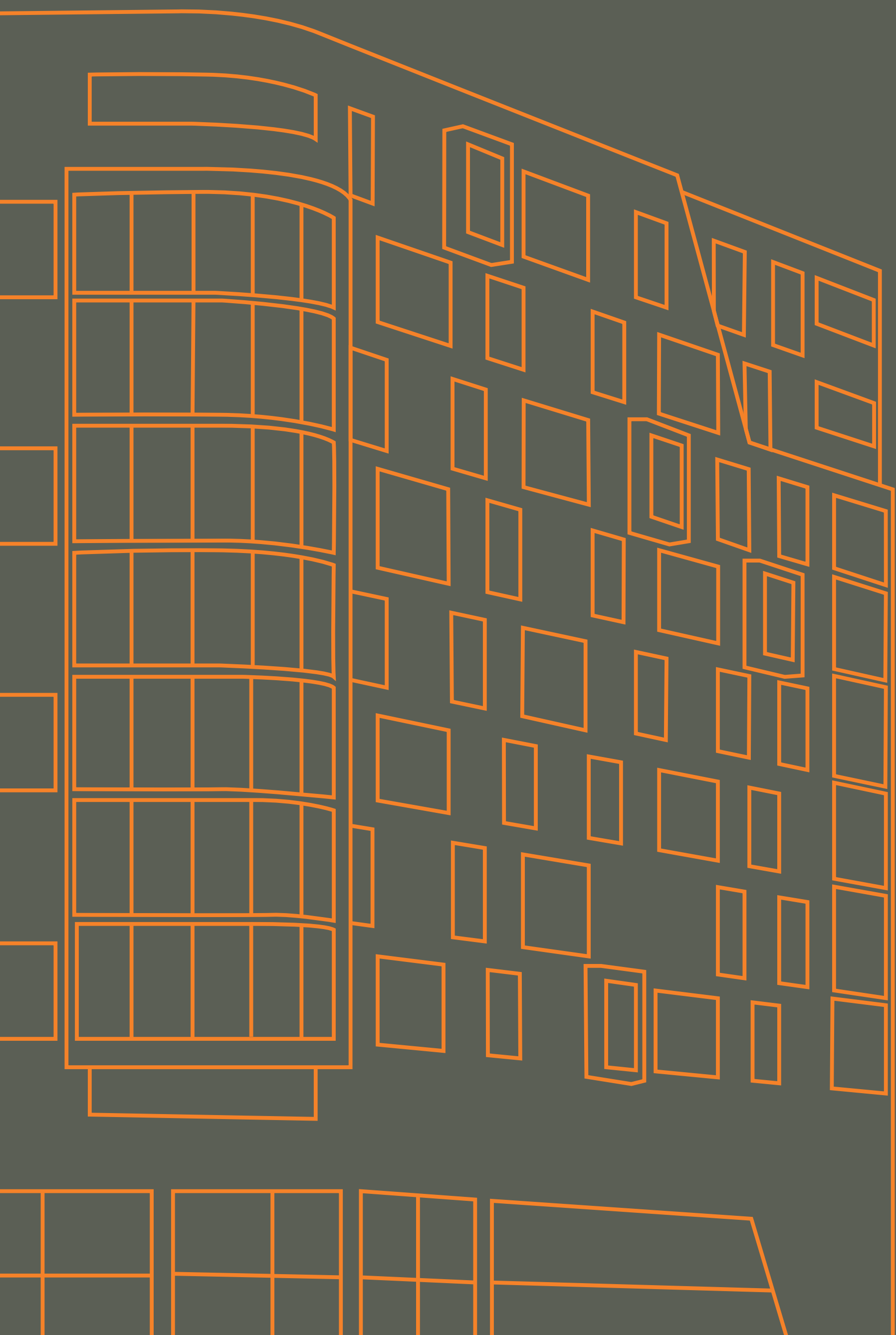
TERRACE HILL GROUP PLC

# Annual Report and Accounts 2013



TERRACE HILL

**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.**

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## FEATURED CONTENT







**EPRA NET ASSET VALUE PENCE PER SHARE**

28.8p +1.7%
2012: 28.3p

**EPRA TRIPLE NET ASSET VALUE PENCE PER SHARE**

27.7p +3.2%
2012: 26.8p

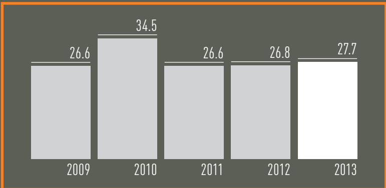
**PROFIT BEFORE TAX INCLUDING DISCONTINUED OPERATIONS**

£6.2m +344.4%
2012: £1.8m

**BALANCE SHEET GEARING REDUCED TO**

28.6% –63.4%
2012: 78.2%

**EPRA TRIPLE NET ASSET VALUE PENCE PER SHARE**

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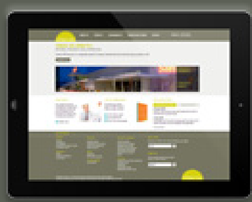


## FINANCIAL HIGHLIGHTS

- EPRA Net Asset Value (NAV) per share increased by 1.7% to 28.8 pence (30 September 2012: 28.3 pence) while EPRA Triple NAV per share increased by 3.2% to 27.7 pence (30 September 2012: 26.8 pence)
- IFRS profit before tax including discontinued operations of £6.2 million (30 September 2012: £1.8 million)
- IFRS net assets increased by 10.6% to £55.5 million from £50.2 million at 30 September 2012
- Significant reduction in the group's level of debt and gearing:
  - Net debt reduced by 62.9% to £17.5 million, from £47.2 million at 30 September 2012
  - Gearing* percentage of 28.6%, down from 78.2% at 30 September 2012 and 86.0% at 30 September 2011
  - Look-through net gearing (including its share of joint ventures and associated undertakings) fell sharply to 29.0%, from 142.1% at 30 September 2012

* As a percentage of EPRA net assets.

## OPERATIONAL HIGHLIGHTS

- Sale of virtually all residential assets, in line with stated strategy, including a portfolio of 901 residential properties to the RSL Places for People for £68.0 million
- Significant progress with commercial development programme, with completion of three foodstore developments in Sunderland, Sedgefield and Skelton
- Completion of development at Howick Place, Victoria, in November 2012, comprising 135,000 sq ft of offices and 25,300 sq ft of residential apartments. The majority of the residential apartments either let or sold and the top office floor let as the UK head office of Giorgio Armani
- 1,104 room student accommodation development at Mayflower Halls, Southampton, on track to be delivered for 2014 academic year. Scheme forward funded by Legal & General Property, which was attracted to the 38 year lease entered into by the University of Southampton
- Resolution to grant planning consent received for a 125,000 sq ft foodstore and retail development in Middlesbrough, which has been conditionally pre-let to Sainsbury's, a Marston's public house, a drive-through KFC and a coffee outlet
- Strong pre-letting activity at our planned leisure scheme in Darlington, with agreements signed with Vue Cinemas, Whitbread and Prezzo
- Conditional contract signed with Glasgow City Council to develop a 35,000 sq ft restaurant led scheme at Broomielaw, on the river Clyde

**Terrace Hill is a thriving property development business with a strong order book and project pipeline. Our business operates in three divisions: foodstores, London office and mixed-use developments and regional developments across the UK.**

# DIVISIONS OVERVIEW

Terrace Hill's strategy is to produce superior shareholder returns through carefully risk managed property development and investment. The group's current focus is on out of town foodstores, Central London office and residential schemes and regional opportunities.

## FOODSTORES

### CURRENT ACTIVITY

| | |
|---|---|
| NUMBER OF PROJECTS: | 4 SITES |
| GROSS DEVELOPMENT VALUE (£M): | £120.9M |
| TOTAL PROJECTS SIZE (SQ FT): | 300,000 SQ FT |

### FOODSTORES IN BRIEF

Terrace Hill Group has become one of the market leaders in foodstore developments and has formed good working relationships with the major foodstore operators. Our skill in navigating planning policy is of special interest to the retailers as they strive to fulfil their new store requirements.

P09 Read more about our foodstore developments: Operational review, p09

## LONDON OFFICES/MIXED-USE

### CURRENT ACTIVITY

| | |
|---|---|
| NUMBER OF PROJECTS: | 2 SITES |
| GROSS DEVELOPMENT VALUE (£M): | £215.0M |
| TOTAL PROJECTS SIZE (SQ FT): | 197,000 SQ FT |

### LONDON DEVELOPMENTS IN BRIEF

The Central London office market has recently been the subject of significant overseas investment which has resulted in strong competition for opportunities. We currently have two high profile schemes and are actively pursuing others.

P09 Read more about our London developments: Operational review, p09

## DEVELOPMENT KEY FACTS

### PROVIDING RETAIL SPACE

Since 2008 we have completed deals involving seven stores with a total area of over **500,000 sq ft**

### SIGNIFICANT INVESTMENT

Gross development value of foodstores built out **£180.0m**

### BOOMING LONDON

Over the past 12 years Terrace Hill has completed nine schemes in the West End and Covent Garden worth **£290.0m** equating to **350,000 sq ft**

### RECOVERY IN THE REGIONS

With over 20 years' experience developing office, retail and industrial property, Terrace Hill is in a unique position to take advantage of a recovering UK economy

## REGIONAL OPPORTUNITIES

### CURRENT ACTIVITY

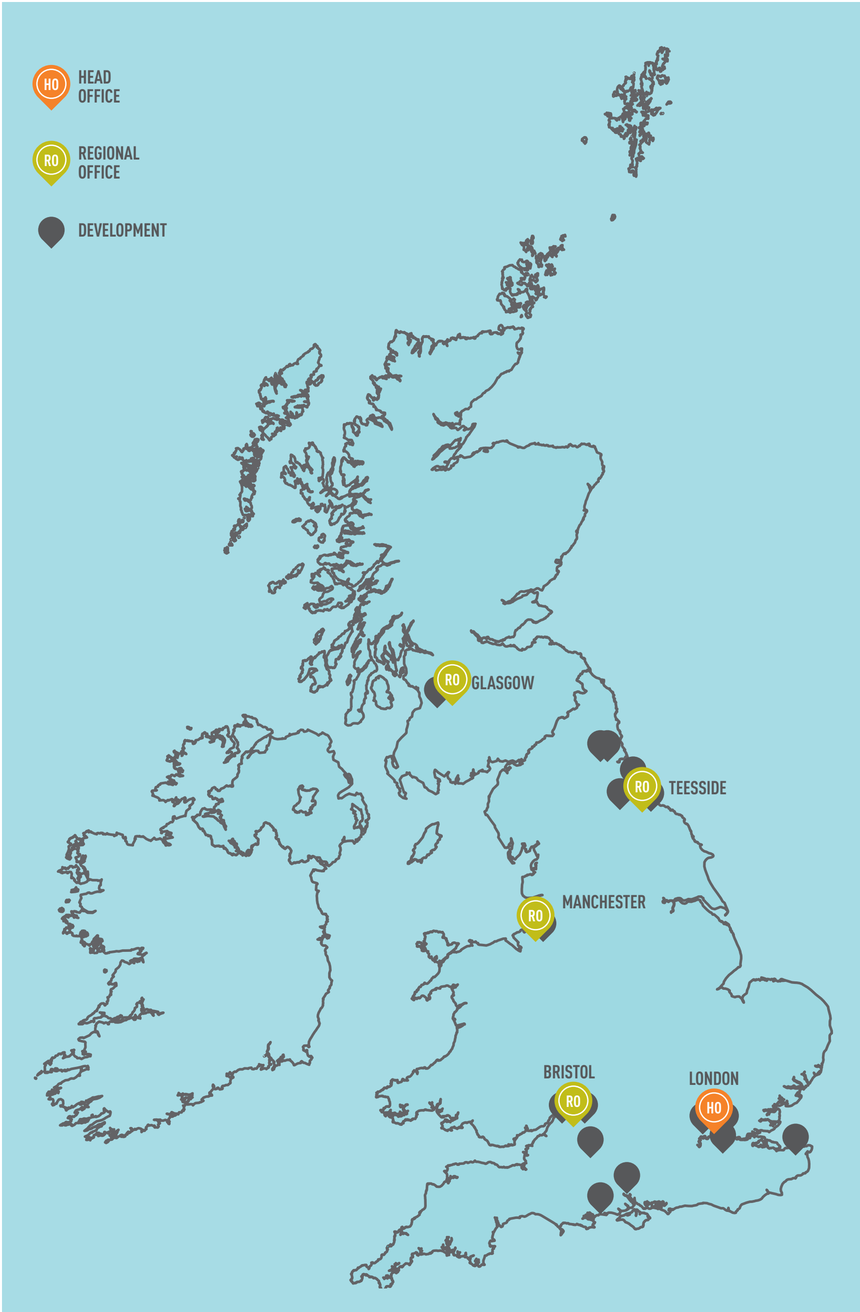
| | |
|---|---|
| NUMBER OF PROJECTS: | 10 SITES |
| GROSS DEVELOPMENT VALUE (£M): | £298.5M |
| TOTAL PROJECTS SIZE (SQ FT): | 897,000 SQ FT |

### REGIONAL DEVELOPMENTS IN BRIEF

We have over 20 years of experience in office, retail and industrial development in the regions. Regional markets are showing signs of recovery and our regional offices will allow us to maximise opportunities.

P10 Read more about our regional developments: Operational review, p10

## DEVELOPMENT LOCATIONS



**"The past 12 months have been transformational for the group with the completion of the sale of virtually all of the remaining residential assets and significant progress with the commercial development programme."**

**ROBERT ADAIR**
EXECUTIVE CHAIRMAN

## STATEMENT SUMMARY

- The group's EPRA (NAV) increased to 28.8 pence per share and our EPRA Triple Nav rose to 27.7 pence per share
- The group made an IFRS profit before tax including discontinued operations of £6.2 million
- The group made a pre-tax revenue profit in the year of £6.4 million
- The group's net debt reduced from £47.2 million to £17.5 million

I have great pleasure in presenting our financial results for the year ended 30 September 2013.

The past 12 months have been transformational for the group with the completion of the sale of virtually all of the remaining residential assets and significant progress with the commercial development programme.

The group made an IFRS profit before tax including discontinued operations of £6.2 million in the year (2012: £1.8 million) and a pre-tax revenue profit in the year (which is profit before valuation movements and contributions from associates) of £6.4 million compared with £11.8 million for the year ended 30 September 2012, the reduction largely due to lower foodstore profits in the year. The majority of our profits on our Sunderland, Sedgefield and Skelton foodstore projects were recognised in 2012. This year the profits were mostly earned in the first half, with the final elements of profit on the three foodstore developments and the recognition of profits on the forward funding of our Southampton student accommodation scheme all happening in the first half of the year. The group's EPRA Net Asset Value (NAV) increased by 1.7% to 28.8 pence per share at 30 September 2013 (28.3 pence per share at 30 September 2012) and our EPRA Triple NAV rose by 3.2% to 27.7 pence per share (26.8 pence per share at 30 September 2012). The EPRA NAV includes adjustments to reflect the market value of our development properties, where value is above cost and our EPRA Triple NAV makes an adjustment for goodwill.

