Terrace Hill Group plc

Annual Report and Accounts 2011

TERRACE HILL

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Terrace Hill Group plc is a regionally based UK property development and investment group quoted on AIM. The group has offices in London, Teesside, Manchester, Bristol and Glasgow.

Bishop Auckland completed store, shortly after opening in early December 2010

For more information, including investor specific updates, go to www.terracehill.co.uk

HIGHLIGHTS

Financial highlights:

- Revenue profit of £5.6 million (30 September 2010: loss of £3.0 million)
- Revenue of £67.8 million (30 September 2010: £30.7 million)
- Loss before tax (IFRS) of £10.2 million (30 September 2010 restated: profit of £17.9 million)
- EPRA Net Asset Value per share decreased by 23.9% to 25.4 pence (30 September 2010 restated: 33.4 pence) while EPRA Triple Net Asset Value per share decreased by 23.0% to 26.6 pence (30 September 2010 restated: 34.5 pence)
- Balance sheet gearing reduced to 95.1% (30 September 2010 restated: 127.6%) with net debt reduced by £39.3 million to £51.4 million (30 September 2010: £90.7 million)

Operational highlights:

- Foodstore business maturing very well and growing rapidly, with the committed programme of development now standing at 652,000 sq ft, with a projected end value of £240.0 million
- Good progress with other developments, including two central London office-led mixed-use schemes at Howick Place in Victoria, and Savile Row/Conduit Street, W1
- Orderly disposal of residential portfolio underway with a 12–18 month sales process expected

EPRA Triple Net Asset Value pence per share

26.6p –23.0%

(30 September 2010 restated: 34.5 pence per share)

EPRA Net Asset Value pence per share

25.4p –23.9%

(30 September 2010 restated: 33.4 pence per share)

Revenue profit

£5.6m

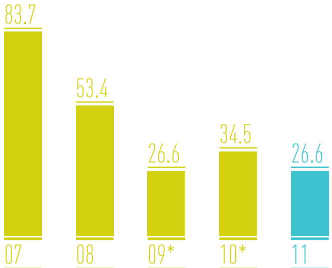
(30 September 2010: loss of £3.0 million)

Balance sheet gearing reduced to

95.1%

(30 September 2010 restated: 127.6%)

EPRA Triple Net Asset Value pence per share



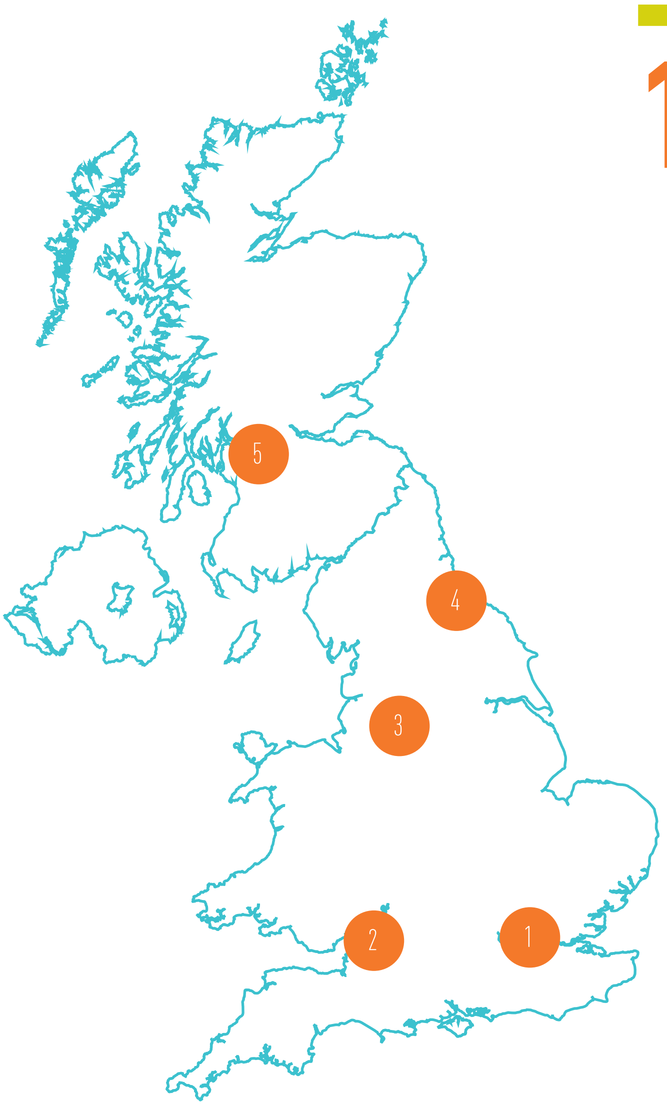
* restated

25 YEARS OF TERRACE HILL

Terrace Hill was founded in 1986 by Robert Adair, our executive chairman. Our regional offices, continuity of management, short reporting lines and fleetness of foot are our hallmarks and will drive future growth.

Company overview
Terrace Hill at a glance

TURNING OPPORTUNITY INTO PROFIT



1 It's what you know and who you know

Our regional office network gives us the geographical spread throughout the UK to source local opportunities ahead of the rest of the market. This, combined with our unparalleled track record of delivery, makes us first port of call for landowners, agents and occupiers.

This strategy is evident in us becoming one of the market leaders in foodstore development. Having successfully completed many retail schemes we have formed close working relationships with the major foodstore operators and know the regions they are targeting for new openings and expansion.

Current foodstore schemes include sites in Skelton, Sunderland, Teesside, Whitchurch, Herne Bay, Prestwich, Hyde and Sedgefield, with many others in the pipeline.

Our offices:

1 London
2 Bristol
3 Manchester
4 Teesside
5 Glasgow

Our people draw on detailed knowledge and experience to deliver the best value possible across all aspects of each development

2 Attention to detail

Our successful track record and local knowledge give us credibility with all shareholders in the development process. We reduce risks at an early stage by a consensual approach to planning; entering into pre-let and pre-sale agreements; fixing the purchase price and construction build costs and by project managing the construction ourselves to ensure the developments are built to specification, budget and time.

Built and fitted out in 30 weeks.

3 Realising our profit

We forward fund our developments with investment-grade institutional buyers, ensuring continuity of funding throughout the build period and safeguarding the delivery of our profit. This approach minimises our reliance on the banking market.

Site bought, vacant possession and planning obtained, then sold to Sainsbury's within 18 months.

Company overview
Chairman's statement

"In the last year there have been some very positive aspects to our business, most particularly the strong growth in our foodstore development programme and reduction in debt."

Summary of chairman's statement

- Strategic decision to exit residential sector
- EPRA NAV decreased by 23.9% to 25.4 pence per share
- Foodstore development programme is maturing and developing rapidly

Robert F M Adair
Executive chairman

I am pleased to report our financial results for the 12 months ended 30 September 2011 where we have witnessed good progress in our foodstore development programme. However, our financial results have been affected by falling asset values and the decision to sell our residential investment assets.

It has become clear that the longer-term investment horizon of holding and managing residential investment property is not well suited to a property development and trading business like ours and that our capital can generate far higher returns through deployment in carefully selected commercial developments, in particular within the foodstore sector. We have therefore decided to sell the residential investment assets owned directly by us and through our associate Terrace Hill Residential PLC, a process which we expect to complete over the next 12–18 months. The result of selling portfolios of let residential investments is that the prices achieved often reflect a discount to the individual vacant possession values of the properties. We have decided to reflect the discounted prices we are likely to achieve on sale by changing the basis of valuation of the properties from their individual vacant possession value to their discounted investment value which we now consider to be more appropriate. This has been reflected as a prior year adjustment so that comparisons can be readily made with earlier periods. The cumulative impact of this change in valuation basis on the group's Net Asset Value (NAV) at 30 September 2011 has been a reduction of £22.5 million. Further details of this can be found in the finance review on page 10.

For more on how our foodstore developments have been progressing, turn to page 07 >

As a result of this change in our valuation methodology and movement in the value of our legacy development properties, our EPRA NAV has decreased by 23.9% to 25.4 pence per share (30 September 2010: 33.4 pence per share as restated) and our EPRA Triple NAV has decreased by 23.0% to 26.6 pence per share (30 September 2010: 34.5 pence per share as restated). The EPRA Triple NAV takes account of contingent tax on prospective gains and other fair value adjustments.

The group's revenue profit (which is stated before valuation movements on investment and development properties and contributions from our joint venture and associated undertakings but after normal financing costs) improved to £5.6 million for the period, compared with a loss of £3.0 million for the restated comparative eleven month period. Our loss before tax, measured under IFRS, was £10.2 million for the period compared with a profit before tax of £17.9 million for the restated comparative eleven month period.

Our net debt has continued to reduce at a very satisfactory rate and is now £51.4 million, £39.3 million lower than at 30 September 2010, when it was £90.7 million, reflecting our success in realising developments and managing our cash flow. Despite the change in basis of valuing our residential assets as noted above, our net gearing has also reduced and was 95.1% at 30 September 2011 compared to 127.6% at 30 September 2010 (on a restated basis).

We continue to review the group's position as regards the payment of dividends and reluctantly have concluded that we should not resume payment of dividends and should remain prudent in this respect until market conditions allow.

Our foodstore development programme is maturing and growing rapidly. We have recently gained detailed planning consents covering a total of 194,000 sq ft of new floor space at our sites in Sunderland, Whitchurch and Skelton where we also have pre-letting or freehold sale agreements in place with retailers. In addition we have recently received a resolution to grant planning consent for a foodstore of 48,786 sq ft at Sedgefield, Co. Durham and have pre-planning discussions and occupier negotiations ongoing at four other sites, bringing our committed programme to a total of 652,000 sq ft with a projected end value of £240.0 million. With the help of teams dedicated to this sector working in all our offices we have a lengthening pipeline of new foodstore development proposals and I see this as the main driver of sustainable growth in our business for some time to come. The impact of this programme on the group's EPRA NAV is modest at this stage. We have included 3.3 pence per share in our EPRA NAV reflecting a conservative view of the anticipated profits from our eight current committed sites.

In central London we are managing two office led mixed-use schemes at Howick Place in Victoria and Conduit Street in Mayfair. I expect these to show good returns as they reach completion over the next 12–24 months; however, the competitive nature of site acquisitions in central London makes the timing of similar further deals uncertain.

I reported in my interim report the resignation of Julie Green, our most recently appointed independent non-executive director, for reasons connected with her appointment with Ernst & Young and we are seeking to appoint her replacement as soon as possible. Also, I would like to thank everyone at Terrace Hill for their hard work and commitment during the last year.

Outlook

In the last year there have been some very positive aspects to our business, most particularly the strong growth in our foodstore development programme and reduction in debt. I see these trends continuing into the current year, notwithstanding the current economic uncertainty. I remain confident we will perform well over the medium term and add value to the business for our shareholders.

Robert FM Adair

Robert F M Adair
Executive chairman
6 January 2012

Business review
Operations

"We are becoming one of the market leaders in the foodstore sector and we intend to focus on growing that side of our business."

Summary of operations review

— Our focus on large format foodstore development is paying off handsomely

— We have eight new committed projects with sites under contract

— We have a substantial pipeline of further foodstore development sites

— We expect our two central London office-led development schemes to perform strongly

Philip Leech
Chief executive

Commercial property

Foodstore development

We have recently reported that the main area of our commercial property development activity is currently in the foodstore sector. This is a sector where demand from occupiers remains unabated, with all the main foodstore retailers rapidly expanding their trading footprint in the UK. This demand is fuelled not only by a desire of the retailers to grow market share, but also their expansion into new product areas, in particular comparison non-food items and household goods. In some cases up to 50% of sales space in new stores is dedicated to non-food items. There is also a strong push by certain retailers to fill geographic gaps in their portfolios with Waitrose and Sainsbury's expanding in the north and Morrisons in the south of the country.

At Terrace Hill we have a team dedicated to this sector with specialists in each of our regional offices. This gives us a unique insight into local markets which is essential in terms of site finding, planning and fulfilling the retailer's specific requirements. Our focus is entirely on large format foodstore development, usually over 40,000 sq ft, and not in the small "convenience" shop sector where we cannot justify our time being spent on the smaller returns.

Our focus is paying off handsomely. Over the past 24 months we have completed three large foodstore schemes at Bishop Auckland, Manchester and Helston, which together generated in excess of £14.0 million of profit before tax. We also have eight new committed projects with sites under contract, four of which have recently received detailed planning consent or a resolution to grant planning and all of which have commitments or discussions ongoing with retail occupiers.

UPDATE: FOODSTORES

We now have eight committed projects, four of which have planning consent or a resolution to grant planning consent. We also have a substantial pipeline of further foodstore development sites.

Our foodstore development transactions are structured in a way that ensures the associated risks are relatively small. We usually hold the sites under options or conditional contracts and only commit to the acquisition once we have received detailed planning permission and commitment from an occupier, often sharing the uplift in value with the landowner. This means that our financial risk is limited to the costs and fees associated with gaining planning consents and legal agreements. Furthermore there is great demand for the subsequent property investments from a wide range of purchasers attracted by the long, usually 25 year plus, lease terms and secure income. This allows us to raise equity finance through a forward sale to an investor which reduces the need to seek bank debt or use our own equity in the development phase. The typical margin we achieve on these developments is in the region of 15–20% of gross development value.

We have a substantial pipeline of further foodstore development sites and we are confident that this is a sustainable area of business for us for the foreseeable future. The planning system in the UK remains challenging; however, so far we have achieved a 100% success rate in winning planning for our foodstore schemes and have found that, in general, the uncertainty lies around the timing of the consents.

Highlights from our foodstore development programme include:

Wessington Way, Sunderland
Detailed planning consent was granted in November 2011 for a 98,679 sq ft Sainsbury's store and a petrol filling station. The property will be let at completion to Sainsbury's for a 25 year term from completion, which we expect to take place in early 2013 following a start on site in spring 2012.

Update: The Sainsbury's store in Bishop Auckland which opened for trading in October 2010. During 2011 we completed on the sale of two adjacent parcels of land to Marston's and KFC and have 1½ acres of remaining land to sell.

Skelton, East Cleveland
We received detailed planning consent on this 5.2 acre site for a 41,800 sq ft foodstore and petrol filling station in October 2011. The development has been pre-let to Asda for a 25 year term.

