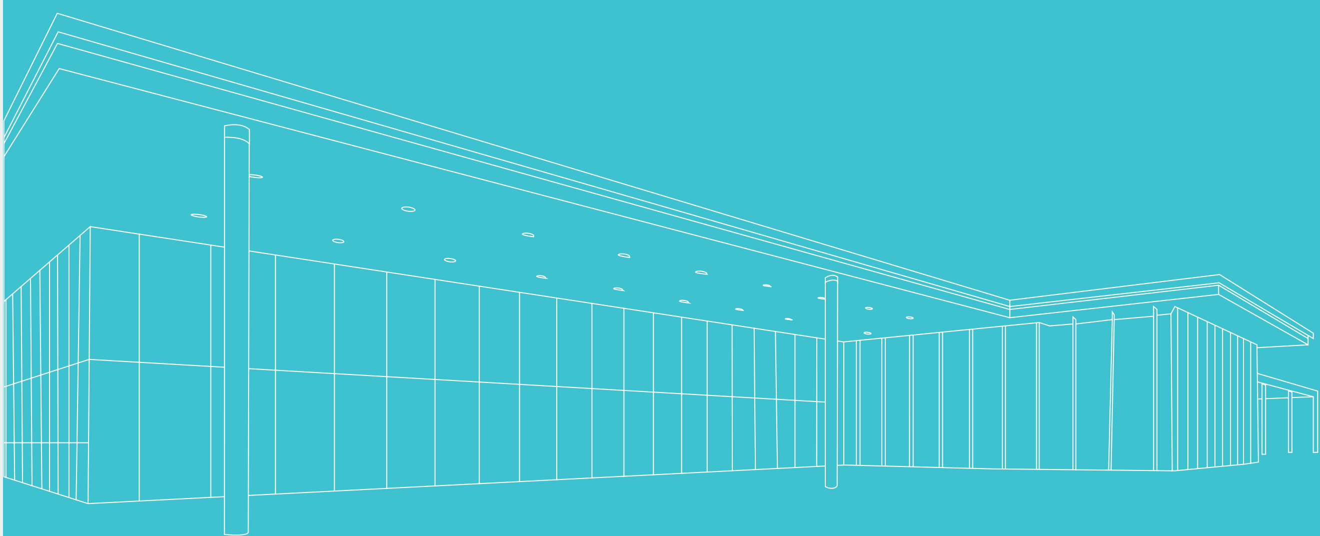
Terrace Hill Group plc

Annual Report and Accounts 2012

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.



FINANCIAL HIGHLIGHTS:

- EPRA Net Asset Value (NAV) per share increased by 0.7% to 28.3 pence (30 September 2011: 28.1 pence)
- EPRA Triple NAV per share increased by 1.1% to 26.8 pence (30 September 2011: 26.6 pence)
- Revenue profit[1] increased 110% to £11.8 million (2011: £5.6 million)
- IFRS profit before tax of £1.8 million (30 September 2011: loss of £10.2 million)
- IFRS net assets increased to £50.2 million at 30 September 2012, up from £48.1 million at 30 September 2011
- Good progress on strategy of reducing the group's level of debt:
  - Net debt reduced by £4.2 million to £47.2 million during the period
  - EPRA gearing percentage of 78.2% at 30 September 2012, down from 86.0% at 30 September 2011

OPERATIONAL HIGHLIGHTS:

- Foodstore business continues to perform strongly – three new stores pre-let, forward funded and under construction. Four sites in the planning process and nine further sites are under consideration
- Completion of central London office-led mixed use scheme at Howick Place in Victoria
- Expected start on site at 29,000 sq ft retail and office development in Savile Row/Conduit Street, London W1 in Q1 2013
- 1,100-bed student accommodation scheme in Southampton fully pre-let to the University of Southampton and conditional forward funding agreement exchanged with Legal & General. The development is due for completion in August 2014
- Exchanged contracts with Darlington Borough Council to develop a new 134,000 sq ft, £30.0 million, leisure complex in the town centre which is to be anchored by a nine-screen Vue cinema and an 80-bedroom Whitbread hotel
- Planned sale of residential portfolio progressing ahead of schedule, with £97.1 million of disposals during the period, and strategies in place to divest the balance of properties over the coming 12–18 month period
- Good progress with the letting and disposal of non-core regional assets including office units at Filton, Farnborough and Teesside as well as industrial units at Christchurch

(1) Profit before tax and valuation movements on investment and development properties and before contributions from our joint venture and associated undertakings.