In February 2013, we completed the sale of a portfolio of 901 residential properties to the RSL Places for People for £68.0 million, which included both wholly owned properties and those held by our associate, Terrace Hill Residential PLC. The sale price reflected a discount of less than 1% of carrying value. The group subsequently bought the remaining properties from Terrace Hill Residential PLC in a transaction valued at £5.3 million, the majority of which have subsequently been sold to owner occupiers and investors at prices reflecting a small uplift on their purchase price. These residential sales have had a meaningful effect on the group's overall gearing which, due also to the successful commercial development activities during the year, has fallen to 29.0% at 30 September 2013 on a look-through basis (142.1% at 30 September 2012). We are comfortable with this gearing level.

Our commercial development programme has produced some extremely good returns over the year. I am also encouraged by the increasing levels of activity and opportunity in the regions, which play to the strengths of our regional office network.

Of particular note has been the completion of the three foodstore developments in Sunderland, Sedgefield and Skelton as mentioned above. In aggregate these amounted to a total of 189,000 sq ft of new floor space, reflecting a gross development value of £64.5 million. Since the year end we have received a resolution to grant planning consent for a 125,000 sq ft foodstore and retail development in Middlesbrough, which has been conditionally pre-let to Sainsbury's, along with a Marston's public house, a drive-through KFC and a coffee outlet. We expect to start construction in spring 2014. Other significant foodstore schemes are for a 99,653 sq ft store at Herne Bay in Kent, where, after some delay, we expect to gain consent early next year, a site in Midsomer Norton in Somerset, with potential for retail, and residential uses and a smaller foodstore site in Stokesley, North Yorkshire. Our EPRA NAV at 30 September 2013 includes 0.7 pence per share in respect of market value adjustments relating to these developments.

We are constantly evaluating a large number of foodstore opportunities and, despite certain retailers' pronouncements about restraining large store expansion, we have found there remains good demand for the optimal sized store in the right location. Our expertise in this field through our regional offices and strong track record will continue to sustain our pipeline of developments in this profitable sector.

Elsewhere in the regions we are seeing increased activity, particularly in the leisure and student accommodation sectors. At Southampton we are on programme to complete our £91.0 million pre-let and forward funded 1,104 student room scheme which we are due to handover to the University next summer. We have also been appointed the preferred developer of a 450 room student scheme in another South coast town.

"The group is now well positioned for growth. The sale of the residential assets has allowed us to focus on our core strength of commercial development and reduce our gearing while strengthening our balance sheet."

Demand from leisure operators is strong and in Darlington, where we expect planning to be granted before the end of the year, we have pre-let part of our planned leisure scheme to Vue Cinemas, Whitbread and Prezzo. We have also entered into a conditional contract with Glasgow City Council to develop a restaurant led scheme of 35,000 sq ft at Broomielaw, fronting the Clyde, and we are close to conditionally acquiring another leisure site in a North West town.

In Central London, our development at Howick Place in Victoria, which we carried out in association with Doughty Hanson, is attracting letting interest and we have let the top floor to Giorgio Armani for its UK head office. With the rapid increase in the capital values of office and residential space in London we expect to see good returns to us from this £170.0 million mixed-use development. Our other exposure in Central London is a 29,000 sq ft retail and office development in Mayfair, on the corner of Conduit Street and Savile Row, where we act as development managers for the owners. Our performance related remuneration on this scheme is likely to exceed our initial expectations as this area of the London market continues to attract strong investor and occupier interest.

It is apparent that the Central London market is now attracting investors from most corners of the globe and this has led to a highly competitive market with escalating values. Whilst we are finding it hard to compete for new opportunities in this environment, we continue to assess situations where we believe we can add value.

It is very clear to me that the group is now well positioned for growth. The sale of the residential assets has allowed us to focus on our core strength of commercial development and reduce our gearing while strengthening our balance sheet. As the overall economy starts to improve we are seeing increased activity across sectors and regions, which plays to our particular strengths of cross-sector skills and our regional presence. We will give increasing attention to building up an investment portfolio which will provide recurring income to help cover our administrative costs.

The re-rating of our share price, which has recently traded above our EPRA NAV, is a pleasing indication that investors are beginning to recognise the strength of our business and underlying value, and with the reduction in financial gearing and improved financial performance, we expect shortly to recommence payment of dividends.

Finally, I would like to thank all who have helped the group during this transformational period especially the hard-working directors and staff who always work with great skill and enthusiasm.

Robert FM Adair

**Robert F M Adair**
Executive chairman
12 December 2013

"Our business is focused on commercial property development, which we execute through our five offices in key areas of the UK. We have property professionals in these offices whose expertise and detailed knowledge of their local markets gives us a competitive edge over those without such coverage."

PHILIP LEECH
CHIEF EXECUTIVE

## STATEMENT SUMMARY

- We limit risk in our development activity by typically entering into conditional site purchases, pre-letting agreements, forward fundings and joint ventures
- Our historic success in the foodstore sector has been due to several factors, but especially our local knowledge gained through our regional offices and our excellent relationships with the food retailers
- The Central London office property investment market has been characterised recently by the weight of overseas capital which is relatively indifferent to the immediate returns available from such investment
- We believe that the regional markets are now recovering from the recent deep recession in several aspects

### INTRODUCTION

The group strategic report provides a review of the development and performance of the business for the financial year, discusses the group financial position at the year end and explains the principal risks and uncertainties facing the business and how we manage those risks. We also outline the group's business model and strategy. This report has been prepared by the directors in accordance with the requirements of section 414 of the Companies Act 2006. The company's independent auditor is required by law to report on whether the information given in the Strategic Report is consistent with the financial statements. The auditors' report is set on page 28.

### BUSINESS MODEL AND STRATEGY

Our business is focused on commercial property development, which we execute through our five offices in key areas of the UK. We have property professionals in these offices whose expertise and detailed knowledge of their local markets gives us a competitive edge over those without such coverage. We pursue our commercial property development activity in a risk controlled but opportunistic way, which has proved to be resilient and profitable over the last 20 years.

We limit risk in our development activity by typically entering into conditional site purchases, pre-letting agreements, forward fundings and joint ventures. In this way our capital commitment to any one project is limited while careful structuring of the agreements that we enter into ensures that our exposure and return is commensurate with the risks we take.

Our main areas of development are currently foodstores, Central London offices and regional opportunities.

### FOODSTORES

We have built a recognised expertise in out of town foodstore development since 2008, having completed deals involving seven stores with a total area of over 500,000 sq ft and an estimated gross development value of over £180 million. Our historic success in this sector has been due to several factors, but especially our local knowledge gained through our regional offices and our excellent relationships with the food retailers.

There has been much written and spoken recently of the reduction in food retailers' appetite for growing the number of large format stores and their shift towards expanding their portfolio of convenience stores whilst also reducing their capital expenditure. Notwithstanding this we remain successful in using our knowledge to help retailers meet their new store needs, in particular as most have gaps in their geographic coverage that they want to fill. We are cognisant of the impact that the internet has on how people shop and in light of this, we continue to source the optimal size stores in the right locations for our foodstore clients. Our ability to navigate national and local planning policy remains a core skill of the group and is a key driver of demand from the food retailers. The food retailers' reduction in capital expenditure means that they are more likely to lease than own their new stores, which also increases their requirement for external help from developers.

Our financial model for developing foodstores has typically been to conditionally acquire sites. While this results in us sharing some land value accretion with the landowner, it also reduces our risk and exposure significantly and allows

## “The group has a long track record of successful office development in Central London with nine schemes completed over the past 12 years representing approximately 350,000 sq ft and £290 million of gross development value.”

### GATEWAY, MIDDLEHAVEN

**PROJECT STATUS: DECEMBER 2013**

% COMPLETE

Start: mid 2014 — Finish: mid 2015

**KEY FACTS**

| | |
|---|---|
| LOCATION: | MIDDLESBROUGH |
| START DATE: | MID 2014 |
| COMPLETION: | MID 2015 |

We have recently gained planning consent for a 125,000 sq ft foodstore which we have pre-let to Sainsbury’s, a Marston’s public house, a KFC and a coffee outlet. The site is part of the redevelopment area adjacent to the River Tees and the development will greatly enhance the area.

us to pursue more transactions simultaneously than would be the case if we acquired sites outright. We then use our expertise in securing pre-let agreements with the food retailers and obtaining planning consent. Neither of these activities is straightforward, but our significant experience gives us a competitive advantage.

When we have secured the pre-let and planning consent we typically enter into forward funding agreements with investors who are attracted to the bond-like income that these leases typically generate.

We have a number of foodstore opportunities underway that are discussed later.

### CENTRAL LONDON OFFICES

The group has a long track record of successful office development in Central London with nine schemes completed over the past 12 years representing approximately 350,000 sq ft and £290 million of gross development value.

We typically acquire sites in joint venture with equity-rich partners who recognise and want our expertise. We structure these joint ventures so that our returns are boosted by extra returns over agreed hurdles and through development and project management fees.

The Central London office property investment market has been characterised recently by the weight of overseas capital which is relatively indifferent to the immediate returns available from such investment. This has had the effect of pushing up prices to very high levels, making it more difficult for us to secure opportunities. In addition, especially in the West End, supply is very constrained due to geography and planning restrictions, resulting in increasing rents which underpin values.

Our response to this has been to appraise office opportunities for refurbishment and changes of use, with the conversion of outdated office buildings to residential or hotel use being a recurring theme. During the last year we have bid on several such opportunities but have frequently been outbid by the overseas investors noted above. However, we remain confident of securing such opportunities in the near future and believe that the returns available to us justify our continued presence in this market. We have two such schemes in place at the moment, described in more detail later.

"Over more than 20 years the group has a track record of commercial development in the office, retail and industrial sectors in the regions."

## REGIONAL OPPORTUNITIES

The group's regional office network gives it advanced and knowledgeable insight into regional markets and opportunities. Over more than 20 years the group has a track record of commercial development in the office, retail and industrial sectors in the regions. We believe that the regional markets are now recovering from the recent deep recession in several aspects.

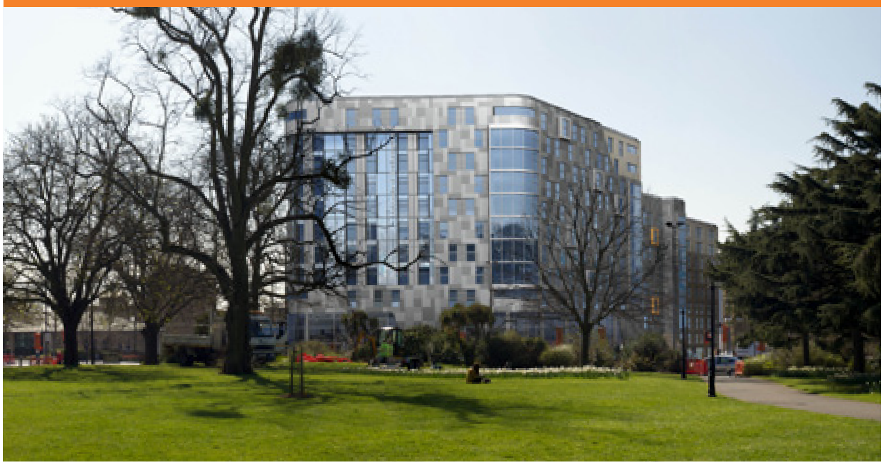
During the recession, investor and occupational demand for offices slumped resulting in yields increasing to double figures. This in turn made development unviable with the result that in many areas as the markets recover there is a shortage of new office stock.

Investor demand, particularly from those looking for return (rather than capital security), is increasing and this is having the effect of pushing values up in the regions. According to CBRE, yields have reduced for good secondary offices from around 9.0% at the peak to 8.0% in November 2013. These improved yields make office development more viable. In addition, occupier demand is returning which will translate into increased rents in the more established office markets.

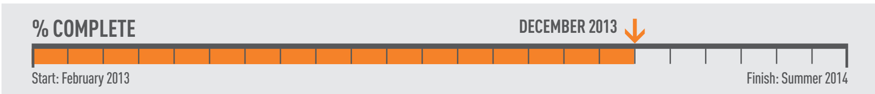
We are also focused on two other areas where we believe there are opportunities for us: student accommodation and leisure.

Demand for new student accommodation from universities is strong as they compete to attract new students and therefore need to replace older stock. The experiences from our project at Southampton (described in more detail later) have led us to find a number of new opportunities and our established skills in dealing with the planning issues that accompany such developments are attractive to the universities.

## MAYFLOWER HALLS, SOUTHAMPTON



### PROJECT STATUS: DECEMBER 2013




### KEY FACTS

| | |
|---|---|
| LOCATION: | SOUTHAMPTON |
| PROJECT SIZE: | 1,104 rooms |
| START DATE: | FEBRUARY 2013 |
| COMPLETION: | SUMMER 2014 |

This 1,104 room development in three buildings is being constructed on a site that had been un-used for nearly two decades. Construction is on programme with handover expected in time for the 2014/15 academic year.

The leisure sector is one that has proved robust through the recession and schemes centred around cinemas and restaurant chains have been able to able to attract customers who appreciate the value for money such schemes offer them. We believe our development and planning skills are particularly valuable here because, in order to make these schemes work, it is often necessary to demonstrate to planners and prospective tenants that we can create an attractive scheme with an appropriate tenant mix. We are currently working on one such scheme and have a number of others under review.

**"We continue to appraise a large number of other foodstore sites and are confident of securing new opportunities in the near future."**

## FOODSTORES

During 2013 we completed three foodstore schemes in the North East of England at Sunderland, Sedgefield and Skelton. The stores at Sunderland and Sedgefield are leased to Sainsbury's and were forward funded by third parties and developed by the group. The store at Skelton was sold to Asda which now trades from there.

We have four new sites in the planning process, as follows:

Middlesbrough – we submitted a planning application in August 2013 for a 125,000 sq ft foodstore for Sainsbury's along with a public house for Marston's, a KFC and a coffee outlet. In November we were very pleased to receive a "minded to grant" decision from the council and we have recently heard that the Secretary of State will not call it in. We expect this scheme to be attractive to funding institutions and hope to be on site commencing construction by the middle of 2014.

Herne Bay, Kent – we submitted a planning application for this c100,000 sq ft Sainsbury's store in November 2012 and expect the application to be heard early in 2014. We are confident of receiving consent and, if successful, hope to be on site by the middle of 2014.

Midsomer Norton – we entered into a conditional contract to acquire a 12.2 acre former industrial site on the edge of Midsomer Norton in 2012. We are master planning a redevelopment of this site to provide a mix of uses including a foodstore and residential area. We are negotiating the pre-letting of the foodstore with a retailer and intend to sell the residential element to a housebuilder following the grant of planning permission.

**Completed Sainsbury's store at Sedgefield, County Durham.**

Stokesley, North Yorkshire – we entered into a conditional contract to acquire 5.2 acres on the edge of this historic market town in July 2013 and are in detailed discussions with a food retailer for a 25,000 sq ft store.

We have decided not to appeal the refusal of planning consent at the St Austell site and changing occupier requirements at Prestwich have led us to abandon the original scheme, although we are working on a proposition for an alternative site in the town.

We continue to appraise a large number of other foodstore sites and are confident of securing new opportunities in the near future.

## CENTRAL LONDON OFFICES

The development at Howick Place, Victoria, completed in November 2012. The development comprises 135,000 sq ft of offices and 25,300 sq ft of residential apartments. The majority of the residential apartments have either been let or sold and the top office floor has now been let as the UK head office of Giorgio Armani. Interest in the remaining floors is strong and we expect to conclude further lettings shortly. We have carried out this development in association with Doughty Hanson.