London Road, Whitchurch, Shropshire
Detailed planning consent was granted on this site in November 2011 for a 55,000 sq ft foodstore. The site will be sold to Sainsbury's at the expiry of the planning Judicial Review period, which we expect to take place in spring 2012.

Sedgefield, Co. Durham
We entered into a contract to acquire this 7.1 acre site in spring 2011. Completion of the acquisition is conditional upon us receiving detailed planning consent for a 48,786 sq ft foodstore. A planning application was submitted in the autumn and a resolution to grant planning consent was granted in early December 2011. There is considerable interest from a number of food retailers in this development.

Middlehaven, Teesside
This 16 acre site is owned by the group and has an existing consent for 128,000 sq ft of non-food retail. However, the planning authority is supportive of a change of use and we have an agreement with a retailer, conditional on the receipt of planning, to pre-let a 125,000 sq ft foodstore for a 25 year term. We expect to submit a detailed planning application in early 2012. Terms have also been agreed with a pub and two drive-through food outlet operators on the balance of the land.

Herne Bay, Kent
In the spring we entered into a conditional contract to acquire a 6.84 acre site on the edge of Herne Bay and, following strong competition between a number of retailers, we have agreed terms with one for a pre-let of 95,239 sq ft and a petrol filling station. We expect to submit a planning application in late 2012 and the project is likely to complete in spring 2014.

Business review
Operations continued

UPDATE: OFFICES

- During the year we have successfully and profitably sold our multi-let Wilton Road, Victoria, office building and also a 38,500 sq ft office in Middlehaven, let to the Middlesbrough Primary Care Trust. We are currently developing a site on Conduit Street, W1, with Aerium Finance and Howick Place, Victoria, with Doughty Hanson.
- We are actively pursuing change of use opportunities within Central London for developing offices into hotels.

CASE STUDY:
FURTHER EXPANDING OUR FOODSTORE PORTFOLIO

Wessington Way, Sunderland.

- The development is on a 5.9 acre site which is currently a car dealership
- The foodstore will be 98,679 sq ft with 537 car parking spaces, some under the store. Also included is a six pump petrol filling station
- The site benefits from limited competition and has a catchment population of over 120,000 within a ten minute drive
- Construction is expected to start in spring 2012, lasting approximately one year
- We are targeting a BREEAM "very good" rating and the building will include a biomass boiler, photovoltaic panels and air source heat pumps

UPDATE: RESIDENTIAL

— We have recently signalled our strategic exit from residential investment as we believe our core strength is in commercial development. Notwithstanding this, we have been able to deliver excellent rental growth and high occupancy levels which will enable us to obtain the highest prices possible when we divest.

Update: Proposed new office and retail building on corner of Savile Row and Conduit Street for which a planning application has been submitted.

Commercial property continued

Foodstore development continued

Prestwich, Greater Manchester

We have acquired, conditional on planning, a site in Prestwich town centre for a foodstore led development. Detailed discussions are ongoing with an occupier and we expect to make a planning application towards the end of 2012.

Hyde, Greater Manchester

This former heavy industrial site lies adjacent to the M67 motorway to the south east of Manchester and we are in detailed negotiations with a retailer to take over 100,000 sq ft on the site. Acquisition of the site is conditional on obtaining planning and we expect to make a detailed planning application in the second half of 2012.

London offices

We have two central London office led mixed-use development schemes in progress at the moment, both of which we expect to perform strongly as they complete over the next 12–24 months. New acquisitions are, however, hard to achieve with strong competition for a limited supply of sites and almost no debt available to help purchasers.

Howick Place Victoria, SW1

Construction of this scheme is progressing well with completion due in the third quarter of 2012. There has already been considerable occupier interest in the 135,000 sq ft office element, which reflects the oncoming scarcity of new large floor plate office accommodation in the West End markets. The residential element of 25,300 sq ft will benefit from the rapidly rising values of central London residential property. This scheme is being carried out in joint venture with Doughty Hanson and has the benefit of development finance with no recourse to the group.

Savile Row/Conduit Street, W1

We are acting as the development manager of this mixed-use retail and office development on the corner of Conduit Street and Savile Row. A planning application has been submitted to almost double the developed density on the site and, with strong demand from occupiers for prime locations in the West End, we expect the development to generate good returns.

Other developments

We have also made considerable progress with a number of our other sites and assets. These include: the pre-sale of a substantial part of a small unit industrial development in Christchurch; the construction, funding and forward sale of the Northern Design Centre at Baltic Business Quarter in Gateshead; and the sale of the Hudson Quay office development, which had been let to Middlesbrough Primary Care Trust on Teesside.

Residential investment

We stated earlier that we have decided to exit the residential investment sector through the sale of our properties and those owned by our associate, Terrace Hill Residential PLC. The portfolios have shown good growth in rental values and occupancy rates are at record levels, however, we believe that Terrace Hill is better suited to and can generate significantly better returns from its core commercial real estate development and trading activities than from the longer-term management of residential investment portfolios. Since January 2011 Terrace Hill Residential PLC has sold £50.1 million of assets and we are now overseeing an orderly disposal of the balance of the group's residential properties which we expect to take 12–18 months to complete.

Business review
Finance

Summary of finance review

— EPRN NAV decreased by 23.9% to 25.4 pence per share

— NAV debt reduced by 43.3% to £51.4 million

— Revenue profit £5.6 million compared to a revenue loss of £3.0 million in 2010

Jon Austen
Group finance director

Financial results and net asset value

The results for the year and the group's NAV at 30 September 2011 have been impacted by the adoption of the investment value basis of valuation for the residential investment properties, in which we have interests both on our balance sheet and through our investment in Terrace Hill Residential PLC. Until this year we had valued residential investment properties at fair value, which we interpreted as the market value of the properties with the special assumption of vacant possession. As a consequence of prices achieved on sales of residential properties during the year and following the decision by Terrace Hill Residential PLC to place its portfolio on the market, we have concluded that the more appropriate valuation basis for the residential properties is market value on the basis of their current, largely let status. Accordingly, the investment value basis has been adopted for residential property held by the group and Terrace Hill Residential PLC in the current year and has been retrospectively applied to prior years. The cumulative impact of this change in basis on the group's NAV at 30 September 2011 has been a reduction of £22.5 million. More information is included in note 1 to the financial statements.

The group's NAV decreased by 17.5% in the year ended 30 September 2011 to £48.1 million (22.7 pence per share) from £58.4 million (27.5 pence per share) as restated at 30 September 2010 and our EPRA NAV decreased by 23.9% to £54.1 million (25.4 pence per share) from £71.1 million (33.4 pence per share) as restated at 30 September 2010.

Net debt

£51.4m –43.3%

(30 September 2010: £90.7 million)

Net gearing

95.1%

(30 September 2010 restated: 127.6%)

EPRA NAV pence per share

25.4p –23.9%

(30 September 2010 restated: 33.4 pence per share)

The decrease in our EPRA NAV was caused principally by the following:

— 1.8 pence per share from the movement in value of our residential investment properties;

— 1.8 pence per share from our investment in joint ventures and associates;

— 0.6 pence per share from continuing operations; and

— 2.9 pence per share from the movement in value of our legacy development properties.

The group's EPRA triple NAV, which takes into account any tax payable on profits arising if all the group's properties were sold at the values used for EPRA NAV, the write-off of goodwill and any other fair value adjustments, decreased by 23.0% to £56.5 million (26.6 pence per share) from £73.4 million (34.5 pence per share) as restated at 30 September 2010.

Statement of comprehensive income

Revenue for the year ended 30 September 2011 includes rental income of £3.2 million, recognition of revenue under the foodstore construction contract at Bishop Auckland of £7.4 million, revenue from site sales at Farnborough, Christchurch and Bishop Auckland of £8.4 million and revenue from the sales of completed buildings at Middlehaven and Wilton Road, Victoria amounting to £34.6 million. We also sold five residential units during the year, for a total of £0.8 million.

The statement of comprehensive income also includes movements in the valuation of our properties. Included in cost of sales is £6.1 million of write downs to the carrying value of our development properties

Calculation of EPRA NAV and EPRA Triple NAV (Unaudited)

	30 September 2011			30 September 2010 restated		
	£'000	Number of shares 000s	Pence per share	£'000	Number of shares 000s	Pence per share
Audited net asset value	48,134	211,971	22.7	58,361	211,971	27.5
Revaluation of property held as current assets	11,641			18,313		
Fair value of financial instruments	—			177		
Deferred tax	(5,710)			(5,789)		
Shares to be issued under the LTIP	12	595		12	595	
EPRA NAV	54,077	212,566	25.4	71,074	212,566	33.4
Decrease %			23.9%			—
Fair value of financial instruments	—			(177)		
Deferred tax	5,710			5,789		
Goodwill	(3,336)			(3,336)		
EPRA Triple NAV	56,451	212,566	26.6	73,350	212,566	34.5
Decrease %			23.0%			—

Business review
Finance continued

Statement of comprehensive income continued

(2010: write back £3.7 million). Our wholly owned residential properties fell in value by £3.6 million (2010 as restated: increase £0.9 million) and our share of the fall in value of the residential properties owned by Terrace Hill Residential PLC was £1.2 million (2010 as restated: £15.1 million increase).

Administrative expenses for the year ended 30 September 2011 amounted to £4.3 million (2010: £4.7 million), reflecting continued tight control over our overheads.

Net finance costs for the year ended 30 September 2011 were £4.6 million (2010: £1.8 million). Included in the 2011 figure is a provision for £2.0 million relating to an interest shortfall guarantee (in respect of which £1.0 million was provided in 2010) and £1.3 million relating to interest expensed on development projects where the directors have assessed that interest should not be capitalised as work is not currently underway.

Our share of the results of our joint ventures and associated undertakings was a loss of £2.6 million in the year ended 30 September 2011 (2010 as restated: profit £16.1 million) of which as noted above £1.2 million related to movements in the value of the underlying properties (2010 as restated: £15.1 million increase).

Balance sheet

The group's net assets at 30 September 2011 were £48.1 million, a decrease of 17.5% on the restated amount reported at 30 September 2010 of £58.4 million. The group's gearing has improved since 30 September 2010 and net debt as a percentage of adjusted net assets is 95.1% at 30 September 2011 compared to 127.6% as restated at 30 September 2010. The amount of net debt has also reduced to £51.4 million at 30 September 2011 from £90.7 million at 30 September 2010.

Financial resources and capital management

As mentioned above, our net debt at 30 September 2011 was £51.4 million, a reduction of £39.3 million in the year. Sale proceeds of £45.2 million were the largest contributor to this reduction, offset by expenditure on our developments and the net effect of our trading activities.

The group funds itself and its projects with a combination of cash and bank debt. Bank debt is secured either against assets wholly and ultimately owned by Terrace Hill Group plc or assets owned by joint ventures. Several loans falling into each of the above categories were refinanced during the year. In particular, a loan of £33.7 million that matured in September 2011 has been re-financed

Summary of debt position

	September 2011	September 2010 restated
Net debt	£51.4m	£90.7m
Net gearing	95.1%	127.6%
Net debt including share of joint venture and associated undertaking debt	£151.1m	£226.4m
Total net gearing	279.5%	318.6%
Loan to value	48.5%	60.9%

The net gearing and loan to value percentages shown above are in relation to our adjusted NAV. The majority of joint venture and associated undertaking debt is of limited recourse to the group.

for a further two years on market terms. In addition to this, termsheets have been received for several loan extensions which have not been documented as at the time of writing and which we expect to finalise in the next few weeks.

The average maturity of group debt is now 15.4 months with a weighted average margin of 2.83%, both of which measures change to 19.7 months and 3.04% if we take into account loans where terms have been commercially agreed but not yet documented. The average maturity of joint ventures and associated undertaking debt is now 15.9 months with a weighted average margin of 2.96%.

In order to benefit from the low interest rate environment, which is not forecast to change significantly for the foreseeable future, at 30 September 2011 the group had no hedging arrangements in place. Interest rate exposure is actively monitored. 50% of joint ventures and associated undertaking debt is hedged with an average interest rate of 2.95%.

In order to determine whether the group has adequate resources to maintain its strategy for the foreseeable future, the group monitors its forecast cash flow movements for the next 24 months on a rolling basis and robustly and regularly updates the fundamental assumptions.

Philip Leech
Chief executive
6 January 2012

Jon Austen
Group finance director

For more information, including investor specific updates, go to www.terracehill.co.uk

Summary of loan to value ratios of group property

	September 2011 %	September 2010 restated %
Commercial property	**52.1**	56.9
Residential property	**93.3**	91.5
Total	**48.5**	60.9

Debt expiry profile

	On balance sheet £m	Off balance sheet* £m
Bank loans and overdraft repayable in one year	**26.8**	40.2
Bank loans repayable in more than one year	**36.2**	59.5
Total	**63.0**	99.7

* Group share.

Risk management

MANAGING RISK EFFECTIVELY LIES AT THE HEART OF OUR OPERATIONS

Terrace Hill Group plc's operations result in it coming into contact with a variety of risks. The group's board of directors has delegated some of the management of these risks to the operations board, consisting of the executive board and some members of senior management. The operations board meets on a monthly basis to consider, inter alia, the risks that arise through our activities and how these should be managed within acceptable levels that do not hinder the group's drive for increasing shareholder value.