Read more about us online at www.terracehill.co.uk

EPRA Net Asset Value pence per share

28.3p +0.7% (2011: 28.1p)

EPRA Triple Net Asset Value pence per share

26.8p +1.1% (2011: 26.6p)

Revenue profit[1]

£11.8m +110% (2011: 5.6m)

Balance sheet gearing reduced to

78.2% (2011: 86.0%)

EPRA Triple Net Asset Value pence per share

"I am increasingly confident that the combination of the strength of our development business and our skill at dealing with non-core assets will continue to drive further growth in shareholder value."

ROBERT F M ADAIR
EXECUTIVE CHAIRMAN

SUMMARY

- EPRA NAV and EPRA Triple NAV up by 0.7% and 1.1% respectively
- Revenue profit up 110%
- Net debt reduced by £4.2 million
- Foodstore business performing strongly

I am very pleased to report our financial results for the 12 months ended 30 September 2012 where we have made good progress on all operational and financial fronts as well as in fulfilling our strategy of focusing the business on opportunities where we can better leverage our core development expertise in order to improve value and earnings for shareholders.

The group made a pre-tax revenue profit in the year (which is profit before valuation movements and contributions from associates) of £11.8 million compared with a revenue profit of £5.6 million for the 12 months ended 30 September 2011. This increase is largely due to the recognition of profits at four foodstore projects in the year. The group's IFRS profit before tax also showed a strong improvement to £1.8 million compared with a loss of £10.2 million in the preceding 12 months. Our EPRA Net Asset Value (NAV) has increased by 0.7% to 28.3 pence per share (28.1 pence per share at 30 September 2011) and our EPRA Triple NAV has risen by 1.1% to 26.8 pence per share (26.6 pence per share at 30 September 2011). The EPRA NAV includes adjustments to reflect the market value of the group's development properties where the value is above cost.

The backbone of our business is now clearly focused on our core commercial property development skills and this has never been more evident than in our highly successful foodstore development programme. Over the past three and a half years we have either developed or are currently developing new foodstores or have obtained planning consents and sold sites to retailers in seven locations across the UK. In total, this represents 510,000 sq ft of new foodstores with a capital value of £121.0 million.

During the period under review we have commenced the construction of two new foodstores for Sainsbury's which are located in Sunderland and Sedgefield and one for Asda in Skelton, East Cleveland. All of these have been forward funded by investment purchasers or the retailer themselves, thus minimising residual risks for the group. We have also secured new sites for foodstores in Midsomer Norton and St. Austell and have submitted a planning application at our site in Herne Bay for a 99,653 sq ft Sainsbury's foodstore. Our EPRA NAV reflects substantially all the profits from the foodstore projects at Sunderland, Sedgefield and Skelton but does not include any contribution from the schemes at Midsomer Norton, St. Austell and Herne Bay, nor from others mentioned in the business review. We expect these to contribute materially to our NAV.

There has been some slackening in the pace of expansion from some retailers in this sector. Our recent experience is that they are still acquisitive for sites which fill gaps in their portfolios and their size requirement has reduced somewhat to reflect a lower emphasis on non-food sales. Despite this, our team of dedicated site finders and development executives throughout our regional office network is continuing to find new and exciting opportunities for us to grow our foodstore development pipeline and we currently have nine new sites under consideration.

Elsewhere in the regions we have unearthed two exceptional development opportunities including a 1,100-bed student accommodation scheme in Southampton. This project has been pre-let in its entirety to the University of Southampton and we obtained detailed planning in July 2012. A conditional contract for the forward funding of the development has been exchanged with Legal & General and completion of the development is scheduled for the middle of 2014.

Additionally, I am delighted that we have exchanged contracts with Darlington Borough Council to develop a leisure complex on land they own in the centre of the town. Plans for the development include a nine-screen cinema and an 80-bedroom hotel where terms have been agreed with Vue Cinemas and Whitbread respectively. These will be complemented by nine restaurant units bringing the total size of the scheme to 134,000 sq ft with an end value of approximately £30.0 million. We have also seen good progress with the letting and disposal of non-core regional assets including office units at Filton, Farnborough and Teesside and industrial units at Christchurch.

In central London we have completed our £160.0 million office and residential joint venture development at Howick Place in Victoria where occupational interest has been strong in the short period since handover from the contractor. At Conduit Street in Mayfair, where we are acting as development manager on a 29,000 sq ft retail and office development, we obtained planning consent in the summer and are targeting a start on site early next year. We are incentivised on this scheme by performance returns.

Our planned exit from the residential property investment sector has continued ahead of programme with the disposal during the reporting period of £97.1 million of property (both wholly owned properties and through our associate Terrace Hill Residential PLC) and we have strategies in place for the disposal of the balance of the portfolios over the next 12–18 months. This carefully managed process is allowing us to maximise potential value from the disposals.