We act as development manager for a prestigious new office and retail development on the corner of Conduit Street and Savile Row in London's Mayfair. This will be a 29,000 sq ft scheme and construction has now started. Office and retail rents have grown strongly during 2013 and we expect this trend to continue and be reflected in rents achieved at this well-placed development. We expect the returns from this development to exceed our original expectations.

> **"Our industrial scheme at Christchurch is now virtually complete, with the construction of a second 60,000 sq ft warehouse for Kondor having reached practical completion in November 2013 and the last remaining plots either sold or under offer."**

## REGIONAL OPPORTUNITIES

Our 1,104 room student accommodation scheme at Mayflower Halls, Southampton, is progressing well with the last of three buildings expected to be topped out by the end of January 2014. Fitting out of the rooms has already commenced and we are on track to deliver this scheme to the university in readiness for the commencement of the 2014 academic year. As noted previously, this development is being forward funded by Legal & General Property, which was attracted to the 38 year lease entered into by the University of Southampton.

Our leisure scheme at Darlington is progressing well. This scheme will include a nine screen cinema operated by Vue Cinemas, an 80 bedroom hotel operated by Whitbread and six restaurants. Terms have been agreed on four of the restaurant units and we expect our planning application to be heard in December 2013.

During the year we acquired an agreement with Glasgow City Council for the development of four restaurant units on the bank of the Clyde, close to the central business district of Glasgow. The scheme has planning consent and we are receiving strong interest from operators who want exposure at this well located site.

Our industrial scheme at Christchurch is now virtually complete, with the construction of a second 60,000 sq ft warehouse for Kondor having reached practical completion in November 2013 and the last remaining plots either sold or under offer.

## FEETHAMS, DARLINGTON

### PROJECT STATUS: DECEMBER 2013

% COMPLETE

Start: mid 2014 — Finish: Autumn 2015

### KEY FACTS

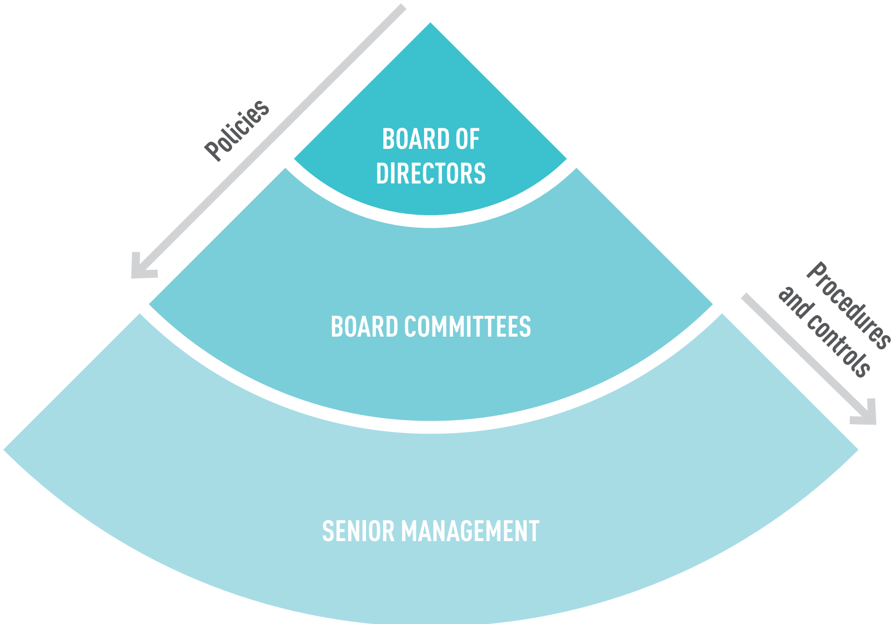
| | |
|---|---|
| LOCATION: | DARLINGTON |
| START DATE: | MID 2014 |
| COMPLETION: | AUTUMN 2015 |

This project will regenerate a 1.9 acre former bus station in Darlington town centre with a cinema, hotel and restaurant complex. A nine screen multiplex Vue cinema and 80 bed Premier Inn hotel will anchor the scheme.

**We believe that our ability to identify, measure, manage and proactively take advantage of risk gives us an advantage over our peers.**

## RISK

As we mentioned last year, we believe that our ability to identify, measure, manage and proactively take advantage of risk gives us an advantage over our peers. We cannot generate a return without facing risk but these risks must be within the levels set by our board and its committees. They are responsible for setting risk management policies, which determine our appetite to risk given the external environment.




## BUSINESS RISKS

The board and board committees meet on a regular basis to establish whether our risk appetite is consistent with our growth aspirations and the external environment. The board and its committees are responsible for setting group policy which is then communicated to senior management. Senior managers are tasked with creating procedures and controls, which are coherent with board policies and approved by the board.

The chief executive and group finance director have an open-door policy and have regular formal and informal meetings with the senior managers to ascertain how risks are being mitigated and others capitalised upon within the parameters set by the board.

Our flat organisational structure and analytical approach for assessing risk adjusted returns aligns us with the expectations of our investors.

## The principal risks and uncertainties facing the business and how we manage those risks are set out below:

| DESCRIPTION | MITIGANT | CHANGE IN THE YEAR | |
|---|---|---|---|
| **STRATEGY** | | | |
| Implementing a strategy inconsistent with the market environment and skillset and experience of the business | The group board meets quarterly to consider strategy and review progress against objectives. The chairman and directors use both their market knowledge and experience to ensure consistency with these objectives. | → | This process is unchanged from last year and we believe we have the right strategy setting procedure in place to deliver robust returns to investors. |
| **MARKET AND ECONOMIC RISK** | | | |
| A deterioration in the market in which we operate resulting in a negative impact on our results or financial condition | Detailed financial appraisals are undertaken to determine the benefit to the group of each development. These are flexed and various scenarios are modelled to establish the financial outcome on a worst-case basis. | → | Our ability to analyse appraisals and robustly challenge them has resulted in optimum capital allocation. |
| Collapse of a funding partner | Detailed counterparty credit due diligence is undertaken prior to entering into a financing arrangement with a party. Our legal agreements are binding but also flexible. | → | Our various funding partners are financially strong. |
| **DEVELOPMENT** | | | |
| Paucity of new business opportunities | The group is geographically diverse with regional offices and strong local connections to facilitate new business opportunities. | → | We have a strong pipeline of future developments. |
| Failure or delays in obtaining planning consent | The group has a wealth of experience in gaining consent within desired timescales. Our local office network ensures we have direct knowledge of local planning authorities and consultants, to develop products matching local needs. | → | We have dealt with all planning issues in a timely manner. |
| Construction delivery delays – the risk that we may become financially liable for delays due to unforeseen circumstances | Our in-house project management team uses its experience to ensure that timescales have sufficient contingency and that risks are transferred to contractors. | ↓ | One foodstore was handed over eight weeks late due to a construction issue. Careful documentation of contractual arrangements ensured we did not suffer financially. |
| Counterparty risk – contractor insolvency or bankruptcy | Detailed counterparty due diligence is undertaken prior to the contractor selection process. | → | No contractors we have used have gone into receivership or become bankrupt during the year. |
| Construction cost inflation | Our in-house project management team is responsible for negotiating fixed price construction contracts. | → | All contracts were fixed during the year. |
| Letting risk | We pre-let wherever possible, but in developments where this is not possible, we include a market driven void period and tenant incentives in the financial appraisals. Our local offices have close relationships with local and national agents to ensure lettings success. | → | All foodstores have been pre-let and the group has enjoyed good letting success in its other developments. |
| Reputational risk | The group has an excellent reputation from being in existence for over a quarter of a century and benefits from the transparency arising from an AIM listing. | ↑ | Our reputation has been enhanced this year following on from the disposal of our residential portfolio and subsequent deleveraging. |
| **COMPLETED AND LET BUILDINGS** | | | |
| Devaluation due to lower rental rates, increased voids, yield shift and building condition | Our in-house asset management team ensures that buildings are kept in good condition, thereby minimising the risk of devaluation. | → | No change. |

| DESCRIPTION | MITIGANT | CHANGE IN THE YEAR |
|---|---|---|
| **FINANCIAL** | | |
| Solvency | The group's net worth position is monitored on a monthly basis and stress tested to determine the extent by which assets exceed liabilities and to assess the likelihood of converting these assets into cash. | → The group has managed its liquidity well during the year, benefiting from the timely receipts of cash from disposing of foodstores. There have been no unanticipated interest costs and the group has been proactive in discussing refinancing with banks. |
| Liquidity | The group maintains a rolling, stress-tested cash flow forecast as a key management tool, to ensure funds are available when required. | |
| Interest rate | Our in-house treasury team models various scenarios, including interest rate shocks, to ascertain the optimal mix of fixed to floating rate debt. | |
| Refinancing | Banks are approached well in advance of debt maturity in order to refinance debt. | |
| Covenant breach | Covenants are reported regularly to banks and the board. Modelling is undertaken to determine the impact on covenants as part of the group's regular decision making process. | |
| **PERSONNEL** | | |
| Attracting and retaining the right people | We offer a competitive remuneration package which includes both short and long-term incentives.<br>We have short reporting lines and delegate authority to ensure all staff feel they are contributing to the success of the group. | → There have been no problems with regards to recruiting or retaining personnel. |
| Succession planning – over-reliance on key people | The group has a small headcount and as a result personnel work in project teams, where knowledge is shared. | → No issues to report. |
| Health and safety – the risk of damage or death resulting in delays and cost | Our contractors are compliant with relevant legislation. The group also carries appropriate insurance. | → No issues to report. |
| **ENVIRONMENT** | | |
| Not compliant with customer requirements or legislation | Our developers are up to date with both legislation and customer requirements and the group uses specialist environmental consultants where necessary. We endeavour to achieve BREEAM rating of not less than "very good" for all new developments. | ↑ The group has plans in place to address new legislation. |
| **REGULATORY** | | |
| The risk of reduced profitability due to legislation | The Executive directors and senior management are active participants in relevant bodies who represent the industry to legislators. | ↑ We are confident that the group has adequate plans in place to proactively manage new legislation. |

"Over the year, the group's EPRA NAV has increased by 1.7% to £61.3 million and our IFRS NAV has increased by 10.6% to £55.5 million."

**JON AUSTEN**
GROUP FINANCE DIRECTOR

## STATEMENT SUMMARY

- EPRA NAV and EPRA Triple NAV up by 1.7% and 3.2% respectively
- Net debt reduced by £29.7 million (62.9%) to £17.5 million
- Profit before tax including discontinued operations increased to £6.2 million from £1.8 million

### FINANCIAL RESULTS AND NET ASSET VALUE

The group's EPRA NAV increased by 1.7% in the year ended 30 September 2013 to £61.3 million (28.8 pence per share) from £60.3 million (28.3 pence per share) at 30 September 2012. The group's IFRS NAV also increased by 10.6% in the year to £55.5 million (26.2 pence per share) from £50.2 million at 30 September 2012.

EPRA NAV is a Key Performance Indicator for the group as it reflects the market value of our development properties and is therefore a better indicator of the true value of the group, whereas the IFRS NAV includes those properties at the lower of cost and net realisable value.

During the year, the increase in our EPRA NAV resulted principally from the following:

- 0.3 pence per share increase from operations;
- 0.9 pence per share increase resulting from the part release of our provision for financial guarantee for debts of an associate;
- 0.4 pence per share decrease resulting from movement in the value of our development properties;
- 0.5 pence per share decrease arising from the movement in value and sales of our residential investment properties; and
- 0.2 pence per share increase in other movements including tax and share-based payments.

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 and the write off of goodwill, increased by 3.2% to £58.9 million (27.7 pence per share) from £57.1 million (26.8 pence per share) at 30 September 2012.

### STATEMENT OF COMPREHENSIVE INCOME

Revenue for the year ended 30 September 2013 includes:

1. recognition of revenue under construction contracts and related site sales of £44.5 million in respect of our sites at Sunderland, Skelton, Sedgefield, Southampton and Christchurch;
2. rental income of £2.2 million in respect of commercial properties; and
3. rental income of £0.5 million in respect of residential properties.

Rental income of £1.1 million and related costs of £1.6 million are included in revenue and direct costs respectively in respect of the group's head office in London, where it owns a head lease.

Direct costs include directly attributable costs in respect of those revenue items mentioned above and a net charge of £0.9 million relating to the write off or provision in respect of various properties. In particular we have written off our costs of £0.6 million on the projects at Prestwich and St Austell which we are no longer pursuing.

The gross profit includes £12.5 million in respect of our sites at Sunderland, Skelton, Sedgefield, Southampton and Christchurch.

Administrative expenses for the year ended 30 September 2013 amounted to £6.1 million (2012: £4.7 million). The increase is largely due to increased variable remuneration costs.

As the group has substantially exited from the residential investment property activity, the results attributable to this have been treated as discontinued operations and the prior year comparison restated. The group reported a profit on these discontinued operations for the year ended

30 September 2013 of £0.6 million (2012: loss of £5.7 million). This profit was achieved after having written off goodwill of £0.8 million that had been previously recognised in respect of the residential activities of the group and writing back £1.8 million of a provision that had been made in earlier years in respect of the group's bank guarantee exposure to the bank that had lent to Terrace Hill Residential PLC. While the sale prices achieved on the property sales were at around our carrying value, we had to write off costs attributable to associated finance facilities and incurred selling costs. As reported in the interim statement, the group's associate, Terrace Hill Residential PLC, sold the majority of its assets in the spring this year and subsequently sold the remaining assets, valued at £5.3 million, to the group in May. This facilitated a favourable negotiation with the bank that had lent to its associate such that the group's exposure under its bank guarantee was settled at £4.2 million, which was financed by the parent company with a short-term loan from the bank of which £0.7 million was outstanding at the year end.

The group has been successful in disposing of the properties it bought from Terrace Hill Residential PLC. At the year end, £1.3 million of such properties remained to be sold of which £0.7 million had been sold by the end of November 2013. The properties sold during the financial year achieved prices in excess of the purchase price. The group entered into arrangements with its co-shareholder in Terrace Hill Residential PLC whereby any profits or losses arising on the disposal of these properties would be shared equally with its co-shareholder. At 30 September 2013 the group had provided £0.1 million in respect if these arrangements. Further information is contained in note 25 to the financial statements.

Finance income less finance costs from continuing operations amounted to £0.9 million (2012: £1.1 million). Finance income less finance costs for discontinued operations amounted to £0.7 million (2012: £0.5 million). The group paid £1.5 million of interest in the year of which £0.4 million was in respect of projects where work is currently underway and which has been capitalised.

The group's tax charge for the period of £1.3 million (2012: £0.06 million) reflects principally the restatement of our deferred tax asset to current rates of corporation tax, the utilisation of losses reflected in the deferred tax asset to shelter tax profits arising on the property sales noted above and recognition of other tax losses in the deferred tax asset.