The risks of trading and undertaking new projects are highlighted in these meetings as is the likelihood of them occurring, their impact and appropriate risk management strategies. Executives of the group are then tasked with managing these risks and these are reported back at subsequent operations board meetings, with ad hoc reporting to the chief executive and group finance director. These risks broadly fall into the following categories:

- Strategy risk
- Market risk
- Development risk
- Investment risk
- Financial risk
- Personnel risk

Risk area

STRATEGY

MARKET

DEVELOPMENT

INVESTMENT

FINANCIAL

PERSONNEL

Risk description	Mitigation
Implementation of a strategy that is inconsistent with the market environment, skill set and experience of the business.	The group board meets on a quarterly basis to consider and review progress against objectives. The chairman and executive directors interact closely and constantly consider the current and planned strategy of the group, making use of their experience and market knowledge. Additionally, the board values the contribution and experience of its non-executive directors. During the year, the group decided to divest its residential investments and focus solely on commercial development, as our capital can generate far higher returns for our shareholders in this area.
A deterioration in the commercial market in which we operate which will negatively impact our results and financial condition.	Detailed financial appraisals are undertaken prior to committing to a development. These evaluate the returns in the light of likely risks and the impact of these risks are flexed to determine a worst-case scenario. These appraisals are monitored during the life of the project and the assumptions amended according to prevailing market conditions that have not been de-risked.
Failure to obtain or delays in gaining planning consents; construction cost inflation; letting risk; reputational risk.	Consents – the group has enormous experience in obtaining planning consent on time and actively works on enhancing its already strong relationships with planning authorities and consultants, to understand local needs and develop product that fulfils these requirements. Construction cost inflation – The group has a specialist, in-house project management team working on all of our developments. Construction is undertaken at fixed-price wherever possible. Letting risk – The financial appraisals include appropriate tenant incentives and void periods. The group has strong relationships with local and national agents and considerable expertise in obtaining letting success. Reputational risk – the group has a strong, 25 year old reputation to uphold and conducts itself with utmost integrity in all dealings to ensure the continuance of new business opportunities.
Devaluation due to lower rental rates, increased voids and deterioration in building condition.	We have a strong focus on asset management with an in-house team supplemented by external agents. Our planned preventative maintenance programme ensures that buildings are kept in good condition and that expenditure is recouped through lower voids or enhanced income. During the year, we have benefited from occupancy of 95% in residential investments and rental growth of c.3%.
Liquidity, interest rate, refinancing risk and breach of covenant risk.	Liquidity – the group regularly remodels its cash flow forecasts to ensure funding is available when it is required. Interest rate risk – appropriate consideration is given as to the level of fixed and floating rate debt exposure and financial scenarios are modelled to evaluate the impact of increases in interest rates on the group's financial condition. This is undertaken by the specialist in-house treasury team. Breach of covenants – covenants are regularly reported to the banks and to the board. Scenarios are modelled showing available headroom and also reported to the board.
Attracting and retaining the right quality of people to achieve the group's aims.	The group ensures compensation programmes are competitive and market driven, to reward staff for their efforts and contribution to group success. The relatively small number of personnel means strong and short communication lines and that each staff member is valued for the work they undertake.

Corporate social responsibility

COMMITTED TO HONESTY, INTEGRITY AND OPENNESS

Summary of corporate social responsibility

— Create a safe and healthy working environment for the well-being of all our employees

— Full compliance with the new UK Bribery Act implemented before legislative timetable

— The vital contribution of employees to the future success of the business is recognised by the board

— Ensure that all of our developments are designed efficiently, improving upon standard statutory requirements

— Delighted that two-thirds of our shareholders have agreed to access company documents online

Ethics are at the heart of everything we do, which is why we chose to implement the UK Bribery Act prior to the legislation coming into force. We strongly believe that this, together with the transparency inherent in our UK AIM quotation, enhances counterparts' confidence in dealing with us.

This report covers our progress over the last financial year.

Employees

Achievements in 2011

— Employees are encouraged to enrol for the necessary CPD courses and attend relevant seminars and conferences which will augment their knowledge and keep them up to date with legislation.

— Implemented a more streamlined, focused culture where everyone has been empowered to take responsibility for decisions delegated to them.

— Committed to equality of opportunity – our Glasgow office is now 100% female (88% last year), London 22% (17%), Teesside 25% (20%), other offices unchanged.

We have a very flat organisational structure which our employees find stimulating as they are encouraged to feel responsible for the reputation and performance of the company. The introduction of iPads and the greater use of "communications on the go" have also enriched our working environment.

www.terracehill.co.uk to see details of our CSR policies and practices

High ethical standards are central to the culture at Terrace Hill and we strive to maintain them in all our operations.

Operations

Achievements in 2011

- Howick Place – using CCHP and PV panels to achieve "Excellent" BREEAM rating.
- Conduit Street – air-source heating and cooling, PV panels and Green Roof will achieve "Excellent" BREEAM rating.
- Skelton foodstore will attain BREEAM "Very good" rating and use biomass technology. The store will save 15 million vehicle km annually in journeys for food shopping.

Terrace Hill Group and its consultants ensure that key features and strategies are adopted in an endeavour to design and deliver highly energy efficient buildings. The strategy for reducing energy use and associated carbon emissions through the design of the scheme will generally follow a three step approach:

- reducing the energy demand through passive design strategies and provision of high quality building envelope;
- reducing the energy consumption through best practice design of building services, lighting and building energy management systems to control and monitor energy use; and
- installation of on-site renewable energy technologies.

Howick Place, Victoria, London

This mixed-use development of offices, residential and retail is due for completion in September 2012. The scheme incorporates a number of sustainable technologies including Combined Heating Power and absorption chiller (CCHP) along with PV panels to reduce CO_2 as required under the Mayor's London Plan. The office element has received a design and procurement assessment from the BRE confirming a BREEAM rating of "Excellent" whilst the residential units will achieve a level 4 under the Code for Sustainable Homes.

Conduit Street, Mayfair, London

This development of offices and retail is expected to commence on site in 2012. A planning application is submitted and is supported by an energy statement which incorporates air source heating and cooling, PV panels and green roof. With CO_2 saving in excess of 20%, a BREEAM rating of Excellent and an EPC rating of "B" has been targeted.

Both these achievements exceed the requirements set for the development at planning and demonstrate Terrace Hill Group's commitment to target continued improvements.

We strive to reduce the risk of harming the environment with a strong focus on energy consumption, pollution, transport, maximising the net internal area of our buildings without increasing the overall footprint, using renewable resources and health and well-being.

Our in-house project management specialists have these issues at the forefront of their thoughts when they meet designers and external consultants and continually push the envelope to pioneer new green technology usage. This includes rainwater harvesting, low-energy lifts, reduced emission solar glazing and ultra-efficient air conditioning systems. This has resulted in us significantly surpassing carbon reduction targets and given our tenants the benefit of buildings with outstanding BREEAM results.

Environment

Achievements in 2011

- Replaced the company car scheme, which encouraged purchasing new cars regularly, with a car allowance policy, recognising the amount of energy used in the manufacture and transport to market of new cars.
- Further rolling out of the company cycle to work scheme has resulted in maintaining a 50% take-up rate in our London office.
- Increased and enhanced our capacity to recycle.

We constantly monitor our recycling policy when we make decisions about waste and consumable materials and endeavour to use IT rather than manual, resource wasting media, which not only benefits the environment but also our bottom-line profitability.

We are at the forefront of being able to influence designers as to the "green" requirements of end users and strive to make the environment a better place to live and work.

Board of directors and advisors

Robert F M Adair MA ACA CTA FGS (55)
Executive chairman

Robert founded Terrace Hill in 1986. He is executive chairman of Melrose Resources plc, a listed oil and gas company.

Philip Leech MRICS (48)
Chief executive

Philip, a chartered surveyor, worked for Strutt & Parker's investment agency team before joining Terrace Hill in 1993. He established and ran the North East office from 1994 before being appointed chief executive in 2005.

Jon Austen BSc FCA (55)
Group finance director and company secretary

Jon is a qualified chartered accountant who has been active in the property sector since 1989. He joined Terrace Hill in September 2008 from Goodman Property Investors where he was most recently responsible for product development. He was previously chief financial officer at Arlington Securities Limited and before that Pricoa Property Investment Management.

Will Wyatt (43)
Non-executive director

Will is CEO of Caledonia Investments plc, a FTSE 250 investment company and is also a non-executive director of Avanti Communications Group, a specialist media and satellite company, Cobepa, a Belgian-based investment company, Melrose Resources plc, REI PLC, a Birmingham based listed property business and chairman of the advisory board of TGE Holdings GmbH, a specialist gas engineering business.

Bob Dyson MSc FRICS (63)
Non-executive director (independent)

A chartered surveyor and chairman of the North West region of property advisers, Jones Lang LaSalle. Bob is also non-executive director of the Manchester Building Society and Pennine Land, a public sector development company specialising in regeneration.

Nick Gaskell ACA (62)
Non-executive director

Nick has been a partner at Saffery Champness since 1981, where he specialises in corporate finance, flotations on UK listed markets and also advises private companies.

Secretary
J M Austen BSc FCA

Principal place of business
1 Portland Place
London W1B 1PN

Independent auditors
BDO LLP
55 Baker Street
London W1U 7EU

Nominated adviser and broker
Oriel Securities Limited
150 Cheapside
London EC2V 6ET

Registrars
Share Registrars Limited
Suite E
First Floor
9 Lion & Lamb Yard
Farnham
Surrey GU9 7LL

Registered number
SC149799

Directors' report

The directors submit their report and the group financial statements for the year ended 30 September 2011.

Results and dividends

The group loss for the year, after taxation and non-controlling interests, amounted to £10,423,000 (2010 restated: profit £15,056,000). The directors do not recommend the payment of a final dividend.

Principal activities and review of business

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

The chairman's statement, business review and risk management on pages 4 to 13 include a review of the development, risks and uncertainties of the business of the company and its subsidiaries during the year.

Directors and their interests

The beneficial interests of the directors who held office at 30 September 2011 in the ordinary share capital of the company were as follows:

	At 30 September 2011 Ordinary shares	At 30 September 2010 Ordinary shares
R F M Adair	130,241,329	129,991,239
P A J Leech	1,639,447	1,639,447
J M Austen	180,000	180,000
W P Wyatt	—	—
R W Dyson	623,000	623,000
A N Gaskell	—	—

Under the long-term incentive scheme, the following number of share awards were granted during the year:

	Year ended 30 September 2011	Period ended 30 September 2010
R F M Adair	534,063	1,833,333
P A J Leech	534,063	1,833,333
J M Austen	452,497	1,553,333

The number of outstanding awards granted to directors are:

	At 30 September 2011	At 30 September 2010
R F M Adair	2,367,396	2,328,828
P A J Leech	2,367,396	2,328,828
J M Austen	2,599,889	2,147,392

The number of shares awarded to directors that have now lapsed are:

	At 30 September 2011	At 30 September 2010
R F M Adair	495,495	—
P A J Leech	495,495	—

No director had any interest in the shares of any of the subsidiary companies. Details of shares held by the group's Employee Benefit Trust are shown in note 23.

Details of directors' material interests in contracts are shown in note 25.

A J Green was appointed as a non-executive director on 7 December 2010 and resigned on 18 May 2011.

Financial instruments

Details of the use of financial instruments by the company and its subsidiary undertakings are shown in note 19.

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 year end the group had an average of 18 days (2010: 15 days) of purchases outstanding in trade creditors.

Directors' liabilities

The company has granted an indemnity to its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Substantial shareholding

At 6 January 2012, Caledonia Investments PLC held 17,600,000 ordinary shares of 2.0 pence, equivalent to 8.3% of the issued share capital of the company. The company is not aware of any other holding (other than the chairman's holding noted on page 20) in excess of 3.0% of the issued share capital of the company.

Statement of directors' responsibilities in respect of the accounts

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that year. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

In preparing these financial statements, the directors are required to:

— select suitable accounting policies and then apply them consistently;

— make judgements and accounting estimates that are reasonable and prudent;

— state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and

— prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' report
continued

Auditors

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

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

By order of the board

J M Austen
Company secretary
6 January 2012

Corporate governance

The board has given consideration to the new UK Corporate Governance Code (the Code) issued by the Financial Reporting Council (FRC) in June 2010 and applicable for listed companies for financial periods starting after June 2010, the Quoted Companies Alliance Corporate Governance Guidelines (the Guidelines) for smaller quoted companies published in September 2010 and the Corporate Governance and Voting Guidelines for AIM companies published by the NAPF in April 2007.

Although the Code does not apply to companies traded on AIM, the directors have chosen to provide certain information on how the company has adopted various principles of the Code and the Guidelines which they feel are appropriate given the size of the company.

The board and its committees

At the date of this report the group board was made up of three executive and three non-executive directors. The three executive directors comprise the chairman, the chief executive and group finance director. Of the three non-executive directors, two are considered non-independent because in one case they represent a significant shareholder and in the other they are involved in the management of the trusts that hold the majority of the chairman's shareholding. The group board considers the board composition suitable and appropriate given the company's size and the experience of each director. The biographies of each director are contained on pages 18 and 19.

The board is responsible for the overall strategy and direction of the group and meets regularly throughout the year.

Under the company's Articles of Association one-third of the directors are required to retire by rotation each year.

The board has formally established two committees and agreed their terms of reference; these committees are as follows:

Remuneration Committee

The principal function of this committee is to determine the policy on executive directors' remuneration. The committee consists of R W Dyson (independent non-executive director) as chairman and W P Wyatt (non-executive director). Until her resignation on 18 May 2011, A J Green sat on this committee. It is the aim of the committee to attract, retain and motivate high calibre individuals with a competitive remuneration package.

Remuneration for executive directors normally comprises base salary, annual bonus, long-term incentives and benefits in kind. Details of the current directors' remuneration are given in the remuneration report.

Audit Committee

This committee consists of R W Dyson as chairman and A N Gaskell (non-executive director). Until her resignation on 18 May 2011, A J Green sat on this committee. The principal function of this committee is to monitor the integrity of the group's financial statements, review any formal announcements relating to the group's financial performance, review the appointment and relationship with the external auditors and review the system of internal financial controls operating within the business. The external auditors and executive directors may be invited to attend the meetings.

The board and committee meetings attended by each director are set out below:

Director	Board meetings	Audit Committee	Remuneration Committee
Total number of meetings since 30 September 2010 to date	6	5	2
R F M Adair	6		
P A J Leech	6		
J M Austen	6		
R W Dyson	5	5	2
A N Gaskell	6	5	
A J Green [1]	2	1	1
W P Wyatt	4		1

1 Appointed on 7 December 2010 and resigned on 18 May 2011.

Remuneration report

Companies quoted on AIM are not required to provide a formal remuneration report. Therefore this report is provided for information purposes to give greater transparency to the way directors are remunerated.

Composition and role of the Remuneration Committee

The board has established a Remuneration Committee which currently consists of R W Dyson, independent non-executive director, who chairs the committee and W P Wyatt, non-executive director. The committee determines the specific remuneration packages for each of the executive directors and no director is involved in any decisions as to his own remuneration. The committee has access to information and advice provided by the chief executive and the group finance director and has access to independent advice (currently from New Bridge Street) where it considers appropriate.

Framework and policy on executive directors' remuneration

The group's remuneration policy is designed to provide competitive rewards for its executive directors, taking into account the performance of the group and individual executives, together with comparisons to pay conditions throughout the markets in which the group operates. It is the aim of the committee to attract, retain and motivate high calibre individuals with a competitive remuneration package. It is common practice in the industry for total remuneration to be significantly influenced by bonuses and long-term incentives.

