanding due by Terrace Hill Partnership to group companies at 31 October 2004 was £nil (2003 – £637,937). R F M Adair, N J C Turnbull, R E Lane, P A J Leech, K W Grundy and T G Walsh are all partners in Terrace Hill Partnership.
- (b) Consultancy fees of £76,000 were charged to the group from Fineluck Limited, a company in which N J C Turnbull is a director and shareholder (2003 – £105,675). The balance due to Fineluck Limited by the Group at 31 October 2004 was £15,000 (2003 – £nil).
- (c) Included in management fees for the period are amounts charged to the following partnerships.

	2004	2003
	£	£
Sixteen Berkeley Street Partnership	nil	27,000
Guildford Partnership	28,125	39,375
Cardinal Point Partnership	nil	250
Eleven Berkeley Street Partnership	nil	12,120

The relationship with the partnerships is disclosed in note 13.

- (d) During the year, properties were sold in arm's length transactions at valuation to the following directors and/or their relatives – M A Kelly, N J C Turnbull and T G Walsh. The proceeds of sale were £561,000 (2003 – £781,000), £147,000 (2003 – £nil) and £109,000 (2003 – £nil) respectively. Of these amounts £398,000 was included in debtors at 31 October 2004 (2003 – £119,000) as the group accounting policy recognises sales on exchange although completion and payment were due after that date.
- (e) Property management fees of £171,386 were charged to the group by Cyril Leonard & Co. in which D Blausten is a partner. The balance due to Cyril Leonard & Co. by the group at 31 October 2004 was £42,652.
- (f) *Joint Venture Company – Achadonn Limited*

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

	2004	2003
	£	£
Net short-term loan movements advances/(repayments)	650,000	–
Purchases of goods and services	800,000	–
Management fees received	13,333	–
Interest received	14,398	–

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

	2004	2003
	£	£
Short-term loans	650,000	–
Management fees	13,333	–
Interest	14,398	–

NOTES TO THE ACCOUNTS

at 31 October 2004

27 RELATED PARTY TRANSACTIONS (continued)

2003

(a) The following table details:

- (i) the movement on the subordinated loans made to the group from a company, Terrace Hill (Hampton) Limited (loan 9) in which R F M Adair has an interest and loan 7 which is a personal loan from R F M Adair. The interest on both loans is payable at a rate not exceeding 2.5% per annum over The Royal Bank of Scotland plc base rate. Interest charged on these loans for the period amounted to £673.
- (ii) the movement on a loan made to the group from Skye Holdings Limited in which R F M Adair and N J C Turnbull are directors, and a second personal loan from R F M Adair. The interest on both loans is payable at rates not exceeding 2.5% and 1.5% per annum respectively over The Royal Bank of Scotland plc base rate. Interest charged on these loans for the period amounted to £60,807 and £88,636 respectively.

	<i>Loan 7</i>	<i>Loan 9</i>	<i>Skye Holdings Limited</i>	<i>R F M Adair</i>	<i>Total</i>
	£	£	£	£	£
At 1 May 2002	250,000	92,535	–	–	342,535
On acquisition	–	–	4,518,045	5,059,296	9,577,341
Repayments	(250,000)	(92,535)	(4,518,045)	(5,059,296)	(9,919,876)
At 31 October 2003	–	–	–	–	–

- ((b) On 19 September 2002 the company acquired the issued share capital of Westview Investments Limited and Westview Group Limited in which R F M Adair had an interest.
- (c) During the period to 31 October 2003, properties were sold in arms length transactions at valuation to relatives of D R Macdonald. The proceeds of sale were £158,000.