## BALANCE SHEET

The group's IFRS net assets at 30 September 2013 were £55.5 million, an increase of 10.6% on the amount reported at 30 September 2012 of £50.2 million. Investment properties fell substantially from £15.2 million at 30 September 2012 to £0.2 million at 30 September 2013 due principally to the sale of the majority of the wholly owned residential investment properties during the year as reported earlier. The sale of the investment properties also resulted in the release of £0.8 million of goodwill attributed to the residential sector. The deferred tax asset of £5.2 million is lower than 2012 due to losses being utilised in the year and partially offset by previously unrecognised losses recognised

## CALCULATION OF EPRV NAV AND EPRA TRIPLE NAV (UNAUDITED)

| | 30 September 2013 £'000 | 30 September 2013 Number of shares 000s | 30 September 2013 Pence per share | 30 September 2012 £'000 | 30 September 2012 Number of shares 000s | 30 September 2012 Pence per share |
|---|---|---|---|---|---|---|
| **Audited Net Asset Value** | **55,549** | **211,971** | **26.21** | 50,213 | 211,971 | 23.69 |
| Revaluation of property held as current assets | **5,711** | | | 10,026 | | |
| Shares to be issued under the LTIP | **12** | **595** | | 12 | 595 | |
| **EPRA NAV** | **61,272** | **212,566** | **28.82** | 60,251 | 212,566 | 28.35 |
| **Increase %** | | | **1.7%** | | | |
| Goodwill | **(2,365)** | | | (3,188) | | |
| **EPRA Triple NAV** | **58,907** | **212,566** | **27.71** | 57,063 | 212,566 | 26.85 |
| **Increase %** | | | **3.2%** | | | |

## BALANCE SHEET CONTINUED

due to increased certainty that they will be utilised in future years. Development properties fell from £70.3 million at 30 September 2012 to £58.2 million at 30 September 2013 principally due to the sale of the Southampton student accommodation site to Legal & General Property as part of its forward funding of that project. Trade and other receivables have reduced by £2.7 million to £14.6 million at 30 September 2013 due principally to amounts included at 30 September 2012 in respect of the three foodstores (Sunderland, Skelton and Sedgefield) having been received during the year. At 30 September 2013, there is £6.6 million due under the funding agreement for the Southampton student accommodation project. Trade and other payables have reduced from £16.5 million at 30 September 2012 to £8.9 million at 30 September 2013, reflecting the £6.0 million guarantee over the debts of its associate that has now been fulfilled or released to the income statement as noted above. Other movements are due to amounts included at 30 September 2012 in respect of the three foodstores that have been satisfied in the year.

The group regards its gearing level as a Key Performance Indicator and is pleased that its gearing has improved considerably during the year. Net debt as a percentage of EPRA net assets was 28.6% at 30 September 2013 compared with 78.2% at 30 September 2012. The quantum of net debt has also reduced significantly to £17.5 million at 30 September 2013 from £47.2 million at 30 September 2012. The group's look-through net gearing, which includes its share of the net debt in those joint ventures and associated undertakings in which it has ongoing liabilities, fell substantially from 142.1% at 30 September 2012 to 29.0% at 30 September 2013 with the group's net debt, including its share of joint ventures and associated undertakings as above, also falling sharply, from £85.7 million at 30 September 2012 to £17.8 million at 30 September 2013. The reasons for these substantial improvements are that firstly, the group completed three foodstore developments during the year, second, entered into the forward funding of the Southampton student accommodation scheme and last, sold the vast majority of the residential properties both wholly owned and in the group's associate, Terrace Hill Residential PLC. Net debt and gearing have increased slightly since the half year as the group bought in the last residential properties owned by Terrace Hill Residential PLC as noted above which were financed largely by a bank loan of £4.2 million and the residual liability under a guarantee in respect of the associate's bank facility was discharged and financed by another loan.

## FINANCIAL RESOURCES AND CAPITAL MANAGEMENT

The group funds itself through its share capital, cash and debt facilities. As the group has not raised new share capital for some time, the group focuses its attention on the management of its cash and debt position. The group is not subject to externally imposed capital requirements and meets its objectives for managing its capital by ensuring that it operates within the constraints imposed by the availability of cash and debt and by ensuring that it meets the various financial covenants that apply to its debt. The group regards its gearing ratios as key ratios for the purposes of managing its financial resources and the 24-month cash forecast as a key management tool.

## SUMMARY OF LOAN TO VALUE RATIOS OF GROUP PROPERTY

| | September 2013 | September 2012 |
|---|---|---|
| Commercial property | **29.0%** | 52.2% |
| Residential property | – | 76.7% |
| **Total** | **28.3%** | 49.2% |

**NET DEBT**

£17.5m −62.9%
2012: £47.2m

**NET GEARING**

28.6% −63.4%
2012: 78.2%

**EPRA NAV PENCE PER SHARE**

28.8p +1.7%
2012: 28.3p

Our net debt reduced in the period by £29.7 million and our gross debt by £27.0 million for the reasons mentioned above. The most significant cash outflows were in relation to development expenditure on our active development projects and our administrative expenses.

We have achieved a number of re-financings during the year. In particular, we have re-financed one loan of £14.8 million for a further two years and which now matures on 30 September 2015.

The average maturity of group debt is now 19.0 months (2012: 12.5 months) with a weighted average margin of 3.25% (2012: 3.30%). The maturity of joint ventures and associated undertaking debt is now 18.4 months (2012: 19.9 months) with a weighted average margin of 3.5% (2012: 2.9%), represented by one loan.

We have noticed a significant increase in the appetite of banks to lend to development groups, concentrating on projects which are pre-let or pre-sold, with loan to value or loan to cost ratios approaching more normal levels and competition among banks is returning. It is refreshing to be able to write about such matters after several years of very difficult times and we expect to be able to take advantage of the current market conditions.

The group continues to monitor interest rates closely and continues to believe that the risk of rates rising in the short term is limited although greater than before as the economy improves. With the group's bank debt at relatively low levels and with specific debt strategies in place for that debt, the group has not entered into any interest rate hedging agreements and consequently continues to benefit from the very low current LIBOR rates. The joint venture and associated undertaking debt loan is not hedged.

The group also monitors its cash resources and future cash flows very closely through its comprehensive 24-month rolling cash forecast. The group regularly updates the cash forecast and stress tests the underlying assumptions to ensure that the group has sufficient resources to execute its strategy for the foreseeable future.

**P A J Leech**
Director
12 December 2013

**J M Austen**
Director

## DEBT EXPIRY PROFILE

| | On balance sheet £m | Off balance sheet* £m |
|---|---|---|
| Bank loans and overdraft repayable in one year | 7.4 | – |
| Bank loans repayable in more than one year | 18.7 | 0.3 |
| **Total** | **26.1** | **0.3** |

* Group share.

## SUMMARY OF DEBT POSITION

| | **September 2013** | September 2012 |
|---|---|---|
| Net debt | **£17.5m** | £47.2m |
| Net gearing | **28.6%** | 78.2% |
| Net debt including share of joint venture and associated undertaking debt | **£17.8m** | £85.7m |
| Total net gearing | **29.0%** | 142.1% |
| Loan to value | **28.3%** | 49.2% |

The net gearing and loan to value percentages shown above are in relation to our EPRA NAV. The joint venture and associated undertaking debt is of no recourse to the group.

**Our commitment to the concepts of transparency and honesty result in a virtuous circle, helping us to enhance our credibility, recruit the best people, who bring in new business and who work in an ethically and morally correct way with our counterparts, which further enhances our credibility.**

## EMPLOYEES

Employees are provided with flat reporting lines, a collaborative environment conducive to working in cross-disciplinary teams and an open-door policy where senior managers are given the entrepreneurial flexibility to actively seek new business opportunities. We believe that this gives us a sustainable competitive advantage over our peers.

### PROGRESS FROM 2012

#### Recruitment

We have a non-discriminatory recruitment policy, where people are recruited based upon their ability to perform well in the role and after undergoing a rigorous selection process. We have never faced a claim under our equal opportunities, harassment or discrimination policies.

All new employees have a bespoke induction programme created for them in order to understand our culture from day one.

- All recruitment during the year has been undertaken in line with the above mentioned policy and no employee has made a complaint for harassment or discrimination.

#### Training and development

We have a small and highly skilled workforce who are encouraged to study for professional exams where appropriate and are given study assistance in the form of fees and leave. Qualified staff are also encouraged to keep up to date with their CPD accreditation. This is particularly relevant with regards to health and safety regulations. The training needs of all staff are reviewed annually and we believe that these policies will continue to keep us at the vanguard of desirable employers.

- Employees have enrolled and attended courses where a requirement has been identified and all relevant staff have attended CPD accredited courses.

#### Retention

Employees are appraised annually on their performance and salaries benchmarked accordingly. Bonuses are paid, where relevant, for short-term performance and all staff benefit from a long-term incentive programme. In addition to this, staff are encouraged to work flexibly.

- The benefit of our retention policy can be seen in the following table:

| | Total number of staff | Average length of service (years) |
|---|---|---|
| Property | **14** | 9.6 |
| Finance | **8** | 6.8 |
| Administration | **5** | 8.5 |
| Total | **27** | 8.6 |

## COMMUNITY

All of the contractors we have used during the year have been members of the Considerate Constructors Scheme. This means that as much as possible is done to minimise disruption to our neighbours during the building phase.

As part of the planning process, we ensure that we create schemes that enhance the local area, as opposed to diminishing it. This makes business sense for us, as it adds to the weight of evidence that we collate to support our planning application. This evidence also includes the number of jobs being created and the reduction in miles travelled (and consequential $CO_2$ emissions) to alternative developments.

### FEETHAMS

We estimate that this development will create between 269 and 328 jobs in total.

The company is involved in an archaeological survey with Durham University in order to determine whether there are any historically important artefacts under the site which were not detected the last time it was developed. Anything of interest found will be displayed in a local museum.

### CHARITY

During the year, several staff members undertook sports challenges to raise funds for charity. In addition to this, the group committed to supporting "Space for Giants", a charity protecting elephants.

## ENVIRONMENTAL

Our approach is simple. Less waste equals enhanced shareholder returns. Our tenants and the end-buyers of our product all have green targets to meet and we therefore ensure our developments meet their needs. Our project management team is involved in the design of the buildings we develop from the outset, often sitting with the architect to ensure that wastage is minimised and that value is assembled at the start to ensure that our sustainability criteria are adhered to. The following case studies prove this point:

### FEETHAMS, DARLINGTON

This mixed-use, development comprises a nine screen Vue cinema, an 80 bed Premier Inn hotel, and a range of commercial units for restaurant, bar and leisure uses. It is on a central brownfield site, previously a bus depot, until its clearance in 2009. The site has recently been used for car parking. The redevelopment will include space for 60 cycles. It has been designed to promote sustainable transport links with key pedestrian access orientated to the railway station to the South East and the main town bus drop-off on Feethams Lane. In addition to the required "Very Good" BREEAM requirements, the projected Building Regulations Part L "U" values have been exceeded to reduce energy use with further acoustic enhancements to the cinema to reduce noise nuisance. Grey-water recycling is incorporated into the hotel along with sustainable technologies to provide 30% of the hotel's heating, cooling and water heating from renewable sources, adding to the overall reduction in energy usage for the development.

### YORK STREET, MANCHESTER

Terrace Hill is appointed under a Development Management Agreement for the redevelopment of this primarily redundant site in central Manchester as a 84,000 sq ft grade A commercial office and retail space. The scheme is being developed to meet BREEAM "Excellent" criteria and includes basement retention for provision of cycle storage, shower and changing facilities and limited car parking, a brown roof habitat and a sustainable drainage strategy. Alongside low air permeability targets, high efficiency lighting and plant, zonal controls and metering of energy usage and solar shading, the scheme incorporates PV panels to the roof, partial air source heat pump and partial heat pump boiler technology as low and zero carbon systems.

**ROBERT ADAIR MA ACA CTA FGS (57)**
EXECUTIVE CHAIRMAN

Robert founded Terrace Hill in 1986. He is non-executive chairman of Petroceltic International plc, quoted on AIM, and a number of other private companies.

**PHILIP LEECH (50)**
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 (57)**
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. He was previously chief financial officer at Arlington Securities Limited and before that Pricoa Property Investment Management.

**SECRETARY**
J M Austen BSc FCA

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**REGISTERED NUMBER**
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**WILL WYATT (45)**
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, Cobehold SA, a Belgian-based investment company, Real Estate Investors PLC, a Birmingham-based listed property business, Sterling Industries plc, a listed engineering group, and chairman of the advisory board of TGE Marine AG, a specialist gas engineering business.

Will represents Caledonia Investment plc who owns 8.3% of the issued share capital of the company and is therefore considered non-independent.

**ROBERT DYSON MSc FRICS (65)**
NON-EXECUTIVE DIRECTOR (INDEPENDENT)

Bob is a chartered surveyor and former chairman of the North West region of property advisers Jones Lang LaSalle from where he retired at the end of 2013. Throughout his career he specialised in commercial investments and developments. Bob is also a non-executive director of the Manchester Building Society.

**NICK GASKELL ACA (64)**
NON-EXECUTIVE DIRECTOR

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

Nick is involved in the management of the trusts that hold the majority of the chairman's shareholding in the company and is therefore considered non-independent.

The board has given consideration to the new UK Corporate Governance Code (the Code) issued by the Financial Reporting Council (FRC) in September 2012 and applicable for listed companies for financial periods starting on or after 1 October 2012, the Quoted Companies Alliance Corporate Governance Guidelines (the Guidelines) for smaller quoted companies published in 2013 and the Corporate Governance and Voting Guidelines for AIM companies published by the NAPF in December 2012.

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, although it is the group's intention to appoint a further independent non-executive director in due course. The board recognises the benefits of gender diversity and will continue to ensure that this is taken into account when considering any particular appointment, although the group believes that selection should be determined on the basis of the best person for the role. The biographies of each director are contained on pages 20 and 21.

The board is responsible for the overall strategy and direction of the group and meets regularly throughout the year on informal bases as well as in formal board meetings. The chairman is responsible for leading the board and its effectiveness and the chief executive is responsible for day to day management of the group.

All decisions requiring the commitment of more than £5 million require the decision of the board; amounts below this are delegated to the chief executive.

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 described below. The board regards itself as the nomination committee.

## 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). Both these directors have substantial experience of executive remuneration and are considered competent to sit on this committee. It is the aim of the committee to attract, retain and motivate high calibre individuals with a competitive remuneration package. The Remuneration Committee typically sits once a year.

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). Mr Gaskell is a qualified chartered accountant with substantial current relevant experience; Mr Dyson is a very experienced businessman who, as the independent director, chairs this committee. The Audit Committee provides a forum for reporting by the group's external auditors and meetings, by invitation, are also attended by certain executive directors and senior managers.

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 Audit Committee typically sits three times a year, with the subject matter of the meetings being approval of the year-end audit plan and the review and approval of the interim and final results for the year. The Audit Committee uses the audit planning meeting to consider the proposed accounting treatment for major transactions and significant reporting judgements and key assumptions therein in advance of the year-end results. The other meetings are used to consider the interim and final results together with the auditors' reports thereon. Payments made by the group for audit and non-audit services to the group's auditors are disclosed on page 42. BDO LLP (or its predecessor) have been the group's auditors since 2003. It is a requirement that the audit partner responsible for the audit is changed every five years. The current audit partner has been in place since 2010. BDO LLP have confirmed to the Audit Committee that they remain independent and have maintained safeguards to ensure their objectivity.