The remuneration packages are constructed to provide a balance between fixed and variable rewards. Therefore remuneration packages for executive directors normally include basic salary, discretionary bonuses, long-term incentive awards and benefits in kind. In agreeing the level of basic salaries and annual bonuses the committee takes into consideration the total remuneration that executive directors could receive.

Basic salary

Basic salaries are reviewed on an annual basis. The committee seeks to establish a basic salary for each position, determined by individual responsibilities and performance taking into account comparable salaries for similar positions in companies of a similar size in the same market.

Incentive arrangements

Annual discretionary bonuses

These are designed to reflect the group's performance taking into account the performance of its peers, the markets in which the group operates and the executive directors' contribution to that performance.

Long-term incentive awards

The group operates a nominal cost option scheme for qualifying staff, including executive directors. Options are granted over the company's shares that are capable of vesting on the third anniversary of issue dependent on certain performance conditions having been met. The vesting period runs for seven years from the date the options first vest. The maximum total market value of shares over which options may be granted to any participating employee in any financial year is 100% of his salary or such higher percentage of salary deemed appropriate by the committee in exceptional circumstances. The maximum number of options that can be outstanding at any one time is a number equivalent to 10% of the ordinary share capital in issue at that time. During the year ended 30 September 2011, options over 3,815,915 shares were awarded to participating staff, of which 1,520,623 were awarded to executive directors. The performance conditions attached to these awards are as follows (relating to the three year period ending 30 September 2013):

- EPRA Triple NAV must increase by 5% per annum more than RPI for 25% vesting and must increase by more than 15% per annum more than RPI for 100% vesting; and
- Total Shareholder Return must be equal to the movement in the FTSE 350 Real Estate Index for 25% vesting and must exceed the FTSE 350 Real Estate Index by 15% for 100% vesting.

There is equal weighting attached to each of these performance conditions.

Other benefits

Depending on the terms of their contracts, executive directors are entitled to a range of benefits, including a fully expensed company car or cash alternative, contributions to pension plans, private medical insurance, permanent health insurance and life assurance.

Service contracts and notice periods

All executive directors are employed on rolling contracts subject to twelve months' notice from either the executive or the group, given at any time. The service contracts of the current executive directors are available for inspection by any person at the company's registered office during normal office hours and at the AGM from 9.00am on the day of the Meeting until the conclusion of the Meeting.

Service contracts do not provide explicitly for termination payments or damages but the group may make payments in lieu of notice. For this purpose pay in lieu of notice would consist of basic salary and other relevant emoluments for the relevant notice period excluding any bonus.

Non-executive directors

All non-executive directors have a remuneration agreement for an initial period of twelve months and thereafter on a rolling basis subject to three months' notice by either the non-executive director or the group, given at any time.

In the event of termination of their appointment they are not entitled to any compensation. The terms and conditions of appointment of non-executive directors are available for inspection by any person at the company's registered office during normal office hours and at the AGM from 9.00am on the day of the Meeting until the conclusion of the Meeting.

Non-executive directors' fees are determined by the executive directors having regard to the need to attract high calibre individuals with the right experience, the time and responsibilities entailed and comparative fees paid in the market in which the group operates. They are not eligible for pensions and do not participate in the group's incentive arrangements.

Directors' emoluments

The remuneration of each director, excluding long-term incentive awards, during the year ended 30 September 2011 is detailed in the table below:

	Salary £'000	Benefits £'000	Bonus £'000	Total for year ended 30 September 2011 £'000	Total for eleven months ended 30 September 2010 £'000	Pension contribution for year ended 30 September 2011 £'000	Pension contribution for eleven months ended 30 September 2010 £'000
Executive							
R F M Adair	**280**	**13**	**—**	**293**	250	**98**	29
P A J Leech	**298**	**8**	**55**	**361**	266	**39**	29
J M Austen	**245**	**3**	**47**	**295**	349	**45**	34
Non-executive							
R W Dyson	**23**	**—**	**—**	**23**	5	**—**	—
A N Gaskell	**17**	**—**	**—**	**17**	4	**—**	—
K M Hudson	**—**	**—**	**—**	**—**	3	**—**	—
A J Green	**8**	**—**	**—**	**8**	—	**—**	—
W P Wyatt	**17**	**—**	**—**	**17**	5	**—**	—
Total	**888**	**24**	**102**	**1,014**	882	**182**	92

Remuneration report
continued

Directors' emoluments continued

Directors' interest in performance share awards

Full details of outstanding performance share awards in the company held by executive directors at 30 September 2011 are shown below:

	Number of awards	Date of grant	Grant price	Exercise period
R F M Adair	1,833,333	19 April 2010	20.25p	1 October 2012 – 19 April 2020
R F M Adair	534,063	29 March 2011	24.75p	1 October 2013 – 28 March 2021
P A J Leech	1,833,333	19 April 2010	20.25p	1 October 2012 – 19 April 2020
P A J Leech	534,063	29 March 2011	24.75p	1 October 2013 – 28 March 2021
J M Austen	594,059	1 September 2008	25.00p	1 September 2010 – 31 August 2017
J M Austen	1,553,333	19 April 2010	20.25p	1 October 2012 – 19 April 2020
J M Austen	452,497	29 March 2011	24.75p	1 October 2013 – 28 March 2021

Financial statements

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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 30 September 2011 which comprise the Consolidated statement of comprehensive income, the Consolidated statement of changes in equity, the Consolidated and Company balance sheets, the Consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements
In our opinion:

— the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 30 September 2011 and of the group's loss for the year then ended;

— the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

— the parent company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

— the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

— adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

— the parent company financial statements are not in agreement with the accounting records and returns; or

— certain disclosures of directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit.

Solomon Benaim (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
55 Baker Street
London
W1U 7EU
United Kingdom
6 January 2012

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated statement of comprehensive income
for the year ended 30 September 2011

	Notes	Year ended 30 September 2011 £'000	Period ended 30 September 2010 Restated* £'000
Revenue	2	**67,766**	30,747
Direct costs		**(61,333)**	(24,437)
Gross profit		**6,433**	6,310
Administrative expenses		**(4,343)**	(4,745)
Profit on disposal of investment properties		**—**	47
Impairment of associated undertakings		**(1,000)**	—
(Loss)/profit on revaluation of investment properties		**(4,128)**	1,956
Operating (loss)/profit		**(3,038)**	3,568
Finance income	4	**508**	1,281
Finance costs	4	**(5,097)**	(3,105)
Share of joint venture and associated undertakings post tax (loss)/profit		**(2,612)**	16,130
(Loss)/profit before tax		**(10,239)**	17,874
Tax	7	**(184)**	(2,818)
(Loss)/profit from continuing operations		**(10,423)**	15,056
Total comprehensive income		**(10,423)**	15,056
(Loss)/profit attributable to:			
Equity holders of the parent		**(10,423)**	15,060
Non-controlling interest		**—**	(4)
		(10,423)	15,056
Total comprehensive income attributable to:			
Equity holders of the parent		**(10,423)**	15,060
Non-controlling interest		**—**	(4)
		(10,423)	15,056
Basic earnings per share	8	**(4.94)p**	7.14p
Diluted earnings per share	8	**(4.94)p**	7.14p

* See note 1 Restatement of prior years.

The notes on pages 34 to 58 form part of these financial statements.

Consolidated statement of changes in equity
for the year ended 30 September 2011

	Share capital £'000	Share premium £'000	Own shares £'000	Capital redemption reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000	Non-controlling interest £'000	Total £'000
Balance at 31 October 2009	4,240	43,208	(609)	849	7,088	23,380	78,156	230	78,386
Prior year adjustment	—	—	—	—	—	(35,239)	(35,239)	—	(35,239)
Balance at 31 October 2009 restated*	4,240	43,208	(609)	849	7,088	(11,859)	42,917	230	43,147
Total comprehensive income for the period restated	—	—	—	—	—	15,060	15,060	(4)	15,056
Share-based payment	—	—	—	—	—	384	384	—	384
Distribution to non-controlling interest	—	—	—	—	—	—	—	(226)	(226)
Balance at 30 September 2010 restated*	4,240	43,208	(609)	849	7,088	3,585	58,361	—	58,361
Total comprehensive loss for the year	—	—	—	—	—	(10,423)	(10,423)	—	(10,423)
Share-based payment	—	—	—	—	—	196	196	—	196
Balance at 30 September 2011	**4,240**	**43,208**	**(609)**	**849**	**7,088**	**(6,642)**	**48,134**	**—**	**48,134**

* See note 1 Restatement of prior years.

Consolidated balance sheet
at 30 September 2011

	Notes	30 September 2011 £'000	30 September 2010 Restated* £'000	31 October 2009 Restated* £'000
Non-current assets				
Investment properties	11	**21,393**	25,541	39,978
Property, plant and equipment	10	**176**	235	350
Investments in equity accounted associates and joint ventures	12	**1,419**	2,656	2,699
Other investments	12	**6**	182	147
Intangible assets	9	**3,336**	3,336	3,336
Deferred tax assets	18	**5,710**	5,789	7,439
		32,040	37,739	53,949
Current assets				
Development properties	13	**72,961**	104,902	101,719
Trade and other receivables	14	**14,191**	27,036	22,729
Cash and cash equivalents		**11,630**	1,759	5,290
		98,782	133,697	129,738
Total assets		**130,822**	171,436	183,687
Non-current liabilities				
Bank loans	17	**(36,230)**	(36,286)	(91,678)
Other payables	16	**—**	(3,000)	(3,370)
Deferred tax liabilities		**—**	—	(73)
		(36,230)	(39,286)	(95,121)
Current liabilities				
Trade and other payables	15	**(16,541)**	(14,640)	(32,572)
Current tax liabilities		**(3,109)**	(3,012)	(1,176)
Bank overdrafts and loans	17	**(26,808)**	(56,137)	(11,671)
		(46,458)	(73,789)	(45,419)
Total liabilities		**(82,688)**	(113,075)	(140,540)
Net assets		**48,134**	58,361	43,147
Equity				
Called up share capital	20	**4,240**	4,240	4,240
Share premium account	21	**43,208**	43,208	43,208
Own shares	21	**(609)**	(609)	(609)
Capital redemption reserve	21	**849**	849	849
Merger reserve	21	**7,088**	7,088	7,088
Retained earnings	21	**(6,642)**	3,585	(11,859)
Equity attributable to equity holders of the parent		**48,134**	58,361	42,917
Non-controlling interests		**—**	—	230
Total equity		**48,134**	58,361	43,147

* See note 1 Restatement of prior years.

The financial statements on pages 30 to 58 were approved and authorised for issue by the board of directors on 6 January 2012 and were signed on its behalf by:

Philip Leech

P A J Leech
Director

J M Austen
Director

Consolidated cash flow statement
for the year ended 30 September 2011

	Year ended 30 September 2011 £'000	Period ended 30 September 2010 Restated* £'000
Cash flows from operating activities		
(Loss)/profit before taxation	(10,239)	17,874
Adjustments for:		
Finance income	(508)	(1,281)
Finance costs	5,097	3,105
Share of joint venture and associated undertakings post tax loss/(profit)	2,612	(16,130)
Depreciation and impairment charge	3,832	3,844
Loss/(profit) on revaluation of investment properties	4,128	(1,956)
Impairment of associated undertakings	1,000	—
Profit on disposal of investment properties	—	(47)
(Profit)/loss on sale of tangible financial assets	(64)	12
Share-based payment	196	384
Cash flows from operating activities before change in working capital	6,054	5,805
Decrease/(increase) in property inventories	27,630	(6,635)
Decrease/(increase) in trade and other receivables	13,798	(2,330)
Decrease in trade and other payables	(4,375)	(3,491)
Cash generated from/(absorbed by) operations	43,107	(6,651)
Finance costs	(4,425)	(3,222)
Finance income	590	465
Tax (paid)/received	(147)	594
Net cash flows from operating activities	39,125	(8,814)
Investing activities		
Purchase of investment property	—	(50)
Sale of investment property and tangible fixed assets	100	16,459
Sale of investments	167	28
Purchase of property, plant and equipment	(70)	(35)
Net cash flows from investing activities	197	16,402
Financing activities		
Borrowings drawn down	1,325	6,342
Borrowings repaid	(30,743)	(17,581)
Net cash flows from financing activities	(29,418)	(11,239)
Net increase/(decrease) in cash and cash equivalents	9,904	(3,651)
Cash and cash equivalents at 1 October 2010	1,639	5,290
Cash and cash equivalents at 30 September 2011	11,543	1,639

* See note 1 Restatement of prior years.

Notes to the consolidated financial statements
for the year ended 30 September 2011

1 Accounting policies

Basis of preparation
The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretation) published by the International Accounting Standards Board (IASB) as adopted by the European Union ("EU adopted IFRSs") and with those parts of the Companies Act 2006 applicable to companies preparing its financial statements in accordance with IFRSs.

The company has elected to prepare its company financial statements, on pages 59 to 63, in accordance with UK GAAP.

Changes in accounting policies
The group has not adopted any new or amended IFRS and IFRIC interpretations in the year.

New standards and interpretations not applied
IASB and IFRIC have issued the following standards and interpretations relevant to the group. These standards and interpretations are mandatory for accounting periods beginning on or after the date of these financial statements and will become effective for future reporting periods:

IAS 12	Income Taxes
IAS 24	Related Party Disclosures – revised definition of related parties
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates and Joint Ventures
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities

None of the new standards and interpretations noted above, which are effective for accounting periods beginning on or after 1 October 2011 and which have not been adopted early, are expected to have a material effect on the group's future financial statements.

Basis of consolidation
Where the company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial information incorporates the results of Terrace Hill Group plc and its subsidiary and associated undertakings and joint ventures. Intercompany transactions and balances between the group companies are therefore eliminated in full.

Business combinations
The consolidated financial statements incorporate the results of business combinations using the purchase method. In the Consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Consolidated statement of comprehensive income from the date on which control is obtained.

Goodwill
Goodwill represents the excess of the cost of a business combination over, in the case of business combinations completed prior to 1 November 2009, the group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the Consolidated statement of comprehensive income. The goodwill is reviewed for impairment at each reporting date. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the Consolidated statement of comprehensive income.

1 Accounting policies continued

Joint ventures

An entity is treated as a joint venture where the group shares control under a contractual agreement.