28 CONTROLLING PARTY

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

SHAREHOLDER INFORMATION

at 31 October 2004

FINANCIAL CALENDAR

Annual General Meeting
Half year results
Full year results

4 March 2005, Glasgow
July 2005
January 2006

SHAREHOLDER ANALYSIS (AS AT 31 OCTOBER 2004)

<i>Size of holding</i>	<i>No</i>	<i>No. of shares</i>	<i>%</i>
1 – 1000	109	49,624	0.027
1,001 – 10,000	742	3,709,534	1.996
10,001 – 100,000	676	18,028,705	9.702
100,001 – 1,000,000	38	8,259,205	4.445
1,000,001 – and over	10	155,776,309	83.830
	<u>1,575</u>	<u>185,823,377</u>	<u>100.00</u>

<i>Category</i>	<i>No. of shares</i>	<i>%</i>
Adair Trusts	128,423,549	69.111
Management	1,113,308	0.599
Institutional Placing	28,600,000	15.391
Others	27,686,520	14.899
	<u>185,823,377</u>	<u>100.00</u>

LONDON STOCK EXCHANGE

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

2004 SHARE PRICE (pence per ordinary share)

Start of year	25.50
High	35.50
Low	24.50
End of year	32.50

WEBSITE

www.terracehill.co.uk

DIRECTORS

Robert F M Adair, Executive Chairman, age 48, after graduating in geology at Oxford University qualified as a Chartered Accountant with Arthur Andersen & Co. He has substantial corporate finance experience, including a period working in the City. In 1984 he formed Terrace Hill Limited. Robert is executive chairman of listed oil and gas group Melrose Resources plc and a non-executive director of quoted investment trust, Chameleon Trust PLC.

Philip A J Leech, age 41, is a Chartered Surveyor. He spent seven years with Strutt and Parker before joining Dixons Commercial Properties and then Terrace Hill in 1993. Philip opened the North East office of Terrace Hill in 1994.

D Ross Macdonald, age 66, a Solicitor and FSA Corporate Finance Representative, graduated from Glasgow University. He was in private practice as a Solicitor in the commercial and financial services fields before becoming Chief Executive of the Group on its incorporation in 1994.

Nigel J C Turnbull, age 61, a law graduate of Edinburgh University, qualified as a Chartered Accountant with Deloitte. His early career was in merchant banking before moving to the property sector in 1982. He was Group Finance Director of Hunting Gate then Chief Executive of Rosehaugh before joining Terrace Hill in 1994.

Ken W Grundy, age 60, a Chartered Surveyor, worked for Hambro Bank, Tesco, and more recently as Deputy Managing Director of Hunting Gate Developments before joining Terrace Hill in 1998. Ken specialises in commercial development and investment in the Home Counties and the Midlands.

Robert E Lane, age 38, graduated from Reading University in Land Management, then worked with Conrad Ritblat for five years. A Chartered Surveyor, he joined Terrace Hill in 1993. Robert specialises in commercial development and investment in London and the South of England.

Miranda A Kelly, age 34, a graduate of Strathclyde University, Solicitor and FSA Securities Representative, trained with McGrigor Donald before joining the group in 1996. Based in the Glasgow office, Mandy has substantial involvement in residential investment and development, in addition to heading the group's corporate finance subsidiary and being company secretary.

Thomas G Walsh, age 43, graduated in Commerce from University College, Galway, in 1982 and qualified as a Chartered Accountant in 1986. He moved into the property sector in UK in 1988 initially with Rush & Tompkins then Vestey Estates before joining Terrace Hill in 1996.

Non Executive Directors

Douglas Blausten, age 53, Cambridge University degree in Land Economy and Chartered Surveyor is a partner in Cyril Leonard, Chartered Surveyors.

Guy Brennan, age 44, Investment Banker and Company Director, has been Managing Director, Corporate Finance, with ABN Amro and more recently co-founder of Greenpark Capital Ltd.

Chris Phillips, age 54, Managing Director of Colliers Capital UK Ltd, holds several non-executive directorships including Blueroom Properties, the commercial arm of Places for People Group, and Your Space plc.

William Wyatt, age 36, Associate Director of Caledonia Investments plc. Other directorships include MORI, the market research company, and Omniport an operator of regional airports. Previously with Close Brothers Corporate Finance.

Kelvin Hudson, age 43, qualified as a Chartered Accountant in 1985 moving to Guernsey in 1995 and is Managing Director of Saffery Champness, Guernsey.

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