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 2012 to date | 5 | 4 | 1 |
| R F M Adair | 5 | | |
| P A J Leech | 5 | | |
| J M Austen | 5 | | |
| R W Dyson | 5 | 4 | 1 |
| A N Gaskell | 5 | 4 | |
| W P Wyatt | 5 | | 1 |

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 of 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. During 2013, bonuses were awarded to the executive directors reflecting the significant contribution to the financial transformation of the group.

## 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 2013, options over 8,811,499 shares were awarded to participating staff, of which 6,078,039 were awarded to executive directors. The performance conditions attached to these awards are as follows (relating to the three year period ending 30 September 2015):

- EPRA Triple NAV must increase by 2.5% per annum more than RPI for 25% vesting and must increase by more than 12.5% 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 12 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 12 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 2013 is detailed in the table below:

| | **Salary/fees £'000** | **Benefits £'000** | **Bonus £'000** | **Total for year ended 30 September 2013 £'000** | Total for year ended 30 September 2012 £'000 | **Pension contribution for year ended 30 September 2013 £'000** | Pension contribution for year ended 30 September 2012 £'000 |
|---|---|---|---|---|---|---|---|
| Executive | | | | | | | |
| R F M Adair | **300** | **15** | **231** | **546** | 294 | **50** | 50 |
| P A J Leech | **300** | **13** | **289** | **602** | 295 | **50** | 50 |
| J M Austen | **249** | **15** | **196** | **460** | 247 | **49** | 49 |
| Non-executive | | | | | | | |
| R W Dyson | **23** | **–** | **–** | **23** | 23 | **–** | – |
| A N Gaskell | **17** | **–** | **–** | **17** | 17 | **–** | – |
| W P Wyatt | **17** | **–** | **–** | **17** | 17 | **–** | – |
| Total | **906** | **43** | **716** | **1,665** | 893 | **149** | 149 |

## Directors' interest in performance share awards

Full details of outstanding performance share awards in the company held by executive directors at 30 September 2013 are shown below:

| | Number of awards | Date of grant | Grant price | Exercise period |
|---|---|---|---|---|
| R F M Adair | 585,484 | 28 March 2012 | 10.50p | 1 October 2014 – 27 March 2022 |
| R F M Adair | 2,134,688 | 7 June 2013 | 21.38p | 1 October 2015 – 6 June 2023 |
| P A J Leech | 585,484 | 28 March 2012 | 10.50p | 1 October 2014 – 27 March 2022 |
| P A J Leech | 2,134,688 | 7 June 2013 | 21.38p | 1 October 2015 – 6 June 2023 |
| J M Austen | 594,059 | 1 September 2008 | 25.00p | 1 September 2010 – 31 August 2017 |
| J M Austen | 496,065 | 28 March 2012 | 10.50p | 1 October 2014 – 27 March 2022 |
| J M Austen | 1,808,663 | 7 June 2013 | 21.38p | 1 October 2015 – 6 June 2023 |

The directors submit their report and the group financial statements for the year ended 30 September 2013.

## RESULTS AND DIVIDENDS

The group profit for the year, after taxation and non-controlling interests, amounted to £4,930,000 (2012: £1,742,000). The directors do not recommend the payment of a final dividend.

## DIRECTORS AND THEIR INTERESTS

The beneficial interests of the directors who held office at 30 September 2013 in the ordinary share capital of the company were as follows:

| | **At 30 September 2013 Ordinary shares** | At 30 September 2012 Ordinary shares |
|---|---|---|
| R F M Adair | **133,266,239** | 133,266,239 |
| P A J Leech | **2,389,472** | 2,389,447 |
| J M Austen | **440,130** | 440,000 |
| 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 2013** | Year ended 30 September 2012 |
|---|---|---|
| R F M Adair | **2,134,688** | 585,484 |
| P A J Leech | **2,134,688** | 585,484 |
| J M Austen | **1,808,663** | 496,065 |

The number of outstanding awards granted to directors are:

| | **At 30 September 2013** | At 30 September 2012 |
|---|---|---|
| R F M Adair | **2,720,172** | 1,119,547 |
| P A J Leech | **2,720,172** | 1,119,547 |
| J M Austen | **2,898,787** | 1,542,621 |

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

| | **At 30 September 2013** | At 30 September 2012 |
|---|---|---|
| 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 |

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.

## FINANCIAL INSTRUMENTS

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

## 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 10 December 2013, Caledonia Investments PLC held 17,600,000 ordinary shares, 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 this page) 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 have elected to prepare 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 group 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 group 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.

The directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information that has not been disclosed to the auditors.

## 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.

## AUDITORS

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

## RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the annual report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

By order of the board

**J M Austen**
Company secretary
12 December 2013

We have audited the financial statements of Terrace Hill Group plc for the year ended 30 September 2013 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 and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC'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 FRC's website at www.frc.org.uk/auditscopeukprivate.

### 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 2013 and of the group's profit 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 strategic report and 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.

**Russell Field (senior statutory auditor)**
For and on behalf of BDO LLP, statutory auditors
55 Baker Street
London W1U 7EU
United Kingdom
12 December 2013

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 2013

| | Notes | Year ended 30 September 2013 £'000 | Year ended 30 September 2012 £'000 |
|---|---|---|---|
| Revenue | 2 | **48,486** | 65,899 |
| Direct costs | | **(35,913)** | (51,743) |
| Gross profit | | **12,573** | 14,156 |
| Administrative expenses | 5 | **(6,074)** | (4,747) |
| Loss on disposal of investment properties | | **(35)** | — |
| Impairment of joint venture and associated undertakings | 13 | **—** | (219) |
| Loss on revaluation of investment properties | 12 | **—** | (500) |
| **Operating profit** | | **6,464** | 8,690 |
| Finance income | 4 | **204** | 251 |
| Finance costs | 4 | **(1,096)** | (1,277) |
| Share of joint venture and associate undertakings post tax profit/(loss) | 13 | **43** | (200) |
| **Profit before tax** | | **5,615** | 7,464 |
| **Tax** | 7 | **(1,271)** | (58) |
| **Profit from continuing operations** | | **4,344** | 7,406 |
| **Profit/(loss) from discontinued operations** | 9 | **586** | (5,664) |
| **Total comprehensive income** | | **4,930** | 1,742 |
| **Profit/(loss) attributable to:** | | | |
| Equity holders of the parent from continuing operations | | **4,344** | 7,406 |
| Equity holders of the parent from discontinued operations | | **586** | (5,664) |
| | | **4,930** | 1,742 |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of the parent from continuing operations | | **4,344** | 7,406 |
| Equity holders of the parent from discontinued operations | | **586** | (5,664) |
| | | **4,930** | 1,742 |
| **Basic earnings per share from continuing operations** | 8 | **2.06p** | 3.51p |
| **Diluted earnings per share from continuing operations** | 8 | **2.05p** | 3.50p |
| **Total basic earnings per share** | 8 | **2.34p** | 0.83p |
| **Total diluted earnings per share** | 8 | **2.33p** | 0.82p |

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

# CONSOLIDATED BALANCE SHEET
AT 30 SEPTEMBER 2013



| | Notes | 30 September 2013 £'000 | 30 September 2012 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | 12 | **162** | 15,178 |
| Property, plant and equipment | 11 | **95** | 145 |
| Investments in equity accounted associates and joint venture | 13 | **1,000** | 1,000 |
| Other investments | 13 | **4,279** | 4,279 |
| Intangible assets | 10 | **2,365** | 3,188 |
| Deferred tax assets | 18 | **5,213** | 6,467 |
| | | **13,114** | 30,257 |
| **Current assets** | | | |
| Development properties | 14 | **58,200** | 70,284 |
| Trade and other receivables | 15 | **14,573** | 17,251 |
| Cash and cash equivalents | | **8,644** | 5,999 |
| | | **81,417** | 93,534 |
| **Total assets** | | **94,531** | 123,791 |
| **Non-current liabilities** | | | |
| Bank loans | 17 | **(18,745)** | (12,466) |
| Deferred tax liabilities | 18 | **(867)** | (851) |
| | | **(19,612)** | (13,317) |
| **Current liabilities** | | | |
| Trade and other payables | 16 | **(8,937)** | (10,537) |
| Other payables – guarantee | 16 | **—** | (6,011) |
| Current tax liabilities | | **(3,049)** | (3,014) |
| Bank overdrafts and loans | 17 | **(7,384)** | (40,699) |
| | | **(19,370)** | (60,261) |
| **Total liabilities** | | **(38,982)** | (73,578) |
| **Net assets** | | **55,549** | 50,213 |
| **Equity** | | | |
| Called up share capital | 20 | **4,240** | 4,240 |
| Share premium account | 21 | **18,208** | 18,208 |
| Own shares | 21 | **(609)** | (609) |
| Capital redemption reserve | 21 | **849** | 849 |
| Merger reserve | 21 | **7,088** | 7,088 |
| Retained earnings | 21 | **25,773** | 20,437 |
| **Total equity** | | **55,549** | 50,213 |

The financial statements were approved by the board and authorised for issue on 12 December 2013 and were signed on its behalf by:

Philip Leech. J M Austen

**P A J Leech**
Director

**J M Austen**
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AT 30 SEPTEMBER 2013

| | Share capital £'000 | Share premium £'000 | Own shares £'000 | Capital redemption reserve £'000 | Merger reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Balance at 30 September 2011** | 4,240 | 43,208 | (609) | 849 | 7,088 | (6,642) | 48,134 |
| Total comprehensive income for the year | — | — | — | — | — | 1,742 | 1,742 |
| Share-based payments | — | — | — | — | — | 337 | 337 |
| Capital reduction | — | (25,000) | — | — | — | 25,000 | — |
| **Balance at 30 September 2012** | 4,240 | 18,208 | (609) | 849 | 7,088 | 20,437 | 50,213 |
| Total comprehensive income for the year | — | — | — | — | — | 4,930 | 4,930 |
| Share-based payments | — | — | — | — | — | 406 | 406 |
| **Balance at 30 September 2013** | **4,240** | **18,208** | **(609)** | **849** | **7,088** | **25,773** | **55,549** |

# CONSOLIDATED CASH FLOW STATEMENT
## FOR THE YEAR ENDED 30 SEPTEMBER 2013

| | Year ended 30 September 2013 £'000 | Year ended 30 September 2012 £'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before taxation | **6,201** | 1,800 |
| Adjustments for: | | |
| Finance income | **(215)** | (261) |
| Finance costs | **1,808** | 1,768 |
| Share of joint venture and associated undertakings post tax loss | **43** | 200 |
| (Release of)/provision for financial guarantee for debts of associate | **(1,811)** | 5,094 |
| Depreciation charge | **47** | 59 |
| Impairment charge | **823** | 148 |
| Loss on revaluation of investment properties | **11** | 530 |
| Impairment of associated undertakings | **—** | 219 |
| Loss on disposal of investment properties | **271** | 570 |
| Loss on sale of tangible fixed assets | **11** | — |
| Share-based payments | **406** | 337 |
| **Cash flows from operating activities before change in working capital** | **7,595** | 10,464 |
| Decrease in property inventories | **12,432** | 3,289 |
| Decrease/(increase) in trade and other receivables | **2,635** | (7,334) |
| Decrease in trade and other payables | **(5,800)** | (3,475) |
| **Cash generated from operations** | **16,862** | 2,944 |
| Finance costs paid | **(1,887)** | (4,380) |
| Finance income received | **215** | 261 |
| Tax received/(paid) | **36** | (59) |
| **Net cash flows from operating activities** | **15,226** | (1,234) |
| **Investing activities** | | |
| Sale of investment property and tangible fixed assets | **14,744** | 5,115 |
| Purchase of property, plant and equipment | **(18)** | (28) |
| **Net cash flows from investing activities** | **14,726** | 5,087 |
| **Financing activities** | | |
| Borrowings drawn down | **2,744** | 10,426 |
| Borrowings repaid | **(30,212)** | (19,824) |
| **Net cash flows from financing activities** | **(27,468)** | (9,398) |
| Net increase/(decrease) in cash and cash equivalents | **2,484** | (5,545) |
| Cash and cash equivalents at 1 October 2012 | **5,998** | 11,543 |
| **Cash and cash equivalents at 30 September 2013** | **8,482** | 5,998 |
| Cash at bank and in hand 30 September 2013 | **8,644** | 5,999 |
| Bank overdraft at 30 September 2013 | **(162)** | (1) |
| **Cash and cash equivalents at 30 September 2013** | **8,482** | 5,998 |

## 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 IFRS) and with those parts of the Companies Act 2006 applicable to companies preparing their financial statements in accordance with IFRS.

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and financial instruments. The company has elected to prepare its financial statements, on pages 60 to 64, 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 19 | Employee Benefits |
| IAS 27 | Consolidated and Separate Financial Statements |
| IAS 28 | Investments in Associates and Joint Ventures |
| IAS 32 | Financial Instruments: Presentation |
| IAS 36 | Impairment of Assets |
| IAS 39 | Financial Instruments: Recognition and Measurement |
| IFRS 7 | Financial Instruments: Disclosures |
| IFRS 9 | Financial Instruments |
| IFRS 10 | Consolidated Financial Statements |
| IFRS 11 | Joint Arrangements |
| IFRS 12 | Disclosure of Interests in Other Entities |
| IFRS 13 | Fair Value Measurement |

None of the new standards and interpretations noted above, which are effective for accounting periods beginning on or after 1 October 2013 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 group 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 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 exceeds 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.

Where the group has an associate but is not a preferential investor, the investment in the associate is recognised at cost and subject to regular impairment reviews, with any impairment being recognised in the consolidated statement of comprehensive income. This is the case where the associate has net liabilities. Where the associate has net assets it will be equity accounted for when the assets exceed the shares of the preferential investors.

Where the group has a legal obligation to a third party in relation to the losses of an associate, the group fully provides for its share and the charge is recognised in the consolidated statement of comprehensive income.

### 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

Where the group is the lessor, the directors have considered the potential transfer of risks and rewards of ownership in accordance with IAS 17 for all properties leased to tenants and in their judgements have determined that all such leases are operating leases. Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

Where the group is the lessee, leases in which substantially all risks and rewards of ownership are retained by another party are classified as operating leases. Rentals paid under operating leases are charged to income on a straight line basis over the term of the 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 reporting date 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 | 10% straight line |

## 1 ACCOUNTING POLICIES CONTINUED

### 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.

### 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 revenue and profits are recognised in accordance with IAS 11 "Construction Contracts" or IAS 18 "Revenue" depending on whether all development risks, apart from the construction risk, have passed to the purchaser under the terms of the development agreement. Where only the construction risk remains, the revenue and profit on the development is recognised under IAS 11, so as to match the proportion of the development work completed on a percentage completion basis. The percentage completion basis is determined by using the total costs incurred at the reporting date as a proportion of the total forecast costs at completion. Profits are only recognised where the outcome can be determined with reasonable certainty. Full provision is made for losses as soon as such losses are foreseen. Where revenue is recognised under IAS 18, disposals are recognised where the risks and rewards of ownership are considered to have been transferred to the purchaser.

#### 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 nor 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.

## 1 ACCOUNTING POLICIES CONTINUED

### Taxation continued

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 base cost used in computing 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.

### 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 the dividends are paid. 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.

## 1 ACCOUNTING POLICIES CONTINUED

### 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.

### 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.

### Critical accounting estimates and judgements

The preparation of financial statements under IFRS 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.