In the consolidated financial statements interests in joint ventures are accounted for using the equity method of accounting whereby the Consolidated balance sheet incorporates the group's share of the net assets of the joint venture. The Consolidated statement of comprehensive income incorporates the group's share of the joint ventures' profits after tax.

Associates

Where the group has significant influence but not control over the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recorded in the Consolidated balance sheet at cost. The group's share of post-acquisition profits and losses is recognised in the Consolidated statement of comprehensive income, except that losses in excess of the group's investment in the associate are not recognised unless there is an obligation to make good those losses.

Investment properties

The group's investment properties are revalued annually to fair value, with changes in fair value being recognised in the Consolidated statement of comprehensive income.

Leases

Rentals paid under operating leases are charged to income on a straight-line basis over the term of the lease. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Lease incentives

Lease incentives, including rent-free periods and payments to tenants, are allocated to the Consolidated statement of comprehensive income on a straight-line basis over the lease term as a deduction from rental income.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all property, plant and equipment 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	25% reducing balance
Furniture and fittings	20%–25% straight-line
Leasehold improvements	length of lease

Development property

Trading and development properties are inventory and are included in the balance sheet at the lower of cost and net realisable value. Net realisable value is the expected net sales proceeds of the developed property in the ordinary course of business less the estimated costs to completion and associated selling costs. A provision is made to the extent that projected costs exceed projected revenues.

All costs including borrowing costs, directly associated with the purchase and construction of a development property are capitalised up to the date that the property is ready for its intended use. Property acquisitions are recognised when legally binding contracts which are irrevocable and effectively unconditional are exchanged.

Notes to the consolidated financial statements
for the year ended 30 September 2011
continued

1 Accounting policies continued

Revenue recognition
Revenue is recognised to the extent that it is probable that economic benefits will flow to the group and the revenue can be readily measured. Revenue is measured at the fair value of the consideration receivable, excluding VAT. The following criteria must be met before revenue is recognised:

Sale of property
Revenue from the sale of development and investment properties is recognised when the significant risks and rewards of ownership of the properties have passed to the buyer, usually when legally binding contracts which are irrevocable and effectively unconditional are exchanged.

Revenue from the sale of residential property is recognised on completion of sale.

Development income
Development income and costs arising from the construction of property on behalf of third parties are recognised on the basis of the stage of completion of the project. The stage of completion is determined as the proportion of total estimated development costs incurred at the reporting date.

Rental income
Rental income arising from property is accounted for on a straight-line basis over the term of the lease.

Fees and other income
Fees from development management service and other agreements are determined by reference to the relevant agreement and recognised as the services are provided.

Taxation
The charge for current taxation is based on the results for the year as adjusted for items which are non-taxable or disallowed. It is calculated using rates that have been enacted or substantively enacted by the balance sheet date. Tax payable upon realisation of revaluation gains on investment property disposals and recognised in prior periods is recorded as a current tax charge with a release of the associated deferred taxation.

Deferred tax is provided on all temporary differences, except:

— the initial recognition of goodwill;

— goodwill for which amortisation is not tax deductible;

— the initial recognition of an asset or liability in a transaction which is not a business combination and, at the same time of the transaction, affects neither accounting or taxable profit; and

— investments in subsidiaries and joint ventures where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is provided using the balance sheet liability method in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in computation of taxable profit.

Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. It is recognised in the Consolidated statement of comprehensive income except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred tax assets and liabilities are offset when the group has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same tax authority.

Share-based payments
The fair value of granting share awards under the performance share plan and the other share-based remuneration to directors and other employees is recognised through the Consolidated statement of comprehensive income. The fair value of shares awarded is calculated by using a stochastic pricing model. The resulting fair value is amortised through the Consolidated statement of comprehensive income on a straight-line basis over the vesting period. The charge is reversed if it is likely that any non-market based criteria will not be met.

1 Accounting policies continued

Employee benefit trust

The group is deemed to have control of its Employee Benefit Trust (EBT) and it is therefore treated as a subsidiary and consolidated for the purposes of the group accounts. The EBT's investment in the parent company's shares is deducted from equity in the Consolidated balance sheet as if they were treasury shares. Other assets and liabilities of the EBT are recognised as assets and liabilities of the group. Any shares held by the EBT are excluded for the purposes of calculating earnings per share.

Retirement benefits

Contributions to defined contribution pension schemes are charged to the Consolidated statement of comprehensive income in the year in which they relate.

Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the directors. In the case of final dividends, this is when approved by the shareholders at the AGM.

Impairment of non-financial assets (excluding development properties, investment properties and deferred tax)

Impairment tests on the group's goodwill with indefinite useful lives are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication becomes evident, the asset's recoverable amount is estimated and an impairment loss recognised whenever the carrying amount of the asset exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its fair value less costs to sell and its value-in-use. The value-in-use is determined as the net present value of the future cash flows expected to be derived from the asset.

Financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when the group becomes a party to the contractual provisions of the instrument.

Derivative financial instruments

The group enters into derivative transactions such as interest rate caps and floors in order to manage the risks arising from its activities. Derivatives are initially recorded at fair value and are subsequently re-measured to fair value based on market prices, estimated future cash flows and forward rates as appropriate. Any change in the fair value of such derivatives is recognised immediately in the Consolidated statement of comprehensive income as a finance cost or finance income.

Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, deposits with banks and other short-term highly liquid investments with original maturities of three months or less. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits with banks net of bank overdrafts.

Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently at amortised cost or their recoverable amount. Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the Consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Trade and other payables

Trade and other payables are initially recorded at fair value and subsequently at amortised cost.

Borrowings

Interest bearing bank loans and overdrafts are initially recorded at fair value, net of any directly attributable issue costs and subsequently recognised at amortised cost.

Notes to the consolidated financial statements
for the year ended 30 September 2011
continued

1 Accounting policies continued

Borrowing costs

Finance and other costs incurred in respect of the obtaining of borrowings are accounted for on an accruals basis using the effective interest method and amortised to the Consolidated statement of comprehensive income over the term of the associated borrowings.

Borrowing costs directly attributable to the acquisition and construction of development and investment properties are added to the costs of such properties until the properties are ready for intended use.

All other borrowing costs are recognised in the Consolidated statement of comprehensive income in the period in which they are incurred.

Restatement of prior years

The group's investment properties are revalued annually to fair value, with changes in fair value being recognised in the Consolidated statement of comprehensive income. The same accounting policy is applied to residential investment properties held by the group's associate, Terrace Hill Residential Plc, which is reflected in the group's share of the associate's profits or losses recognised in the Consolidated statement of comprehensive income and reflected in the group's share of the associate's net assets in the Consolidated balance sheet.

In prior years the fair value of residential investment properties owned by the group and its associate has been interpreted as the Market Value applying the special assumption of vacant possession in accordance with RICS Valuation Standards VS 3 Appendix 4.

As a consequence of prices achieved on sales of residential properties during the financial year ended 30 September 2011 and following the stated intention to place the residential portfolio owned by Terrace Hill Residential PLC on the market, the board has reviewed the valuation basis to be adopted for the purposes of fair value for residential investment property in the financial statements both in the current and prior years.

The board concluded that fair value, as required by IAS 40 "Investment Property", should be determined by adopting an investment value basis of valuation, as defined by RICS Valuation Standards VS 4, as it better reflects the price at which the residential properties could be exchanged between knowledgeable, willing parties in arm's length transactions and is more appropriate for inclusion in financial statements than the previous valuation basis. Accordingly, the investment value basis has been adopted for residential property held by the group and the associate in the current year and has been retrospectively applied to prior years. The impact of the restatement on 30 September 2010 is to:

— increase the group's share of the associates profit for the period by £8,549,000;

— increase the profit on revaluation of investment properties by £948,000;

— increase the profit attributable to equity holders of the parent by £9,497,000;

— decrease the fair value of the group's investment properties by £5,832,000;

— decrease the investment in associates by £6,425,000;

— decrease the trade and other receivables by £13,485,000; and

— decrease the group's net assets by £25,742,000.

The impact on the group's balance sheet at 1 November 2009 is to decrease the group's investment property by £6,780,000, decrease the group's investment in associates by £147,000, decrease the trade and other receivables by £13,602,000, increase creditors by £14,710,000 and decrease the group's net assets by £35,239,000.

The impact on the group's basic earnings per share for 2010 is an increase from 2.64 pence to 7.14 pence and an increase in the diluted earnings per share from 2.64 pence to 7.14 pence.

1 Accounting policies continued

Critical accounting estimates and judgements

The preparation of financial statements under IFRSs requires the directors to make estimates and assumptions that affect the application of accounting policies. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are shown below.

Going concern

The directors are required to make an assessment of the group's ability to continue to trade as a going concern. The directors have given this matter due consideration and have concluded that it is appropriate to prepare the group financial statements on a going concern basis. The two main considerations were as follows:

Cash flow – the group maintains a rolling 24 month cash forecast that takes account of all known inflows and outflows. The cash flow is regularly stress tested to ensure that the group can withstand reasonable changes in circumstances that could adversely affect its cash flow. The key potential changes that the group has considered include: the timing of planned property sales and possible reductions in anticipated cash flows from re-financing properties after planning permission has been obtained.

Bank facilities – the group maintains a regular dialogue with its lenders and keeps them informed of how the group is trading. A consequence of the nature of the group's business is that it has a relatively large number of discrete bank facilities, each secured on the project they finance. Consequently, the group always has some debt to refinance and during the year refinanced £34.6 million of group debt and £20.4 million of joint venture and associated undertaking debt. The group has a further £26.8 million of debt facilities to be re-financed by 30 September 2012. In the normal course of business, developments will be completed and assets disposed of and so the actual requirement to renew financing is expected to be at a lower level than this. Of the £26.8 million, terms are largely agreed in respect of £19.1 million and discussions with regards the balance will be commenced closer to their maturities. The group maintains a good dialogue with a sizeable number of banks and believes that the remaining loans that require refinancing will be refinanced on acceptable terms.

Having considered the headroom in the group's cash forecasts and its previous success in extending finance terms when required, the group believes that it has sufficient resources to continue trading for the foreseeable future.

Investment property and inventory

In relation to the investment and development properties, the directors have relied upon the external valuations and advice provided by professionally qualified valuers in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors.

The group uses the valuation performed by its independent valuers as the fair value of its investment properties and in assessing the net realisable values of its development properties. The valuation is based upon assumptions including future rental income, anticipated maintenance costs, future development costs and the appropriate discount rate. The valuers also make reference to market evidence of transaction prices for similar properties.

Taxation

There are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the group recognises tax liabilities based on estimates of whether additional taxes and interest will be due. The group believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve judgements about future events. The directors have also exercised their judgement in relation to the recognition of certain deferred tax assets and liabilities.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period. If the revisions affect both current and future periods, they are recognised in the period of the revision and future periods.

Impairment of goodwill

The group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value-in-use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate where the cash flows exceed one year in order to calculate the present value of the cash flows. Actual outcomes may vary. More information, including carrying values, is shown in note 9.

Notes to the consolidated financial statements
for the year ended 30 September 2011
continued

2 Revenue

	Total 2011 £'000	Total 2010 £'000
Sales of development properties	**61,200**	25,595
Rents receivable	**4,608**	4,392
Project management fees and other income	**1,958**	760
	67,766	30,747

Sales of development properties includes £16,030,000 (2010: £17,777,000, one investor) of revenue recognised on two construction contracts for investors. Construction contract revenue is recognised in the accounts in line with contract stage of completion determined by stage valuations. The costs incurred on these construction contracts totalled £12,878,000 (2010: £13,139,000). Revenue was generated from two sales of development properties to individual investors of £7.9 million and £26.75 million.

3 Segmental information

The operating segments are identified on the basis of internal financial reports about components of the group that are regularly reviewed by the chief operating decision maker (which in the group's case is its executive board comprising the three executive directors) in order to allocate resources to the segments and to assess their performance. The internal financial reports received by the group's executive board contain financial information at a group level as a whole and there are no reconciling items between the results contained in these reports and the amounts reported in the financial statements.

The group operates in two principal segments, being commercial property development and commercial and residential property investment. The group does not operate outside the UK.

	Residential 2011 £'000	Commercial 2011 £'000	Unallocated items 2011 £'000	Total 2011 £'000	Residential 2010 £'000 restated	Commercial 2010 £'000 restated	Unallocated items 2010 £'000 restated	Total 2010 £'000 restated
Statement of comprehensive income								
Revenue	**1,356**	**66,410**	**—**	**67,766**	1,261	29,486	—	30,747
Direct costs	**(518)**	**(60,815)**	**—**	**(61,333)**	(405)	(24,032)	—	(24,437)
Gross profit	**838**	**5,595**	**—**	**6,433**	856	5,454	—	6,310
Administrative expenses	**—**	**—**	**(4,343)**	**(4,343)**	—	—	(4,745)	(4,745)
Profit on disposal of investment properties	**—**	**—**	**—**	**—**	—	47	—	47
Impairment of associated undertakings	**—**	**(1,000)**	**—**	**(1,000)**	—	—	—	—
(Loss)/profit on revaluation of investment properties	**(3,628)**	**(500)**	**—**	**(4,128)**	929	1,027	—	1,956
Operating profit/(loss)	**(2,790)**	**4,095**	**(4,343)**	**(3,038)**	1,785	6,528	(4,745)	3,568
Net finance costs	**(514)**	**(4,073)**	**(2)**	**(4,589)**	(533)	(1,218)	(73)	(1,824)
Share of results of joint venture before tax	**—**	**(236)**	**—**	**(236)**	—	(43)	—	(43)
Share of results of associated undertakings before tax	**(2,376)**	**—**	**—**	**(2,376)**	16,173	—	—	16,173
Profit/(loss) before tax	**(5,680)**	**(214)**	**(4,345)**	**(10,239)**	17,425	5,267	(4,818)	17,874

The segmental results that are monitored by the board include all the separate lines making up the segmental IFRS operating profit. This excludes central overheads and taxation which are not allocated to operating segments.