### Development income

When a contract for the sale of a property is judged to be a construction contract (see revenue recognition policy for development income), revenue is recognised using the percentage-of-completion method as construction progresses. The percentage of completion is estimated by reference to the stage of the projects and contracts – determined based on the proportion of contract costs incurred to date and the estimated costs to complete.

### Investment and development property valuation

In relation to investment and development properties, the directors rely 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 valuations performed by its independent valuers as the fair value of its investment properties and uses market evidence in assessing the net realisable values of its development properties. Valuations are 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.

## 1 ACCOUNTING POLICIES CONTINUED

### 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 10.

## 2 REVENUE

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Development sales and construction contracts | **45,121** | 62,583 |
| Rents receivable | **2,162** | 2,451 |
| Project management fees and other income | **1,203** | 865 |
| | **48,486** | 65,899 |

### Construction contracts

| | 2013 | 2012 |
|---|---|---|
| Number of construction contracts | **5** | 4 |
| | **£'000** | £'000 |
| Revenue on construction contracts | **28,687** | 47,004 |
| Costs of construction contracts | **(21,197)** | (33,141) |
| Profit on construction contracts | **7,490** | 13,863 |

Construction contract revenue is recognised in the accounts in line with contract stage of completion determined as the proportion of total estimated development costs incurred at the reporting date. No advances or retentions have been received for construction contracts.

### Development sales

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Revenue | **16,434** | 15,579 |

## 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 investment and residential property investment. The commercial segment includes foodstores, Central London office developments and regional developments. The group does not operate outside the UK. The residential property investment segment has been treated as discontinued. More detail is given in note 9.

| | Residential 2013 £'000 | Commercial 2013 £'000 | Unallocated items 2013 £'000 | Total 2013 £'000 | Residential 2012 £'000 | Commercial 2012 £'000 | Unallocated items 2012 £'000 | Total 2012 £'000 |
|---|---|---|---|---|---|---|---|---|
| Statement of comprehensive income | | | | | | | | |
| Revenue | **5,144** | **48,486** | **—** | **53,630** | 1,066 | 65,899 | — | 66,965 |
| Direct costs | **(4,598)** | **(35,913)** | **—** | **(40,511)** | (407) | (51,743) | — | (52,150) |
| Gross profit | **546** | **12,573** | **—** | **13,119** | 659 | 14,156 | — | 14,815 |
| Administrative expenses | **—** | **—** | **(6,074)** | **(6,074)** | — | — | (4,747) | (4,747) |
| Goodwill impairment | **(823)** | **—** | **—** | **(823)** | (148) | — | — | (148) |
| Loss on disposal of investment properties | **(236)** | **(35)** | **—** | **(271)** | (570) | — | — | (570) |
| Impairment of associated undertakings and joint venture | **—** | **—** | **—** | **—** | — | (219) | — | (219) |
| Provision for financial guarantee over debts of associate | **1,811** | **—** | **—** | **1,811** | (5,094) | — | — | (5,094) |
| Loss on revaluation of investment properties | **(11)** | **—** | **—** | **(11)** | (30) | (500) | — | (530) |
| Operating profit/(loss) | **1,287** | **12,538** | **(6,074)** | **7,751** | (5,183) | 13,437 | (4,747) | 3,507 |
| Net finance costs | **(701)** | **(892)** | **—** | **(1,593)** | (481) | (1,033) | 7 | (1,507) |
| Share of results of joint venture before tax | **—** | **43** | **—** | **43** | — | (200) | — | (200) |
| Profit before tax from continuing operations | **—** | **11,689** | **(6,074)** | **5,615** | — | 12,204 | (4,740) | 7,464 |
| Profit before tax from discontinued operations | **586** | **—** | **—** | **586** | (5,664) | — | — | (5,664) |
| Profit before tax | **586** | **11,689** | **(6,074)** | **6,201** | (5,664) | 12,204 | (4,740) | 1,800 |

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.

During the year, three major commercial customers generated £34,652,000 of revenue. Each of these represented 10% or more of the total revenue. The amounts were £9,242,000, £7,785,000 and £17,625,000.

In the year ended 30 September 2012, there were four major commercial customers that generated £54,751,000 of revenue. Each of these represented 10% or more of the total revenue. The amounts were £9,826,000, £26,256,000, £8,896,000 and £9,773,000.

## 3 SEGMENTAL INFORMATION CONTINUED

| | Residential 2013 £'000 | Commercial 2013 £'000 | Unallocated items 2013 £'000 | Total 2013 £'000 | Residential 2012 £'000 | Commercial 2012 £'000 | Unallocated items 2012 £'000 | Total 2012 £'000 |
|---|---|---|---|---|---|---|---|---|
| **Balance sheet** | | | | | | | | |
| Investment properties | **162** | **—** | **—** | **162** | 12,928 | 2,250 | — | 15,178 |
| Property, plant and equipment | **—** | **—** | **95** | **95** | — | 17 | 128 | 145 |
| Investments – associates and joint venture | **—** | **1,000** | **—** | **1,000** | — | 1,000 | — | 1,000 |
| Other investments | **—** | **4,279** | **—** | **4,279** | — | 4,279 | — | 4,279 |
| Intangible assets | **—** | **2,365** | **—** | **2,365** | 823 | 2,365 | — | 3,188 |
| Deferred tax assets | **—** | **—** | **5,213** | **5,213** | — | — | 6,467 | 6,467 |
| | **162** | **7,644** | **5,308** | **13,114** | 13,751 | 9,911 | 6,595 | 30,257 |
| Development properties | **1,273** | **56,927** | **—** | **58,200** | — | 70,284 | — | 70,284 |
| Trade and other receivables | **24** | **14,549** | **—** | **14,573** | 231 | 17,020 | — | 17,251 |
| Cash | **145** | **8,499** | **—** | **8,644** | 493 | 5,506 | — | 5,999 |
| | **1,442** | **79,975** | **—** | **81,417** | 724 | 92,810 | — | 93,534 |
| Borrowings | **—** | **(26,129)** | **—** | **(26,129)** | (9,987) | (43,178) | — | (53,165) |
| Trade and other payables | **(285)** | **(8,652)** | **—** | **(8,937)** | (6,515) | (10,033) | — | (16,548) |
| Current tax | **—** | **—** | **(3,049)** | **(3,049)** | — | — | (3,014) | (3,014) |
| Deferred tax liabilities | **—** | **—** | **(867)** | **(867)** | — | — | (851) | (851) |
| | **(285)** | **(34,781)** | **(3,916)** | **(38,982)** | (16,502) | (53,211) | (3,865) | (73,578) |
| **Net assets** | **1,319** | **52,838** | **1,392** | **55,549** | (2,027) | 49,510 | 2,730 | 50,213 |

## 4 FINANCE COSTS AND FINANCE INCOME

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Interest payable on borrowings | **1,452** | 1,890 |
| Interest capitalised | **(356)** | (613) |
| **Finance costs** | **1,096** | 1,277 |
| Interest receivable from cash deposits and other financial assets | **204** | 251 |
| **Finance income** | **204** | 251 |

Interest is capitalised at the same rate as the group is charged on the respective borrowings. There were no interest rate swaps during the year.

## 5 ADMINISTRATIVE EXPENSES

Is arrived at after charging:

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Depreciation of property, plant and equipment | **47** | 59 |
| Impairment of goodwill | **823** | 148 |
| Loss on disposal of property, plant and equipment | **11** | – |
| Operating lease charges – rent of properties | **1,400** | 1,393 |
| Share-based payment remuneration | **406** | 337 |
| Fees paid to BDO LLP in respect of: | | |
| – audit of the group | **100** | 119 |
| Other services: | | |
| – audit of subsidiaries and associates | **35** | 35 |
| – audit-related assurance services | **25** | 35 |
| – non-audit services | **32** | 40 |

## 6 EMPLOYMENT COSTS

### (a) Total staff costs

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Wages and salaries | **6,126** | 4,231 |
| Employer's national insurance contributions and similar taxes | **715** | 549 |
| Defined contribution pension cost | **549** | 487 |
| Share-based payments | **406** | 337 |
| | **7,796** | 5,604 |

### (b) Directors' remuneration

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Emoluments | **1,587** | 855 |
| Amounts paid to third parties in respect of directors' services | **34** | 34 |
| Defined contribution pension cost | **149** | 149 |
| Share-based payments | **210** | 151 |
| | **1,980** | 1,189 |

Pension contributions to defined contribution schemes were made during the year in respect of three directors (2012: three).

#### Remuneration of highest paid director

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Total emoluments (excluding pension contributions) | **589** | 295 |
| Defined contribution pension cost | **50** | 50 |
| | **639** | 345 |

There is a charge of £74,000 (2012: £53,000) in respect of the share-based payments scheme.

The average monthly number of employees during the year was:

| | 2013 | 2012 |
|---|---|---|
| Property | **14** | 17 |
| Administration | **13** | 14 |
| | **27** | 31 |

## 7 TAX ON PROFIT ON ORDINARY ACTIVITIES

### (a) Analysis of charge in the year

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| **Current tax** | | |
| UK corporation tax on profit for the period | **—** | — |
| Adjustment in respect of prior periods | **—** | (36) |
| Total current tax | **—** | (36) |
| **Deferred tax** | | |
| Impact of rate change | **361** | 222 |
| Origination and reversal of temporary differences | **910** | (128) |
| Total deferred tax charge | **1,271** | 94 |
| **Total tax charge** | **1,271** | 58 |

### (b) Factors affecting the tax charge for the year

The tax assessed for the period is lower than the standard rate of corporation tax in the UK of 25% (2012: 27%). The differences are explained below:

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Profit before tax from continuing and discontinued operations | **6,201** | 1,800 |
| Plus joint venture and associates | **—** | 200 |
| Profit attributable to the group before tax | **6,201** | 2,000 |
| Profit multiplied by the average rate of UK corporation tax of 23.5% (2012: 25.0%) | **1,457** | 500 |
| Disallowables | **321** | (181) |
| Other temporary differences | **(1,085)** | (447) |
| Impact of rate change | **361** | 222 |
| | **1,054** | 94 |
| Adjustments in respect of prior periods | **217** | (36) |
| **Total tax charge** | **1,271** | 58 |

### (c) Associates and joint venture

The group's share of tax on the associates and joint venture is £Nil (2012: £Nil).

## 8 EARNINGS PER ORDINARY SHARE

The calculation of basic earnings per ordinary share is based on a profit of £4,930,000 (2012: £1,742,000) and on 210,951,299 (2012: 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 2013 is based on earnings of £4,930,000 (2012: £1,742,000) and on 211,545,352 (2012: 211,426,546) ordinary shares, being the weighted average number of shares in issue during the period adjusted to allow for the issue of ordinary shares in connection with a share award.

## 9 DISCONTINUED OPERATIONS

The post tax gain/(loss) on disposal of discontinued operations was determined as follows:

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Revenue | **5,144** | 1,066 |
| Expenses other than finance costs | **(3,857)** | (6,249) |
| Finance costs | **(701)** | (481) |
| Profit/(loss) for the year | **586** | (5,664) |

### Earnings per share from discontinued operations

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Basic earnings/(loss) per share | **0.28p** | (2.68)p |
| Diluted earnings/(loss) per share | **0.28p** | (2.68)p |

### Statement of cash flows from discontinued operations

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Operating activities | **(701)** | (481) |
| Investing activities | **12,590** | 5,367 |
| Financing activities | **(12,237)** | (4,486) |
| Net cash from discontinued operations | **(348)** | 400 |

## 10 INTANGIBLE FIXED ASSETS – GOODWILL

| | £'000 |
|---|---|
| **Cost** | |
| At 1 October 2011 | 5,997 |
| At 1 October 2012 | 5,997 |
| **At 30 September 2013** | **5,997** |
| **Impairment** | |
| At 1 October 2011 | (2,661) |
| Charge for the year | (148) |
| At 1 October 2012 | (2,809) |
| Charge for year | (823) |
| **At 30 September 2013** | **3,632** |
| **At 30 September 2013** | **2,365** |
| At 30 September 2012 | 3,188 |

## 10 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.

| | **2013 £'000** | 2012 £'000 |
|---|---|---|
| Commercial properties | **2,365** | 2,365 |
| Investment properties | **—** | 823 |
| | **2,365** | 3,188 |

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. During the period the vast majority of properties were sold and an amount of £823,000 was charged to the consolidated statement of comprehensive income.

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.

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.

## 11 PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvements £'000 | Motor vehicles £'000 | Office equipment £'000 | Furniture and fittings £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 October 2011 | 159 | 15 | 186 | 212 | 572 |
| Additions | — | 2 | 16 | 10 | 28 |
| Disposals | — | — | — | — | — |
| At 1 October 2012 | 159 | 17 | 202 | 222 | 600 |
| Additions | — | — | 13 | — | 13 |
| Disposals | — | (17) | — | (47) | (64) |
| **At 30 September 2013** | **159** | **—** | **215** | **175** | **549** |
| **Depreciation** | | | | | |
| At 1 October 2011 | 70 | 14 | 117 | 195 | 396 |
| Charge for period | 16 | — | 31 | 12 | 59 |
| Disposals | — | — | — | — | — |
| At 1 October 2012 | 86 | 14 | 148 | 207 | 455 |
| Charge for year | 16 | — | 30 | 1 | 47 |
| Disposals | — | (14) | — | (34) | (48) |
| **At 30 September 2013** | **102** | **—** | **178** | **174** | **454** |
| **Net book value** | | | | | |
| **At 30 September 2013** | **57** | **—** | **37** | **1** | **95** |
| At 30 September 2012 | 73 | 3 | 54 | 15 | 145 |

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

## 12 INVESTMENT PROPERTIES

| | £'000 |
|---|---|
| **Valuation** | |
| At 1 October 2011 | 21,393 |
| Disposals | (5,685) |
| Loss on revaluation | (530) |
| At 1 October 2012 | 15,178 |
| Additions | 5 |
| Disposals | (15,010) |
| Loss on revaluation | (11) |
| **At 30 September 2013** | **162** |

Residential investment properties owned by the group have been valued during the year 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.

| | **2013 £'000** | 2012 £'000 |
|---|---|---|
| Rental income generated from investment property | **633** | 1,023 |
| Direct rental operating costs | **(262)** | (447) |
| | **371** | 576 |

The group did not incur any direct operating expenses arising from investment property that did not generate rental income.

## 13 INVESTMENTS

### Associates and joint venture

| | Associates £'000 | Joint venture £'000 | Total £'000 |
|---|---|---|---|
| **Cost or valuation** | | | |
| At 1 October 2011 | 1,000 | 419 | 1,419 |
| Share of results | – | (200) | (200) |
| Impairment | – | (219) | (219) |
| At 1 October 2012 | 1,000 | – | 1,000 |
| Share of results | – | 43 | 43 |
| Losses for period applied against receivables forming part of net investment | – | (43) | (43) |
| **At 30 September 2013** | **1,000** | **–** | **1,000** |

The group's interests in its associates 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.