3 Segmental information continued

	Residential 2011 £'000	Commercial 2011 £'000	Unallocated items 2011 £'000	Total 2011 £'000	Residential 2010 £'000 restated	Commercial 2010 £'000 restated	Unallocated items 2010 £'000 restated	Total 2010 £'000 restated
Balance sheet								
Investment properties	18,643	2,750	—	21,393	22,271	3,270	—	25,541
Property, plant and equipment	—	15	161	176	—	25	210	235
Investments – associates and joint ventures	—	1,419	—	1,419	—	2,656	—	2,656
Other investments	—	6	—	6	3	49	130	182
Intangible assets	2,365	971	—	3,336	2,365	971	—	3,336
Deferred tax assets	—	—	5,710	5,710	—	—	5,789	5,789
	21,008	5,161	5,871	32,040	24,639	6,971	6,129	37,739
Development properties	—	72,961	—	72,961	—	104,902	—	104,902
Trade and other receivables	257	13,934	—	14,191	1,871	25,165	—	27,036
Cash	93	11,537	—	11,630	41	1,718	—	1,759
	350	98,432	—	98,782	1,912	131,785	—	133,697
Borrowings	(17,407)	(45,631)	—	(63,038)	(20,375)	(72,048)	—	(92,423)
Trade and other payables	(1,330)	(15,211)	—	(16,541)	(514)	(17,126)	—	(17,640)
Current tax	—	—	(3,109)	(3,109)	—	—	(3,012)	(3,012)
	(18,737)	(60,842)	(3,109)	(82,688)	(20,889)	(89,174)	(3,012)	(113,075)
Net assets	2,621	42,751	2,762	48,134	5,662	49,582	3,117	58,361

4 Finance costs and finance income

	2011 £'000	2010 £'000
Interest payable on borrowings	5,471	4,793
Interest capitalised	(374)	(1,688)
Finance costs	5,097	3,105
Interest receivable from cash deposits and other financial assets	508	1,281
Finance income	508	1,281

Interest is capitalised at the same rate as the group is charged on the respective borrowings. Included in finance income is £177,000 of gains (2010: £785,000), representing the reversal of fair value adjustments on interest rate swaps that expired during the year.

5 Administrative expenses

Is arrived at after charging/(crediting):

	2011 £'000	2010 £'000
Depreciation of property, plant and equipment	94	143
Gain on disposal of property, plant and equipment	(64)	12
Operating lease charges – rent of properties	1,327	1,228
Share-based payment remuneration	196	384
Fees paid to BDO LLP in respect of:		
– audit of the group's annual accounts	135	180
– audit of the group's associates	17	19
– other services	30	30

Notes to the consolidated financial statements
for the year ended 30 September 2011
continued

6 Employment costs
(a) Total staff costs

	2011 £'000	2010 £'000
Wages and salaries	4,777	3,703
Employer's national insurance contributions and similar taxes	676	461
Defined contribution pension cost	497	264
Share-based payment	196	384
	6,146	4,812

(b) Directors' remuneration

	2011 £'000	2010 £'000
Emoluments	980	865
Amounts paid to third parties in respect of directors' services	34	17
Defined contribution pension cost	182	92

Pension contributions to defined contribution schemes were made during the year in respect of three directors (2010: three). There is a charge of £180,000 (2010: £201,000 charge) in respect of the share-based payments scheme.

Remuneration of highest paid director

	2011 £'000	2010 £'000
Total emoluments (excluding pension contributions)	361	346
Defined contribution pension cost	39	34
	400	380

There is a charge of £63,000 (2010: £114,000 charge) in respect of the share-based payments scheme.

The average monthly number of employees during the year was:

	2011	2010
Property and administration	35	37

7 Tax on (loss)/profit on ordinary activities
(a) Analysis of charge in the year

	2011 £'000	2010 £'000
Current tax		
UK corporation tax on (loss)/profit for the period	59	63
Adjustment in respect of prior periods	46	1,177
Total current tax	105	1,240
Deferred tax		
Origination and reversal of temporary differences	79	1,578
Total deferred tax charge	79	1,578
Total tax charge	184	2,818

7 Tax on (loss)/profit on ordinary activities continued

(b) Factors affecting the tax charge for the year

The tax assessed for the period is higher than the standard rate of corporation tax in the UK of 27% (2010: 28%). The differences are explained below:

	2011 £'000	2010 £'000 restated
(Loss)/profit before tax	(10,239)	17,354
Plus/(less) joint ventures and associates	2,612	(16,130)
(Loss)/profit attributable to the group before tax	(7,627)	1,224
(Loss)/profit multiplied by the average rate of UK corporation tax of 27% (2010: 28%)	(2,059)	343
Disallowables	2,118	1,132
Other temporary differences	79	166
	138	1,641
Adjustments in respect of prior periods	46	1,177
Total tax charge	184	2,818

(c) Associates and joint ventures

The group's share of tax on the associates and joint ventures is £Nil (2010: £Nil).

8 Earnings per ordinary share

The calculation of basic earnings per ordinary share is based on a loss of £10,423,000 (2010 profit: £15,060,000) and on 210,951,299 (2010: 210,951,299) ordinary shares, being the weighted average number of shares in issue during the year.

The calculation of diluted earnings per ordinary share for 2011 is the same as that for basic earnings per share. The calculation of diluted earnings per share for 2010 is based on earnings of £15,060,000 and 210,952,880 ordinary shares, being the average number of shares in issue during the year adjusted to allow for the issue of ordinary shares in connection with a share award.

The number of awards in issue is disclosed in note 23.

9 Intangible fixed assets – goodwill

	£'000
Cost	
At 1 November 2009	5,997
At 1 October 2010	5,997
At 30 September 2011	**5,997**
Impairment	
At 1 November 2009	(2,661)
At 1 October 2010	(2,661)
At 30 September 2011	**2,661**
At 30 September 2011	**3,336**
At 30 September 2010	3,336

Notes to the consolidated financial statements
for the year ended 30 September 2011
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9 Intangible fixed assets – goodwill continued

Impairment tests for goodwill

Goodwill arising on acquisition is allocated to the group's cash-generating units identified according to business activity.

	2011 £'000	2010 £'000
Commercial properties	**2,365**	2,365
Investment properties	**971**	971
	3,336	3,336

The value of goodwill allocated to the investment activity is directly related to a number of residential units held. As these units are disposed of an impairment charge is made.

The recoverable amount of goodwill allocated to commercial property activities has been determined from value-in-use calculations based on cash flow projections of the cash-generating unit. These are reviewed to ensure that the cash-generating units in respect of which the goodwill arose continue to generate cash flows in excess of the carrying value of the goodwill. The cash flow period considered is 24 months and is based on forecast asset sales which take into consideration management's assessment of past experience and future economic benefits in light of anticipated economic and market conditions. As the period considered is greater than 12 months discounting is applied. The discount rate applied is 15%, which takes into account not only the time value of money but also management's assessment of the specific risks related to the cash-generating unit. If this recoverable amount is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Any impairment loss is recognised as an expense.

It is the opinion of the directors that at 30 September 2011 there was no impairment. The carrying value of the group's goodwill is reassessed at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

10 Property, plant and equipment

	Leasehold improvements £'000	Motor vehicles £'000	Office equipment £'000	Furniture and fittings £'000	Total £'000
Cost					
At 1 November 2009	159	292	112	229	792
Additions	–	–	12	23	35
Disposals	–	(19)	(4)	(36)	(59)
At 1 October 2010	159	273	120	216	768
Additions	–	–	69	1	70
Disposals	–	(258)	(3)	(5)	(266)
At 30 September 2011	**159**	**15**	**186**	**212**	**572**
Depreciation					
At 1 November 2009	39	162	74	167	442
Charge for period	15	60	23	45	143
Disposals	–	(12)	(4)	(36)	(52)
At 1 October 2010	54	210	93	176	533
Charge for year	16	28	26	24	94
Disposals	–	(224)	(2)	(5)	(231)
At 30 September 2011	**70**	**14**	**117**	**195**	**396**
Net book value					
At 30 September 2011	**89**	**1**	**69**	**17**	**176**
At 30 September 2010	105	63	27	40	235

At the year end there were no assets held under finance leases.

11 Investment properties

	£'000
Valuation	
At 1 November 2008	49,160
Additions	4
Disposals	(265)
Loss on revaluation restated	(8,921)
At 1 November 2009 restated	39,978
Additions	443
Disposals	(16,810)
Gain on revaluation restated	1,930
At 1 October 2010 restated	25,541
Transfers	(20)
Loss on revaluation	(4,128)
At 30 September 2011	**21,393**

The commercial investment properties situated in England owned by the group have been valued as at 30 September 2011 by qualified valuers from CB Richard Ellis, an independent firm of Chartered Surveyors, on the basis of open market value. The valuations were carried out in accordance with guidance issued by the Royal Institution of Chartered Surveyors.

Residential investment properties owned by the group have been valued as at 30 September 2011 by qualified valuers from Allsop LLP, an independent firm of Chartered Surveyors, on an investment value basis. The valuations were carried out in accordance with guidance issued by the Royal Institution of Chartered Surveyors.

Rental income generated from investment property in the year was £1,106,000 and direct operating costs on this were £500,000.

12 Investments

Associates and joint ventures

	Associates £'000	Joint venture £'000	Total £'000
Cost or valuation			
At 1 November 2008	6,375	770	7,145
Disposals	(6)	–	(6)
Transfer to other investments	(14)	–	(14)
Share of results restated	(5,700)	(72)	(5,772)
Share of results for period applied against long-term receivables forming part of net investment	1,346	–	1,346
At 1 November 2009 restated	2,001	698	2,699
Share of results restated	16,173	(43)	16,130
Share of results for period applied against long-term receivables forming part of net investment	(16,173)	–	(16,173)
At 1 October 2010 restated	2,001	655	2,656
Share of results	(2,376)	(236)	(2,612)
Impairment	(1,000)	–	(1,000)
Share of results for period applied against long-term receivables forming part of net investment	2,375	–	2,375
At 30 September 2011	**1,000**	**419**	**1,419**

Notes to the consolidated financial statements
for the year ended 30 September 2011
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12 Investments continued
Associates and joint ventures continued
The group's interests in its principal associates which have been equity accounted in the consolidated financial statements were as follows:

Terrace Hill Residential PLC	49%	Property investment
Castlegate House Partnership	30%	Property development
Devcap 2 Partnership	26%	Property development
Terrace Hill Development Partnership	20%	Property development

Terrace Hill Residential PLC is incorporated in Scotland.

Summarised information 2011

	Terrace Hill Development Partnership £'000	Devcap 2 Partnership £'000	Castlegate House Partnership £'000	Terrace Hill Residential PLC £'000	Two Orchards Limited £'000	Total £'000
Revenue	2,581	2,508	608	10,989		16,686
(Loss)/profit after taxation	(1,313)	(1,895)	7	(4,849)		(8,050)
Total assets	36,770	42,057	7,290	165,743		251,860
Bank debt	(19,881)	(40,580)	(8,248)	(165,103)		(233,812)
Other liabilities	(19,761)	(12,809)	(2,718)	(34,684)		(69,972)
Total liabilities	(39,642)	(53,389)	(10,966)	(199,787)		(303,784)
Net assets/(liabilities)	(2,872)	(11,332)	(3,676)	(34,044)		(51,924)
Opening carrying amount of interest under equity method	2,000	—	—	—	1	2,001
Share of results for year	—	—	—	(2,376)	—	(2,376)
Share of results for period applied against long-term receivables forming part of net investment	—	—	—	2,376	(1)	2,375
Impairment	(1,000)	—	—	—	—	(1,000)
Closing carrying amount of interest under equity method	1,000	—	—	—	—	1,000
Capital commitments	—	—	—	—	—	—

Two Orchards Limited was placed into administration on 19 May 2011. The group has fully provided for its investment in this company. Provision of £1.0 million was made against the group's investment in Terrace Hill Development Partnership based on a net liability position of that entity.

12 Investments continued

Associates and joint ventures continued

Summarised information 2010 restated

	Terrace Hill Development Partnership £'000	Devcap 2 Partnership £'000	Castlegate House Partnership £'000	Terrace Hill Residential PLC Restated £'000	Two Orchards Limited £'000	Total £'000
Revenue	3,702	2,101	557	11,819	—	18,179
(Loss)/profit after taxation	(496)	1,114	(2,782)	32,707	(5,089)	(25,454)
Total assets	38,073	43,713	6,811	214,544	60,853	363,994
Bank debt	(21,409)	(40,553)	(8,302)	(206,741)	(78,884)	(355,889)
Other liabilities	(8,222)	(4,554)	(2,723)	(35,096)	(5,888)	(56,483)
Total liabilities	(29,631)	(45,107)	(11,025)	(241,837)	(84,772)	(412,372)
Net assets/(liabilities)	8,442	(1,394)	(4,214)	(27,293)	(23,919)	(48,378)
Opening carrying amount of interest under equity method	2,000	—	—	—	1	2,001
Share of results for period	—	—	—	16,173	—	16,173
Share of results for period applied against long-term receivables forming part of net investment	—	—	—	(16,173)	—	(16,173)
Closing carrying amount of interest under equity method	2,000	—	—	—	1	2,001
Capital commitments	—	—	—	—	—	—

The group's interest in its joint venture which has been equity accounted in the consolidated financial statements was as follows:

Achadonn Limited	50%	Property development

	2011 Achadonn Limited £'000	2010 Achadonn Limited £'000
Revenue	**63**	81
Loss	**(335)**	(87)
Total assets	**15,067**	14,591
Bank debt	**(8,110)**	(8,110)
Other liabilities	**(6,000)**	(5,171)
Total liabilities	**(14,110)**	(13,281)
Net assets	**957**	1,310
Share of results for the period	**(236)**	(43)
Share of net assets	**419**	655

Notes to the consolidated financial statements
for the year ended 30 September 2011
continued

12 Investments continued

At 30 September 2011 the principal subsidiaries, held directly or indirectly by the company, were as follows:

Incorporated in the United Kingdom	Proportion of voting rights and ordinary shares held	Nature of business
Belgrave Residential Assets Limited	100%	Property investment
Belgrave Residential Investments Limited	100%	Property investment
Britannic Global Income Trust PLC	100%	Investment holding company
Clansman Homes Limited	100%	Property development
Middlehaven Properties Limited	100%	Property development
Middlehaven Properties 2 Limited	100%	Property development
Mount York Estates Limited	100%	Investment holding company and property development
NC (Res) Limited	100%	Investment holding company and property investment
Neill Clerk Energy US Limited	100%	Property investment
Paisley Pattern Homes Limited	100%	Property investment
Terrace Hill (Management) Limited	100%	Management and administration
PCG Investments Limited	100%	Investment holding company and property development
PCG Residential PLC	100%	Property investment
Platts Eyot Limited	100%	Property investment
Port Hampton Limited	100%	Property investment and moorings hire
Spath Holme Limited	100%	Property investment
South Eastern Recovery II Limited	100%	Property investment
Terrace Hill Limited	100%	Investment holding company and property development
Terrace Hill (Aeropark) Limited	100%	Property development
Terrace Hill (Armadale No.2) Limited	100%	Property development
Terrace Hill (Baltic) Limited	100%	Property development
Terrace Hill Baltic (No 3) Limited	100%	Property development
Terrace Hill (Bishop Auckland) Limited	100%	Property development
Terrace Hill (Central Scotland) Limited	100%	Property development
Terrace Hill (Christchurch) Limited	100%	Property development
Terrace Hill (Croydon) Limited	100%	Property development
Terrace Hill Developments Limited	100%	Property development
Terrace Hill (Herne Bay) Limited	100%	Property development
Terrace Hill (Homes) Limited	100%	Property development
Terrace Hill (Howick Place) Investments Limited	100%	Investment holding company
Terrace Hill (Hyde) Limited	100%	Property development
Terrace Hill (Kilmarnock) Limited	100%	Property development
Terrace Hill (Middlehaven) Limited	100%	Investment holding company and property development
Terrace Hill (Middlesbrough) Limited	100%	Property development
Terrace Hill North East Limited	100%	Investment holding company and property development
Terrace Hill (Patna) Limited	100%	Property development
Terrace Hill (Prestwich) Limited	100%	Property development
Terrace Hill Projects Limited	100%	Project coordination and management services
Terrace Hill (Redcliff Street) Limited	100%	Property development
Terrace Hill (Resolution) Limited	100%	Property development

12 Investments continued

Incorporated in the United Kingdom	Proportion of voting rights and ordinary shares held	Nature of business
Terrace Hill (Shotts) Limited	100%	Property development
Terrace Hill (Skelton) Limited	100%	Property development
Terrace Hill (Southampton) Limited	100%	Property development
Terrace Hill (Victoria Street) Limited	100%	Property development
Terrace Hill (Property Developments) No 1 Limited	100%	Property development
Terrace Hill (Whitchurch) Limited	100%	Property development
Terrace Hill (Wilton Road) Holdings Limited	100%	Investment holding company and property development
Terrace Hill (Wilton Road) No 1 Limited	100%	Property development
Westview Investments Limited	100%	Investment holding company

The group has taken advantage of the exemption in section 410 of the Companies Act 2006 to disclose a list consisting solely of the principal subsidiaries.

13 Development properties

	2011 £'000	2010 £'000
At 1 October 2010	**104,902**	101,719
Additions	**3,899**	6,170
Transfers	**20**	—
Disposals	**(29,754)**	(6,742)
Amounts written (off)/back on the value of development properties	**(6,106)**	3,755
At 30 September 2011	**72,961**	104,902
Included in these figures is capitalised interest of	**9,839**	10,450

No amounts are held in development properties in respect of construction contracts and retentions on such contracts are £Nil.

14 Trade and other receivables

	2011 £'000	2010 £'000 restated
Trade receivables	**2,720**	5,229
Other receivables	**6,145**	8,984
Trade and other receivables	**8,865**	14,213
Amounts recoverable under construction contracts	**—**	4,872
Prepayments and accrued income	**2,612**	4,235
Amounts due from associates and joint ventures	**28,379**	27,896
Provision for amounts due from associates and joint ventures	**(25,665)**	(24,180)
	14,191	27,036

Included in other receivables and prepayments and accrued income is a balance due from Howick Place JV S.a.r.l. totalling £4.3 million (2010: £4.5 million) that has a final maturity date of 31 December 2014.

At 31 October 2009, trade and other receivables of £22.7 million have been restated and decreased by £13.6 million, being an additional provision against amounts due from associates and joint ventures.

Notes to the consolidated financial statements
for the year ended 30 September 2011
continued

14 Trade and other receivables continued
The ageing of trade and other receivables was as follows:

	2011 £'000	2010 £'000
Up to 30 days	2,973	4,169
31 to 60 days	61	67
61 to 90 days	7	4
Over 90 days	169	155
Total	3,210	4,395
Amounts not yet due	5,655	9,818
Closing balance	8,865	14,213

No amounts were overdue at the year end.

The movement in the allowance for impairment in respect of amounts due from associates and joint ventures during the year was as follows:

	2011 £'000	2010 £'000 restated
At 1 October 2010 restated	24,180	23,836
Amounts written back in period	—	(1,346)
Increase in allowance on amounts due from associates	1,485	1,690
Closing balance	25,665	24,180

The allowance is based on falling asset values in the associates.

15 Trade and other payables

	2011 £'000	2010 £'000
Trade payables	2,979	1,189
Other taxation and social security costs	2,204	427
Accruals and deferred income	8,112	11,609
Derivative liabilities	—	177
Other payables	3,246	1,238
	16,541	14,640

At 31 October 2009, trade and other payables of £32.5 million have been restated and increased by £14.9 million relating to an increase in accruals.

16 Other payables (non-current)

	2011 £'000	2010 £'000
Other payables	—	3,000

17 Bank overdrafts and loans

	2011 £'000	2010 £'000
Bank loans	**63,112**	92,504
Bank overdrafts	**87**	120
	63,199	92,624
Unamortised loan issue costs	**(161)**	(201)
	63,038	92,423
Amounts due:		
Within one year	**26,808**	56,137
After more than one year	**36,230**	36,286
	63,038	92,423

An analysis of interest rates and information on fair value and security is given in note 19.

18 Deferred tax

Details of the deferred tax charged/(credited) to the Consolidated statement of comprehensive income are as follows:

	2011 £'000	2010 £'000
Trade losses	**138**	1,588
Share-based payments	**(59)**	(83)
Short-term timing differences	**—**	73
	79	1,578

The Consolidated balance sheet deferred tax assets and liabilities are as follows:

	2011 £'000	2010 £'000
Deferred tax asset		
Share option scheme	**163**	104
Trade losses	**5,547**	5,685
	5,710	5,789

Under IAS 12, deferred tax is recognised for tax potentially payable on the realisation of investment properties at fair values at the balance sheet date. No deferred tax asset is recognised in respect of losses if there is uncertainty over future recoverability. A deferred tax asset has not been recognised for unused tax losses of £9,140,000 (2010: £4,200,000).

19 Financial instruments

The group's principal financial instruments comprise loans, overdrafts, cash and short-term deposits. The main purpose of these financial instruments is to provide finance for the group's operations. Further information on the group's financial resources and capital management is given in the financial review on pages 10 to 13.

The group has various other financial instruments such as trade receivables and trade payables that arise directly from its operations and unlisted investments.

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

Notes to the consolidated financial statements
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continued

19 Financial instruments continued

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 LIBOR and the bank base rate. The group is cognisant at all times of movements in interest rates and will, as appropriate, enter into interest rate swaps to maintain a balance between borrowings that are subject to floating and fixed rates.

Credit risk
The group's principal financial assets are cash and trade receivables. Our cash deposits are placed with a range of banks to minimise the risk to the group. The principal risk therefore arises from trade receivables. Trade receivables from the sale of properties are secured against those properties until the proceeds are received. Rental receivables are unsecured but the group's exposure to tenant default is limited as no tenant accounts for more than 10% of total rent. Rental cash deposits and third party guarantees are obtained as a means of mitigating financial loss from defaults.

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. Cash flow and funding needs are regularly monitored. Further information is given in note 1.

Categories of financial assets and financial liabilities

	2011 £'000	2010 £'000 restated
Current financial assets		
Other investments	**6**	182
Trade and other receivables	**8,865**	14,213
Amounts due from associates and joint ventures	**2,714**	3,716
Cash and cash equivalents	**11,543**	1,639
	23,128	19,750

Financial assets measured at fair value amount to £6,000 (2010: £182,000).

Financial liabilities measured at amortised cost

	2011 £'000	2010 £'000 restated
Current financial liabilities		
Trade and other payables	**14,337**	14,036
Loans and borrowings	**26,876**	56,145
Total current financial liabilities	**41,213**	70,181
Non-current financial liabilities		
Other payables	**—**	3,000
Loans and borrowings	**36,236**	36,359
Total non-current financial liabilities	**36,236**	39,359
Total financial liabilities	**77,449**	109,540

The maximum exposure to credit risk in financial assets is £23,122,000 (2010: £19,568,000). The maximum amount due from any single party is £14,943,000 (2010: £14,948,000) included in amounts due from associates and joint ventures. For further information see note 25.

Financial liabilities designated at fair value amount to £Nil (2010: £177,000) in respect of financial derivatives.

All the group's financial liabilities designated at fair value through the statement of comprehensive income are defined as level 2, in accordance with IFRS 7, as they are derived from inputs other than quoted prices.

19 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 30 September 2011 was as follows:

	Total £'000	Floating rate financial assets £'000	Fixed rate financial assets £'000	Financial assets on which no interest is earned £'000
Sterling	**23,128**	**11,543**	**3,480**	**8,105**

	Total £'000	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Financial liabilities on which no interest is charged £'000
Sterling	**77,449**	**63,112**	**—**	**14,337**

Floating rate financial liabilities bear interest at LIBOR or base rate plus margins of between 1% and 4%.

There are no amounts included in floating rate financial liabilities that are subject to interest rate swaps (2010: £20,795,000).

The interest rate profile of financial assets and liabilities of the group at 30 September 2010 was as follows:

	Total £'000	Floating rate financial assets £'000	Fixed rate financial assets £'000	Financial assets on which no interest is earned £'000
Sterling	19,750	1,639	3,480	14,631

	Total £'000	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Financial liabilities on which no interest is charged £'000
Sterling	109,540	92,504	—	17,036

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; and

— Sterling denominated bank overdrafts that bear interest based on bank base rates.

The fair value of the financial assets and liabilities is equal to the book value.

Borrowings

The group's bank borrowings and overdrafts are repayable as follows:

	2011 £'000	2010 £'000
On demand or within one year	**26,975**	56,265
In more than one year but less than two	**36,224**	26,256
In more than two years but less than five	**—**	10,103
	63,199	92,624

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

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.

Notes to the consolidated financial statements
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continued

19 Financial instruments continued

Borrowing facilities

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

	2011 £'000	2010 £'000
Expiring in one year or less	**2,698**	3,176
Expiring in more than one year but not more than two	**—**	1,102
Expiring in more than two years but not more than five	**—**	—
	2,698	4,278

Guarantees

Refer to note 22 for details.

Market rate sensitivity analysis

Financial instruments affected by market risk include borrowings, deposits and derivative financial instruments. The analysis below shows the sensitivity of the statement of comprehensive income and net assets to a 0.5% change in interest rates on the group's financial instruments.

The sensitivity analysis is based on the sensitivity of interest to movements in interest rates and is calculated on net floating rate exposures on debt and deposits.

	0.5% decrease in interest rates £'000	0.5% increase in interest rates £'000
Impact on interest payable – gain/(loss)	1,210	(1,210)
Impact on interest receivable – (loss)/gain	(72)	72
Total impact on pre-tax loss and equity	1,138	(1,138)

20 Called up share capital

	2011 £'000	2010 £'000
Authorised:		
500,000,000 (2010: 500,000,000) ordinary shares of 2 pence each	**10,000**	10,000
200,000 cumulative 8% redeemable preference shares of £1 each	**200**	200
44,859 convertible shares of 20 pence each	**9**	9
32,551,410 deferred shares of 2 pence each	**651**	651
	10,860	10,860
Allotted, called up, and fully paid:		
211,971,299 (2010: 211,971,299) ordinary shares of 2 pence each	**4,240**	4,240

21 Reserves

	Share premium £'000	Own shares £'000	Capital redemption reserve £'000	Merger reserve £'000	Retained earnings £'000
At 1 November 2009	43,208	(609)	849	7,088	23,380
Prior year adjustment	–	–	–	–	(35,239)
At 1 November 2009 restated	43,208	(609)	849	7,088	(11,859)
Total comprehensive income and expense for the period restated	–	–	–	–	15,060
Share-based payment	–	–	–	–	384
At 1 October 2010 restated	43,208	(609)	849	7,088	3,585
Total comprehensive income and expense for the year	–	–	–	–	(10,423)
Share-based payment	–	–	–	–	196
Balance at 30 September 2011	**43,208**	**(609)**	**849**	**7,088**	**(6,642)**

The following describes the nature and purpose of each reserve within owners' equity:

Share premium – represents the excess of value of shares issued over their nominal amount.

Own shares – represents amount paid to purchase issued shares for the employee share-based payment plan.

Capital redemption reserve – represents amount paid to purchase issued shares for cancellation at their nominal value.

Merger reserve – the merger reserve has arisen following acquisitions where the group's equity has formed all or part of the consideration and represents the premium on the issued shares less costs.

Retained earnings – represents cumulative net gains and losses recognised in the Consolidated statement of comprehensive income.

22 Contingent liabilities and capital commitments

On the acquisition by Terrace Hill Group plc of a subsidiary company, amounts were repayable 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 subsidiary concerned 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 subsidiary concerned will be obligated to pay an amount calculated with reference to the properties disposed of/not let out. The maximum sum repayable is £278,000 (2010: £301,000).

The group has given a guarantee of £15.0 million (2010: £15.0 million) as part of the security arrangements for the bank facilities of Terrace Hill Residential PLC, one of its associated undertakings. In the 2011 financial statements the group has included within payables an amount of £917,000 (2010: £Nil), being the shortfall between property values and the bank loan in its associate. The group has also given a guarantee of £600,000 (2010: £Nil) as part of the development obligations of another of its associated undertakings.

The group has provided in full for an interest shortfall guarantee of £3.0 million (2010: £1.0 million) to a bank as part of its investment in Two Orchards Limited, an associated undertaking.

Capital commitments relating to development sites are as follows:

	2011 £'000	2010 £'000
Contracted but not provided for	**3,171**	2,135

Notes to the consolidated financial statements
for the year ended 30 September 2011
continued

23 Share-based payments

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

Options are granted over the company's shares that are capable of vesting on the third anniversary of issue dependent on certain performance conditions having been met. During the period ended 30 September 2011, options over 3,815,915 shares were awarded to participating staff. The performance conditions attached to these awards are as follows (relating to the three year period ending 30 September 2013):

— Triple Net Asset Value must increase by 5% per annum more than RPI for 25% vesting and must increase by more than 15% per annum more than RPI for 100% vesting; and

— Total Shareholder Return must be equal to the movement in the FTSE 350 Real Estate Index for 25% vesting and must exceed the FTSE 350 Real Estate Index by 15% for 100% vesting.