## 13 INVESTMENTS CONTINUED

### Associates and joint venture continued

Summarised information 2013

| | Terrace Hill Development Partnership £'000 | Devcap 2 Partnership £'000 | Castlegate House Partnership £'000 | Terrace Hill Residential PLC £'000 | Total £'000 |
|---|---|---|---|---|---|
| Revenue | **1,486** | **2,788** | **827** | **1,832** | **6,933** |
| (Loss)/profit after taxation | **(41)** | **(1,451)** | **94** | **7,297** | **5,899** |
| Total assets | **23,495** | **39,704** | **7,392** | **70** | **70,661** |
| Bank debt | **(1,980)** | **(40,643)** | **(8,222)** | **—** | **(50,845)** |
| Other liabilities | **(23,533)** | **(14,666)** | **(2,734)** | **(35,535)** | **(76,468)** |
| Total liabilities | **(25,513)** | **(55,309)** | **(10,956)** | **(35,535)** | **(127,313)** |
| Net liabilities | **(2,018)** | **(15,605)** | **(3,564)** | **(35,465)** | **(56,652)** |
| Opening carrying amount of interest under equity method | **1,000** | **—** | **—** | **—** | **1,000** |
| Closing carrying amount of interest under equity method | **1,000** | **—** | **—** | **—** | **1,000** |
| Capital commitments | **—** | **—** | **—** | **—** | **—** |
| Share of current year unrecognised (loss)/profit | **(8)** | **(379)** | **28** | **3,575** | **3,216** |
| Cumulative share of unrecognised profit/(loss) | **1,596** | **(4,069)** | **(391)** | **(2,585)** | **(5,449)** |

Terrace Hill Group plc has no legal or constructive obligations to fund the losses of these associates. Terrace Hill Development Partnership has not been equity accounted for as the entity has preferential investors that will receive their return before Terrace Hill Group plc. When the entity can satisfy the obligations to those investors equity accounting will resume. Terrace Hill Development Partnership is classified as an associate due to significant influence over its operating activities.

Summarised information 2012

| | Terrace Hill Development Partnership £'000 | Devcap 2 Partnership £'000 | Castlegate House Partnership £'000 | Terrace Hill Residential PLC £'000 | Total £'000 |
|---|---|---|---|---|---|
| Revenue | 16,592 | 2,752 | 615 | 7,144 | 27,103 |
| Profit/(loss) after taxation | 896 | (2,821) | 17 | (8,718) | (10,626) |
| Total assets | 24,474 | 39,360 | 7,284 | 71,762 | 142,880 |
| Bank debt | (6,892) | (40,653) | (8,238) | (80,847) | (136,630) |
| Other liabilities | (19,558) | (12,860) | (2,704) | (33,677) | (68,799) |
| Total liabilities | (26,450) | (53,513) | (10,942) | (114,524) | (205,429) |
| Net liabilities | (1,976) | (14,153) | (3,658) | (42,762) | (62,549) |
| Opening carrying amount of interest under equity method | 1,000 | — | — | — | 1,000 |
| Closing carrying amount of interest under equity method | 1,000 | — | — | — | 1,000 |
| Capital commitments | — | — | — | — | — |
| Share of current year unrecognised profit/(loss) | 179 | (736) | 5 | (4,272) | (4,824) |
| Cumulative share of unrecognised profit/(loss) | 1,605 | (1,592) | (420) | (6,011) | (6,418) |

## 13 INVESTMENTS CONTINUED

### Associates and joint venture continued

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 |

| | 2013 Achadonn Limited £'000 | 2012 Achadonn Limited £'000 |
|---|---|---|
| Revenue | — | 31 |
| Profit/(loss) | **86** | (399) |
| Total assets | **14,169** | 14,652 |
| Bank debt | **(8,110)** | (8,110) |
| Other liabilities | **(5,547)** | (6,104) |
| Total liabilities | **(13,657)** | (14,214) |
| Net assets | **512** | 438 |
| At 1 October 2012 | — | 419 |
| Share of results for the period | **43** | (200) |
| Losses for period applied against receivables forming part of net investment | **(43)** | – |
| Impairment of joint venture | — | (219) |
| At 30 September 2013 | — | – |

### Other investments

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Other investments | **4,279** | 4,279 |

Included in other investments is a balance due from Howick Place JV S.a.r.l. totalling £4,273,000 (2012: £4,273,000) that has a final maturity date of 31 December 2014.

A list of the group's principal subsidiaries is included at the end of these accounts.

## 14 DEVELOPMENT PROPERTIES

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| At 1 October 2012 | **70,284** | 72,961 |
| Additions | **25,266** | 28,807 |
| Disposals | **(36,404)** | (30,919) |
| Amounts written back on the value of development properties | **1,316** | 4,410 |
| Amounts written off the value of development properties | **(2,262)** | (4,975) |
| **At 30 September 2013** | **58,200** | 70,284 |
| Included in these figures is capitalised interest of | **7,774** | 8,614 |

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

## 15 TRADE AND OTHER RECEIVABLES

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Trade receivables | **1,146** | 2,507 |
| Other receivables | **3,552** | 2,216 |
| Trade and other receivables | **4,698** | 4,723 |
| Amounts recoverable under construction contracts | **8,249** | 7,558 |
| Prepayments and accrued income | **1,626** | 4,970 |
| Amounts due from associates and joint venture | **32,897** | 28,605 |
| Provision for amounts due from associates and joint venture | **(32,897)** | (28,605) |
| | **14,573** | 17,251 |

### Amounts recoverable under construction contracts

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Contract costs incurred plus recognised profits less recognised losses to date | **38,240** | 44,979 |
| Less: progress billings | **(29,991)** | (37,421) |
| Contracts in progress at balance sheet date | **8,249** | 7,558 |

The ageing of trade and other receivables was as follows:

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Up to 30 days | **2,476** | 3,228 |
| 31 to 60 days | **1** | 2 |
| 61 to 90 days | **489** | 7 |
| Over 90 days | **174** | 77 |
| Total | **3,140** | 3,314 |
| Amounts not yet due | **1,558** | 1,409 |
| Closing balance | **4,698** | 4,723 |

No amounts were overdue at the year end.

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

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| At 1 October 2012 | **28,605** | 25,665 |
| Increase in allowance on amounts due from associates and joint venture | **4,292** | 2,940 |
| Closing balance | **32,897** | 28,605 |

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

## 15 TRADE AND OTHER RECEIVABLES CONTINUED

The IAS 39 categories of financial asset included in the balance sheet and the headings in which they are included are as follows:

| | Loans and receivables 2013 £'000 | Non-financial assets 2013 £'000 | Total 2013 £'000 | Loans and receivables 2012 £'000 | Non-financial assets 2012 £'000 | Total 2012 £'000 |
|---|---|---|---|---|---|---|
| **Current assets** | | | | | | |
| Trade receivables | **1,146** | **—** | **1,146** | 2,507 | — | 2,507 |
| Other receivables | **3,552** | **—** | **3,552** | 2,216 | — | 2,216 |
| Amounts recoverable under construction contracts | **8,249** | **—** | **8,249** | 7,558 | — | 7,558 |
| Prepayments and accrued income | **—** | **1,626** | **1,626** | — | 4,970 | 4,970 |
| Cash and cash equivalents | **8,644** | **—** | **8,644** | 5,999 | — | 5,999 |
| | **21,591** | **1,626** | **23,217** | 18,280 | 4,970 | 23,250 |
| **Non-current assets** | | | | | | |
| Other investments | **4,279** | **—** | **4,279** | 4,279 | — | 4,279 |
| | **4,279** | **—** | **4,279** | 4,279 | — | 4,279 |

## 16 TRADE AND OTHER PAYABLES

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Trade payables | **1,613** | 3,487 |
| Other taxation and social security costs | **115** | 284 |
| Accruals and deferred income | **3,626** | 4,210 |
| Other payables | **3,583** | 2,556 |
| Other payables – guarantees | **—** | 6,011 |
| | **8,937** | 16,548 |

In 2012 the group fully provided for its share of net liabilities in its associate, Terrace Hill Residential PLC, and an amount of £6.0 million was included in other payables in respect of a guarantee for a maximum of £15.0 million. In 2013 the group assumed £4.2 million of bank debt in exchange for the discharge of the guarantee, resulting in the release of £1.8 million to the statement of comprehensive income.

The IAS 39 categories of financial liabilities included in the balance sheet and the headings in which they are included are as follows:

| | Financial liabilities at amortised cost 2013 £'000 | Liabilities not within scope of IAS 39 2013 £'000 | Total 2013 £'000 | Financial liabilities at amortised cost 2012 £'000 | Liabilities not within scope of IAS 39 2012 £'000 | Total 2012 £'000 |
|---|---|---|---|---|---|---|
| **Current payables** | | | | | | |
| Trade payables | **1,613** | **—** | **1,613** | 3,487 | — | 3,487 |
| Other tax and social security costs | **—** | **115** | **115** | — | 284 | 284 |
| Accruals and deferred income | **3,626** | **—** | **3,626** | 4,210 | — | 4,210 |
| Other payables | **3,583** | **—** | **3,583** | 8,567 | — | 8,567 |
| | **8,822** | **115** | **8,937** | 16,264 | 284 | 16,548 |

## 17 BANK OVERDRAFTS AND LOANS

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Bank loans | **26,242** | 53,624 |
| Bank overdrafts | **162** | 1 |
| | **26,404** | 53,625 |
| Unamortised loan issue costs | **(275)** | (460) |
| | **26,129** | 53,165 |
| Amounts due: | | |
| Within one year | **7,384** | 40,699 |
| After more than one year | **18,745** | 12,466 |
| | **26,129** | 53,165 |

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:

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Trade losses | **1,289** | 749 |
| Share-based payments | **—** | 163 |
| Short-term timing differences | **(18)** | (818) |
| | **1,271** | 94 |

The consolidated deferred tax assets and liabilities are as follows:

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| **Deferred tax liability** | | |
| Short-term timing differences | **867** | 851 |
| | **867** | 851 |

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| **Deferred tax asset** | | |
| Short-term timing differences | **—** | 1,382 |
| Trade losses | **5,213** | 5,085 |
| | **5,213** | 6,467 |

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 is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. In assessing the future recoverability of the deferred tax asset an asset sales forecast covering a three-year period is prepared and the assessment of available taxable profits takes into account the group's overheads and finance costs. Sales are included where the group assess the sale as probable. The group has a history of utilising tax losses brought forward from prior periods and has a policy of utilising prior period losses in priority to any current year losses.

A deferred tax asset has not been recognised for unused tax losses of £14,028,000 (2012: £17,813,000).

## 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 strategic report.

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 below.

### Interest rate risk

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

The group borrows cash in the form of loans and overdrafts, which are subject to interest at floating rates, recognising that rates will fluctuate according to changes in 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, trade receivables, amounts recoverable under construction contracts and other investments. 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 and amounts recoverable under construction contracts. 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. Amounts recoverable under construction contracts are funded by the ultimate purchaser of the development, on whom extensive financial due diligence is carried out. Other investments represent amounts advanced to an entity undertaking a property development in Central London. The group is entitled to a priority return and the board annually reviews the business plan of that entity.

### 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.

### Categories of financial assets and financial liabilities

| | **2013 £'000** | 2012 £'000 |
|---|---|---|
| Current financial assets | | |
| Trade and other receivables | **2,809** | 4,723 |
| Amounts recoverable under construction contracts | **8,249** | 7,558 |
| Cash and cash equivalents | **8,482** | 5,998 |
| Total current financial assets | **19,540** | 18,279 |
| Non-current financial assets | | |
| Other investments | **4,279** | 4,279 |
| Total non-current financial assets | **4,279** | 4,279 |
| Total financial assets | **23,819** | 22,558 |

There are no financial assets held at fair value (2012: £Nil). The maximum exposure to credit risk in financial assets, excluding cash, is £15,338,000 (2012: £16,560,000). The maximum amount due from any single party is £4,279,000 (2012: £4,279,000) included in other investments.

## 19 FINANCIAL INSTRUMENTS CONTINUED

### Financial liabilities measured at amortised cost

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| **Current financial liabilities** | | |
| Trade and other payables | **8,129** | 15,464 |
| Loans and borrowings | **7,323** | 40,745 |
| **Total current financial liabilities** | **15,452** | 56,209 |
| **Non-current financial liabilities** | | |
| Loans and borrowings | **18,919** | 12,879 |
| **Total non-current financial liabilities** | **18,919** | 12,879 |
| **Total financial liabilities** | **34,371** | 69,088 |

There are no financial liabilities designated at fair value (2012: £Nil).

### Interest rate risk profile of financial assets and liabilities

The interest rate profile of financial assets and liabilities of the group at 30 September 2013 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 | **23,820** | **8,482** | **3,480** | **11,858** |

| | Total £'000 | Floating rate financial liabilities £'000 | Fixed rate financial liabilities £'000 | Financial liabilities on which no interest is charged £'000 |
|---|---|---|---|---|
| Sterling | **35,179** | **26,242** | **—** | **8,937** |

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 (2012: £Nil).

The interest rate profile of financial assets and liabilities of the group at 30 September 2012 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 | 15,000 | 5,998 | 3,480 | 5,522 |

| | Total £'000 | Floating rate financial liabilities £'000 | Fixed rate financial liabilities £'000 | Financial liabilities on which no interest is charged £'000 |
|---|---|---|---|---|
| Sterling | 69,088 | 53,624 | — | 15,464 |

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.

## 19 FINANCIAL INSTRUMENTS CONTINUED

### Borrowings

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

| | **2013 £'000** | 2012 £'000 |
|---|---|---|
| On demand or within one year | **7,485** | 40,745 |
| In more than one year but less than two | **18,919** | 9,949 |
| In more than two years but less than five | **—** | 2,931 |
| | **26,404** | 53,625 |

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. Loans with principal guarantees from the parent company were repaid during the year and after the balance sheet date.

### Borrowing facilities

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

| | **2013 £'000** | 2012 £'000 |
|---|---|---|
| Expiring in one year or less | **—** | 2,500 |

### 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) | **597** | **(597)** |
| Impact on interest receivable – (loss)/gain | **(189)** | **189** |
| Total impact on pre-tax profit and equity | **408** | **(408)** |

The analysis below shows the sensitivity of the consolidated statement of comprehensive income and net assets to a 0.5% change in interest rates on the group's financial instruments for 2012.

| | 0.5% decrease in interest rates £'000 | 0.5% increase in interest rates £'000 |
|---|---|---|
| Impact on interest payable – gain/(loss) | 442 | (442) |
| Impact on interest receivable – (loss)/gain | (64) | 64 |
| Total impact on pre-tax profit and equity | 378 | (378) |

## 20 CALLED UP SHARE CAPITAL

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| **Authorised:** | | |
| 500,000,000 (2012: 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 (2012: 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 October 2011 | 43,208 | (609) | 849 | 7,088 | (6,642) |
| Total comprehensive income and expense for the year | — | — | — | — | 1,742 |
| Share-based payments | — | — | — | — | 337 |
| Capital reduction | (25,000) | — | — | — | 25,000 |
| Balance at 1 October 2012 | 18,208 | (609) | 849 | 7,088 | 20,437 |
| Total comprehensive income and expense for the year | — | — | — | — | 4,930 |
| Share-based payments | — | — | — | — | 406 |
| **Balance at 30 September 2013** | **18,208** | **(609)** | **849** | **7,088** | **25,773** |

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 – has arisen following acquisitions where the group's entity 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, CAPITAL COMMITMENTS AND GUARANTEES

The group has given a guarantee of £600,000 (2012: £600,000) as part of its development obligations.

Capital commitments relating to development sites are as follows:

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Contracted but not provided for | **27,765** | 10,854 |

## 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 year ended 30 September 2013, options over 8,811,499 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 2015):

- EPRA Triple Net Asset Value must increase by more than 2.5% per annum more than RPI for 25% vesting and must increase by more than 12.5% 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% or more for 100% vesting.