Awards will lapse if not vested at the end of the vesting period.

	2011			2010		
	Value of award at date of grant	Share price for grant	Number of share awards granted	Value of award at date of grant	Share price for grant	Number of share awards granted
Awards outstanding at the start of the period			**16,463,770**			3,550,807
29 March 2011	**16.00p–22.80p**	**24.75p**	**3,815,915**	12.46p–19.26p	20.25p	12,912,963
Awards granted in the period			**3,815,915**			12,912,963
Awards lapsed in the period			**(2,956,748)**			–
Awards outstanding at the end of the period			**17,322,937**			16,463,770

The fair value of shares awarded is calculated by using a stochastic pricing model involving six variables: share price, exercise price, expected term, expected dividend yield, expected volatility and risk free interest rate. This value is charged to the Statement of comprehensive income over the vesting period. The charge to the Statement of comprehensive income was £196,000 (2010: charge £384,000).

The company has established the Terrace Hill Group plc Employee Benefit Trust (the Trust) to be used as part of the remuneration arrangements for employees. The purpose of the Trust is to facilitate the ownership of shares by or for the benefit of employees by the acquisition and distribution of shares in the company. The Trust purchases shares in the company to satisfy the company's obligations under its share-based payment plans.

On 30 September 2011 the Trust held 1,020,000 (2010: 1,020,000) ordinary 2 pence shares in Terrace Hill Group plc at a cost of £609,000. On that date outstanding awards over 17,322,937 (2010: 16,463,770) ordinary 2 pence shares in Terrace Hill Group plc had been made under the share-based payment plan.

24 Leases

Operating lease commitments where the group is the lessee

The future aggregate minimum lease rentals payable under non-cancellable operating leases are as follows:

	Land and buildings 2011 £'000	Land and buildings 2010 £'000
In one year or less	**1,338**	1,338
Between two and five years	**5,331**	5,341
In five years or more	**5,409**	6,736
	12,078	13,415

24 Leases continued

Operating lease commitments where the group is the lessor

The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

	Land and buildings 2011 £'000	Land and buildings 2010 £'000
In one year or less	**1,608**	3,927
Between two and five years	**5,601**	11,358
In five years or more	**6,071**	13,418
	13,280	28,703

25 Related party transactions

The key management personnel of the group are its board of directors and details of their remuneration are shown in note 6.

Included in fees and other income for the year are amounts charged in the ordinary course of business to the following partnerships, associates, joint ventures and connected parties:

	2011 £'000	2010 £'000
Castlegate House Partnership	**18**	17
Terrace Hill Residential PLC	**168**	74
Devcap 2 Partnership	**20**	25
Howick Place Office S.a.r.l.	**297**	–
Two Orchards Limited	**18**	4
Achadonn Limited	**40**	37
Skye Investments Limited	**15**	11
Included in interest receivable for the year are amounts charged to the following partnerships and associates:		
Devcap 2 Partnership	**111**	111
Achadonn Limited	**59**	59

The following amounts due from the group's partnerships, associates and joint ventures are included in receivables excluding provisions at the year end:

	2011 £'000	2010 £'000
Castlegate House Partnership	**678**	678
Terrace Hill Residential PLC	**14,943**	14,948
Devcap 2 Partnership	**5,188**	5,017
Two Orchards Limited	**5,000**	5,000
Achadonn Limited	**2,251**	2,253

The group has made full provision for the amounts due from Castlegate House Partnership, Terrace Hill Residential PLC, Devcap 2 Partnership and Two Orchards Limited.

The relationship with the partnerships is disclosed in note 12.

Notes to the consolidated financial statements
for the year ended 30 September 2011
continued

25 Related party transactions continued

Terrace Hill Residential PLC

As stated in note 12 the group has accounted for its 49% share of Terrace Hill Residential PLC as an associate company. Of the other 51% shareholding in that company, 49% is held by the Skye Investments group and 2% by R F M Adair. Skye Investments Limited is a company ultimately owned by family trusts for the benefit of R F M Adair and family. As part of the security arrangements for the financing of a residential investment property portfolio by Terrace Hill Residential PLC, Skye Investments Limited has given a guarantee for £20.0 million. Skye Investments Limited and R F M Adair also advanced to Terrace Hill Residential PLC £15.8 million (2010: £15.8 million) by way of shareholder loans to assist in the funding of the acquisition and the ongoing working capital requirements of the associate. The group has agreed to a fee of 4.41% per annum on £5.0 million (being the amount by which the Skye Investments Limited guarantee exceeds the guarantee provided by the group), which is accrued in the group accounts. The charge in the year was £217,000 (2010: £86,000) and the total accrued at the end of the year is £303,000 (2010: £86,000).

26 Controlling party

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

Company balance sheet – UK GAAP
at 30 September 2011

	Notes	30 September 2011 £'000	30 September 2010 £'000
Fixed assets			
Investments	4	**12,772**	22,268
Current assets			
Debtors due within one year	5	**42,660**	76,869
Cash at bank and in hand		**242**	43
		42,902	76,912
Creditors: amounts falling due within one year	6	**(13,043)**	(28,761)
Net current assets		**29,859**	48,151
Total assets less current liabilities		**42,631**	70,419
Capital and reserves			
Called up share capital	9	**4,240**	4,240
Share premium account	10	**43,208**	43,208
Share scheme reserves	10	**653**	457
Own shares	10	**(609)**	(609)
Investment revaluation reserve	10	**—**	96
Capital redemption reserve	10	**849**	849
Merger reserve	10	**14,688**	14,688
Profit and loss account	10	**(20,398)**	7,490
Shareholders' funds		**42,631**	70,419

The financial statements on pages 59 to 63 were approved by the board and authorised for issue on 6 January 2012 and were signed on its behalf by:

Philip Leech

P A J Leech
Director

J M Austen
Director

The notes on pages 60 to 63 form part of these financial statements.

Notes to the Company financial statements
for the year ended 30 September 2011

1 Accounting policies

Accounting convention
The accounts have been prepared under UK GAAP and the historical cost convention, as modified by the revaluation of listed and unlisted investments and in accordance with the Companies Act 2006.

The directors' assessment of going concern is given in note 1 to the consolidated financial statements.

Rental income
Rental income arising from investment properties is accounted for on a straight-line basis over the term of the lease.

Share-based payments
The cost of granting share awards under the performance share plan and the other share-based remuneration to directors and other employees is recognised through the profit and loss account. The value of shares awarded is calculated by using a stochastic pricing model. The resulting fair value is amortised through the profit and loss account on a straight-line basis over the vesting period. The charge is reversed if it is likely that any non-market based criteria will not be met.

Where the company grants rights in its equity directly to an employee of a subsidiary, the transaction is accounted for as an equity-settled transaction. In the financial statements of the company, the grant of rights is recognised as a capital contribution made to the subsidiary.

Investments
The investments in subsidiary companies are included in the company's balance sheet at cost less provision for impairment. Other fixed asset investments are shown at fair value with any associated uplift taken to the investment revaluation reserve.

Dividends
Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the directors. In the case of final dividends, this is when approved by the shareholders at the AGM.

Deferred tax
Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

Financial instruments

Debtors
Debtors are recognised at invoiced values less provisions for impairment. A provision for impairment of debtors is established where there is objective evidence that the company will not be able to collect all amounts due according to the agreed terms of the debtors concerned.

Cash at bank and in hand
Cash at bank and in hand consists of cash in hand and deposits with banks.

Creditors
Creditors are recognised at invoiced amounts.

2 Profit/(loss) attributable to members of the parent company
The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements. The group profit for the year includes a loss after tax of £27,984,000 (2010: £11,217,000 loss) which is dealt with in the financial statements of the parent company.

3 Directors' remuneration

Directors' remuneration is disclosed in the remuneration report and note 6(b) of the consolidated financial statements. Details of share-based payments and awards outstanding are shown in note 23 to the consolidated financial statements.

4 Investments

Company	Subsidiary undertakings £'000	Other investments £'000	Total £'000
Cost or valuation			
At 1 October 2010	27,352	130	27,482
Disposals	—	(130)	(130)
Capital contribution on share scheme options to employees of subsidiaries	196	—	196
At 30 September 2011	**27,548**	**—**	**27,548**
Cost	27,548	—	27,548
Valuation	—	—	—
	27,548	**—**	**27,548**
Amounts written off			
At 1 October 2010	5,214	—	5,214
Written off during the year	9,562	—	9,562
At 30 September 2011	**14,776**	**—**	**14,776**
Net book value			
At 30 September 2011	**12,772**	**—**	**12,772**
At 30 September 2010	22,138	130	22,268

On a historical cost basis other investments would have been included at a net book value of £Nil (2010: £34,000).

A list of group subsidiaries is shown in note 12 of the consolidated financial statements.

5 Debtors

	2011 £'000	2010 £'000
Amounts due within one year:		
Trade debtors	**217**	431
Prepayments and accrued income	**218**	307
Amounts due from subsidiaries	**41,850**	75,968
Other debtors	**375**	163
	42,660	76,869

6 Creditors

	2011 £'000	2010 £'000
Amounts due within one year:		
Trade creditors	**520**	577
Accruals and deferred income	**1,209**	678
Amounts due to subsidiaries	**10,865**	27,359
Other creditors	**449**	147
	13,043	28,761

Notes to the Company financial statements
for the year ended 30 September 2011
continued

7 Related party transactions

The company has taken advantage of the exemption allowed by FRS 8 "Related Party Transactions" not to disclose any transactions with entities that are 100% owned by Terrace Hill Group plc. Disclosures with other related parties are given in the group consolidated financial statements at note 25.

8 Deferred tax

The balance sheet deferred tax asset arises in respect of the share option scheme and the movement in the year is shown below:

	2011 £'000	2010 £'000
At 1 October 2010	103	20
Credited to the profit and loss account	59	83
At 30 September 2011	**162**	103

9 Called up share capital

	2011 £'000	2010 £'000
Authorised		
500,000,000 (2010: 500,000,000) ordinary shares of 2 pence each	10,000	10,000
200,000 cumulative 8% redeemable preference shares of £1 each	200	200
44,859 convertible shares of 20 pence each	9	9
32,551,410 deferred shares of 2 pence each	651	651
	10,860	10,860
Allotted, called up, and fully paid		
211,971,299 (2010: 211,971,299) ordinary shares of 2 pence each	4,240	4,240

10 Reserves

	Share scheme reserve £'000	Share premium £'000	Revaluation reserve other £'000	Own shares £'000	Capital redemption reserve £'000	Merger reserve £'000	Profit and loss account £'000
At 1 November 2009	73	43,208	50	(609)	849	14,688	18,707
Loss for the period	–	–	–	–	–	–	(11,217)
Share-based payment	384	–	–	–	–	–	–
Gain on revaluation of investments	–	–	46	–	–	–	–
At 1 October 2010	457	43,208	96	(609)	849	14,688	7,490
Loss for the year	–	–	–	–	–	–	(27,984)
Share-based payment	196	–	–	–	–	–	–
Reserve transfers	–	–	(96)	–	–	–	96
At 30 September 2011	**653**	**43,208**	**–**	**(609)**	**849**	**14,688**	**(20,398)**

Details of own shares held by the Employee Benefit Trust are shown in note 23 to the consolidated financial statements.

11 Reconciliation of movement in shareholders' funds

	2011 £'000	2010 £'000
Loss for the financial year	(27,984)	(11,217)
Gain on revaluation of investments	—	46
Share-based payment	196	384
Net reduction to shareholders' funds	(27,788)	(10,787)
Opening shareholders' funds	70,419	81,206
Closing shareholders' funds	42,631	70,419

12 Financial commitments

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

	Land and buildings 2011 £'000	Land and buildings 2010 £'000
Operating leases which expire:		
After five years	1,225	1,245
	1,225	1,245

13 Contingent liabilities and guarantees

The company has given a guarantee of £15.0 million (2010: £15.0 million) as part of the security arrangements for the bank facilities of Terrace Hill Residential PLC, one of its associated undertakings. In the 2011 financial statements the company has included within payables an amount of £917,000 (2010: £Nil), being the shortfall between property values and the bank loan of its associate. The company has also given a guarantee of £600,000 (2010: £Nil) as part of the development obligations of another of its associated undertakings.

14 Controlling party

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

Summary five-year financial history

	Unit	Year ended 30 September 2011	Eleven months ended 30 September 2010 Restated	Year ended 31 October 2009 Restated	Year ended 31 October 2008	Year ended 31 October 2007
		IFRS				
Revenue	£'000	**67,766**	30,747	29,065	63,366	68,849
Profit/(loss) before tax	£'000	**(10,239)**	17,874	(61,919)	(31,602)	18,138
Tax	£'000	**(184)**	(2,818)	3,135	4,327	(3,577)
Profit/(loss) after tax	£'000	**(10,423)**	15,056	(58,784)	(27,275)	14,561
Dividends per share	pence	**—**	—	—	1.34	1.90
Basic earnings per share	pence	**(4.94)**	7.14	(27.87)	(12.90)	7.33
Diluted earnings per share	pence	**(4.94)**	7.14	(27.87)	(12.90)	7.09
EPRA triple net assets	pence	**26.60**	34.50	26.56	53.39	83.72
Ordinary shares in issue	number	**211,971,299**	211,971,299	211,971,299	211,971,299	211,971,299
Ordinary shares – mid market at 30 September/31 October	pence	**17.88**	18.25	17.00	24.00	71.50

The financial information shown above for the years 2007 to 2011 was prepared under IFRS. Dividends per share comprise the interim dividend paid in the year plus the final dividend in respect of the year paid after the year end.

Shareholder information

Shareholder analysis as at 30 September 2011

Size of holding	Number	Number of shares	%
1–1,000	126	56,609	0.03
1,001–10,000	636	3,255,981	1.54
10,001–100,000	542	15,099,445	7.12
100,001–1,000,000	51	17,094,817	8.06
1,000,001 and over	13	176,464,447	83.25
	1,368	211,971,299	100

London Stock Exchange

The ordinary shares of the company are traded on AIM with code THG.

Share price (pence per ordinary share)

1 October 2010	18.25
30 September 2011	17.88

Financial calendar

Annual General Meeting	1 March 2012
Half year results	June 2012
Full year results	December 2012

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the design portfolio marketing services.
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