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

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Value of award at date of grant** | **Share price for grant** | **Number of share awards granted** | **Weighted average exercise price** | Value of award at date of grant | Share price for grant | Number of share awards granted | Weighted average exercise price |
| Awards outstanding at the start of the period | | | **8,254,851** | **18.08p** | | | 17,322,937 | 21.40p |
| 7 June 2013 | **17.53p–19.41p** | **21.38p** | **8,811,499** | | 1.51p–8.53p | 10.50p | 3,871,023 | |
| Awards granted in the period | | | **8,811,499** | **21.38p** | | | 3,871,023 | 10.50p |
| Awards lapsed in the period | | | **(3,789,769)** | **24.75p** | | | (12,939,111) | 20.25p |
| **Awards outstanding at the end of the period** | | | **13,276,581** | **18.37p** | | | 8,254,849 | 18.08p |

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. The values assigned to the variables are: 21.38 pence share price, 2.00 pence exercise price, expected term of three years, 0.00% expected dividend yield, 36.60% expected volatility and 0.55% expected risk free interest rate. The values assigned to the variables in the prior year were: 10.50 pence share price, 2.00 pence exercise price, expected term of three years, 0.00% expected dividend yield, 36.60% expected volatility and 0.53% expected risk free interest rate.

This value is charged to the consolidated statement of comprehensive income over the vesting period. The charge to the consolidated statement of comprehensive income was £406,000 (2012: £337,000).

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 2013 the Trust held 1,020,000 (2012: 1,020,000) ordinary 2 pence shares in Terrace Hill Group plc at a cost of £609,000 (2012: £609,000). On that date outstanding awards over 13,276,581 (2012: 17,322,937) 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 rentals receivable under non-cancellable operating leases are as follows:

| | **Land and buildings 2013 £'000** | Land and buildings 2012 £'000 |
|---|---|---|
| In one year or less | **1,347** | 1,357 |
| Between two and five years | **5,325** | 5,399 |
| In five years or more | **2,834** | 4,117 |
| | **9,506** | 10,873 |

## 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 2013 £'000** | Land and buildings 2012 £'000 |
|---|---|---|
| In one year or less | **1,378** | 1,668 |
| Between two and five years | **5,374** | 5,625 |
| In five years or more | **3,398** | 4,732 |
| | **10,150** | 12,025 |

## 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 by group subsidiary companies to the following partnerships, associates, joint venture and connected parties:

| | **2013 £'000** | 2012 £'000 |
|---|---|---|
| Castlegate House Partnership | **18** | 18 |
| Terrace Hill Residential PLC | **16** | 340 |
| Devcap 2 Partnership | **20** | 20 |
| Howick Place Office S.a.r.l. | **—** | 231 |
| Achadonn Limited | **—** | 20 |
| Included in interest receivable for the year are amounts charged to the following partnerships and associates: | | |
| Devcap 2 Partnership | **430** | — |
| Achadonn Limited | **73** | 54 |

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

| | **2013 £'000** | 2012 £'000 |
|---|---|---|
| Castlegate House Partnership | **678** | 678 |
| Terrace Hill Residential PLC | **19,143** | 14,943 |
| Devcap 2 Partnership | **5,188** | 5,188 |
| Two Orchards Limited (in administration) | **5,000** | 5,000 |
| Achadonn Limited | **2,888** | 2,796 |
| | **32,897** | 28,605 |

All amounts are due to group subsidiary companies, excluding an amount of £4.3 million from Terrace Hill Residential PLC due to Terrace Hill Group plc.

Amounts due from Achadonn Limited, Castlegate House Partnership, Terrace Hill Residential PLC, Devcap 2 Partnership and Two Orchards Limited have been fully provided.

The relationship with the partnerships is disclosed in note 13.

## 25 RELATED PARTY TRANSACTIONS CONTINUED

### Terrace Hill Residential PLC

As stated in note 13 the group has accounted for its 49% share of Terrace Hill Residential PLC as an associate company. Of the other 51% shareholding in that company, 49% is held by the Skye Investments group and 2% by R F M Adair. Skye Investments Limited is a company ultimately owned by family trusts for the benefit of R F M Adair and family. As part of the security arrangements for the financing of a residential investment property portfolio by Terrace Hill Residential PLC, Skye Investments Limited had 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 (2012: £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 agreed a fee of 4.41% per annum on £5.0 million (being the amount by which the Skye Investments Limited guarantee exceeded the guarantee provided by the group), which is accrued in the group accounts. The charge in the year was £0.2 million (2012: £0.2 million) and the total accrued at the end of the year is £0.7 million (2012: £0.5 million). Following the discharge of the security guarantees as noted below, interest on the guarantee fee has ceased to accrue under this agreement. As at 12 December 2013 the group had paid £0.1 million in respect of this liability.

During the year Terrace Hill Residential PLC sold the majority of its residential investment portfolio to third parties with a small portfolio sold to one of the group's subsidiaries. The assets were sold to the group at market value of £5.3 million. In consideration for Skye Investments Limited's agreement for the acquisition of the properties from Terrace Hill Residential PLC, the group has agreed to share with Skye Investments Limited the profits or losses on the sale of these assets to a third party. At the year end £0.1 million has been accrued in a subsidiary company regarding this share of profits. The security guarantees provided by Skye Investments Limited and Terrace Hill Group plc were discharged by the bank in exchange for each party assuming a portion of Terrace Hill Residential PLC's residual bank debt. Terrace Hill Group plc assumed £4.2 million of the debt from Terrace Hill Residential PLC. The majority of this assumed debt was repaid prior to year end by Terrace Hill Group plc and has subsequently been fully repaid post year end.

## 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
AT 30 SEPTEMBER 2013

| | Notes | 30 September 2013 £'000 | 30 September 2012 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 4 | **43,151** | 12,294 |
| | | **43,151** | 12,294 |
| **Current assets** | | | |
| Debtors due within one year | 5 | **2,548** | 36,737 |
| Cash at bank and in hand | | **564** | 536 |
| | | **3,112** | 37,273 |
| **Creditors:** amounts falling due within one year | 6 | **(7,910)** | (3,719) |
| **Net current assets** | | **(4,798)** | 33,554 |
| **Provision for liabilities:** guarantee | 6 | **—** | (6,011) |
| **Total assets less current liabilities** | | **38,353** | 39,837 |
| **Capital and reserves** | | | |
| Called up share capital | 9 | **4,240** | 4,240 |
| Share premium account | 10 | **18,208** | 18,208 |
| Share scheme reserve | 10 | **1,396** | 990 |
| Own shares | 10 | **(609)** | (609) |
| Capital redemption reserve | 10 | **849** | 849 |
| Merger reserve | 10 | **7,412** | 7,412 |
| Profit and loss account | 10 | **6,857** | 8,747 |
| **Shareholders' funds** | | **38,353** | 39,837 |

The financial statements were approved by the board and authorised for issue on 12 December 2013 and were signed on its behalf by:

Philip Leech.   JMAusten

**P A J Leech**
Director

**J M Austen**
Director

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

COMPANY OVERVIEW
STRATEGIC REPORT
CORPORATE GOVERNANCE
FINANCIAL STATEMENTS

## 1 ACCOUNTING POLICIES

### Accounting convention

The accounts have been prepared under UK GAAP and the historical cost convention and in accordance with the Companies Act 2006.

### 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.

Where the company has a legal obligation to a third party in relation to the losses of an associate, the company fully provides for its share and the charge is recognised in the profit and loss account of the company.

### Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when the dividends are paid. 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 £1,890,000 (2012: £3,131,000 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 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 |
|---|---|
| **Cost or valuation** | |
| At 1 October 2012 | 27,885 |
| Additions | 30,865 |
| Capital contribution on share scheme options to employees of subsidiaries | 406 |
| **At 30 September 2013** | **59,156** |
| Cost | 59,156 |
| Valuation | — |
| | **59,156** |
| **Amounts written off** | |
| At 1 October 2012 | 15,591 |
| Written off during the year | 414 |
| **At 30 September 2013** | **16,005** |
| **Net book value** | |
| **At 30 September 2013** | **43,151** |
| At 30 September 2012 | 12,294 |

## 5 DEBTORS

| | **2013 £'000** | 2012 £'000 |
|---|---|---|
| Amounts due within one year: | | |
| Trade debtors | **130** | 16 |
| Prepayments and accrued income | **335** | 560 |
| Amounts due from subsidiaries | **2,063** | 34,779 |
| Other debtors | **20** | — |
| Deferred tax asset | **—** | 1,382 |
| | **2,548** | 36,737 |

## 6 CREDITORS

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Amounts due within one year: | | |
| Bank loans and overdrafts | **700** | – |
| Trade creditors | **469** | 433 |
| Accruals and deferred income | **1,203** | 819 |
| Amounts due to subsidiaries | **5,067** | 1,690 |
| Other creditors | **471** | 777 |
| | **7,910** | 3,719 |
| Provision for liabilities: guarantee | **–** | 6,011 |
| | **7,910** | 9,730 |

## 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 movement in the year is shown below:

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| At 1 October 2012 | **1,382** | – |
| (Debited)/credited to the profit and loss account | **(1,382)** | 1,382 |
| **At 30 September 2013** | **–** | 1,382 |

## 9 CALLED UP SHARE CAPITAL

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| **Authorised** | | |
| 500,000,000 (2012: 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 (2012: 211,971,299) ordinary shares of 2 pence each | **4,240** | 4,240 |

## 10 RESERVES

| | Share scheme reserve £'000 | Share premium £'000 | Own shares £'000 | Capital redemption reserve £'000 | Merger reserve £'000 | Profit and loss account £'000 |
|---|---|---|---|---|---|---|
| At 1 October 2011 | 653 | 43,208 | (609) | 849 | 14,688 | (20,398) |
| Loss for the year | — | — | — | — | — | (3,131) |
| Share-based payments | 337 | — | — | — | — | — |
| Merger reserve movement | — | — | — | — | (7,276) | 7,276 |
| Reserve transfers | — | (25,000) | — | — | — | 25,000 |
| At 1 October 2012 | 990 | 18,208 | (609) | 849 | 7,412 | 8,747 |
| Loss for the year | — | — | — | — | — | (1,890) |
| Share-based payments | 406 | — | — | — | — | — |
| **At 30 September 2013** | **1,396** | **18,208** | **(609)** | **849** | **7,412** | **6,857** |

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

| | **2013 £'000** | 2012 £'000 |
|---|---|---|
| Loss for the financial year | **(1,890)** | (3,131) |
| Share-based payments | **406** | 337 |
| Net reduction to shareholders' funds | **(1,484)** | (2,794) |
| Opening shareholders' funds | **39,837** | 42,631 |
| Closing shareholders' funds | **38,353** | 39,837 |

## 12 FINANCIAL COMMITMENTS

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

| | **Land and buildings 2013 £'000** | Land and buildings 2012 £'000 |
|---|---|---|
| Operating leases which expire: | | |
| After five years | **1,245** | 1,245 |
| | **1,245** | 1,245 |

## 13 CONTINGENT LIABILITIES AND GUARANTEES

The company has given a guarantee of £600,000 (2012: £600,000) as part of its development obligations.

## 14 CONTROLLING PARTY

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

At 30 September 2013 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 |
|---|---|---|
| Middlehaven Properties Limited | 100% | Property development |
| PCG Investments Limited | 100% | Investment holding company and property development |
| Terrace Hill Limited | 100% | Investment holding company and property development |
| Terrace Hill (Baltic) Limited | 100% | Property development |
| Terrace Hill Baltic (No 3) 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 (Feethams) Limited | 100% | Property development |
| Terrace Hill (Herne Bay) Limited | 100% | Property development |
| Terrace Hill (Howick Place) Investments Limited | 100% | Investment holding company |
| Terrace Hill (Management) Limited | 100% | Management and administration |
| Terrace Hill Mayflower Plaza Limited | 100% | Property development |
| Terrace Hill (Middlehaven) Limited | 100% | Investment holding company and property development |
| Terrace Hill (Middlesbrough) Limited | 100% | Property development |
| Terrace Hill (Midsomer) Limited | 100% | Property development |
| Terrace Hill North East Limited | 100% | Investment holding company and property development |
| Terrace Hill Projects Limited | 100% | Project co-ordination and management services |
| Terrace Hill (Property Developments) No 2 Limited | 100% | Property development |
| Terrace Hill (Redcliff Street) Limited | 100% | Property development |
| Terrace Hill (Skelton) Limited | 100% | Property development |
| Terrace Hill Southampton Limited | 100% | Property development |
| Terrace Hill (Stokesley) Limited | 100% | Property development |
| Terrace Hill (Sunderland) Limited | 100% | Property development |
| Terrace Hill (Victoria Street) Limited | 100% | Property development |
| Westview Investments Limited | 100% | Investment holding company and property development |

The group has taken advantage of the exemption in section 410 of the Companies Act 2006 only to disclose a list comprising solely of the principal subsidiaries. A full list of subsidiaries will be sent to Companies House with the next annual return.

# FINANCIAL STATEMENTS

## SUMMARY FIVE-YEAR FINANCIAL HISTORY

| | | IFRS | | | | |
|---|---|---|---|---|---|---|
| | Unit | **Year ended 30 September 2013** | Year ended 30 September 2012 | Year ended 30 September 2011 | Eleven months ended 30 September 2010 | Year ended 31 October 2009 |
| Revenue | £'000 | **48,486** | 65,899 | 67,766 | 30,747 | 29,065 |
| Profit/(loss) before tax | £'000 | **5,615** | 7,464 | (10,239) | 17,874 | (61,919) |
| Tax | £'000 | **(1,271)** | (58) | (184) | (2,818) | 3,135 |
| Profit/(loss) after tax | £'000 | **4,930** | 1,742 | (10,423) | 15,056 | (58,784) |
| Dividends per share | pence | **—** | — | — | — | — |
| Basic earnings per share | pence | **2.34** | 0.83 | (4.94) | 7.14 | (27.87) |
| Diluted earnings per share | pence | **2.33** | 0.82 | (4.94) | 7.14 | (27.87) |
| EPRA triple NAV | pence | **27.71** | 26.84 | 26.60 | 34.50 | 26.56 |
| 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 | **22.50** | 10.00 | 17.88 | 18.25 | 17.00 |

The financial information shown above 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 2013

| Size of holding | Number | Number of shares | % |
|---|---|---|---|
| 1–1,000 | 119 | 48,420 | 0.02 |
| 1,001–10,000 | 565 | 2,733,980 | 1.29 |
| 10,001–100,000 | 535 | 14,024,327 | 6.62 |
| 100,001–1,000,000 | 66 | 18,443,231 | 8.70 |
| 1,000,001 and over | 15 | 176,721,341 | 83.37 |
| | 1,300 | 211,971,299 | 100.00 |

### LONDON STOCK EXCHANGE

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

### SHARE PRICE (PENCE PER ORDINARY SHARE)

| | |
|---|---|
| 1 October 2012 | 10.00 |
| 30 September 2013 | 22.50 |

### FINANCIAL CALENDAR

| | |
|---|---|
| Annual General Meeting | 27 February 2014 |
| Half-year results | June 2014 |
| Full-year results | December 2014 |

### WEBSITE

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