I am very pleased with the reduction in the level of our debt. Our net debt has reduced to £47.2 million, representing an EPRA gearing percentage of 78.2%, down from 86.0% at 30 September 2011, with a loan to value ratio of 49.2% (48.5% at 30 September 2011). As a consequence of the disposal of properties by our associated company, Terrace Hill Residential PLC, our net debt, including our share of joint venture and associated undertakings, has fallen sharply to £85.7 million from £148.6 million at 30 September 2011 with our EPRA total see-through net gearing percentage falling to 142.1% from 248.6%. The loan to value ratio including our share of joint venture and associated undertakings was 66.2% at 30 September 2012, compared with 66.9% at 30 September 2011. Gearing will continue to fall substantially as the remaining assets in Terrace Hill Residential PLC are sold.

We successfully completed a capital reduction in the second half of the year which has had the effect of eliminating a deficit of distributable reserves and removing an obstacle to the resumption of dividend payments. As I have previously stated we wish to resume a progressive dividend policy as soon as sensible, however, for the moment we are focused on reducing our debt.

Outlook

I am increasingly confident that the combination of the strength of our development business and our skill at dealing with non-core assets will continue to drive further growth in shareholder value. As a result I would hope to see a narrowing of our share price discount to our EPRA NAV over the coming months.

Finally I would like to take this opportunity to thank the group's directors and staff for their continued hard work which is very much reflected in these results.

Robert FM Adair

Robert F M Adair
Chairman
11 December 2012

"2012 has been a very active year for Terrace Hill during which we have progressed numerous foodstore developments, as well as new opportunities in the student accommodation, leisure and central London office sectors."

PHILIP LEECH
CHIEF EXECUTIVE

SUMMARY

- Foodstores – one of the market leaders in large format foodstore development with three in construction phase, four in planning phase and nine under negotiation
- Central London offices – recently completed development at Howick Place, Victoria and about to start on Savile Row, Mayfair
- Regional opportunities – progressed with 1,100-bed student accommodation scheme in Southampton and exchanged contracts on leisure scheme in Darlington

Our business is now clearly focused on our core skills of commercial property development which we pursue in a carefully risk managed and opportunistic way. Our model has proved to be resilient and profitable over the past 20 years, through a number of financial cycles, and we continue to generate excellent returns from the development business. Our main areas of development activity are concentrated in the three distinct sectors of foodstores, central London offices and regional opportunities. Each of these is described in more detail below.

Foodstores

We are now one of the market leaders in large format foodstore development. This is a sector where we have site finders and development executives dedicated to the business in each of our offices which gives us a unique advantage in terms of sourcing sites on a national basis, whilst understanding the local idiosyncrasies of planning and politics. Our focus has been rewarded with an impressive track record: over the past three and a half years we have developed or are in the process of developing new foodstores or have obtained planning consent and sold sites to retailers in seven locations across the UK. This represents 510,000 sq ft of new foodstores with a capital value of £121.0 million.

We are constantly evaluating new sites and maintain very close contacts with the retailers, which allows us to pursue opportunities that are largely off-market. This gives us a competitive advantage and minimises our risk. Highlights from our foodstore development programme during the period under review include the following:

Wessington Way, Sunderland

This 98,679 sq ft development pre-let to Sainsbury's on a 25 year lease was forward funded by Osprey Equity Partners in April for a total consideration of £35.0 million. Construction is proceeding well on site and completion is scheduled for March 2013.

Skelton, East Cleveland

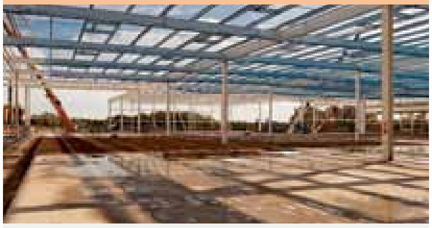
Planning consent for this 41,800 sq ft Asda foodstore was confirmed in the spring following an unsuccessful judicial review by the Co-op. Asda subsequently entered into a forward funding and purchase agreement and construction started in June with completion programmed for March 2013.

WESSINGTON WAY
SUNDERLAND

NOVEMBER 2011
PLANNING OBTAINED

The site was formerly a car dealership.

MARCH 2012
ON SITE



Construction of this 98,679 sq ft store with undercover car park commenced in March 2012.

NOVEMBER 2012
ALMOST COMPLETED

Construction well advanced and on schedule for completion in March 2013.

Sedgefield, Co Durham
The forward funding agreement for this development was concluded in September 2012 with The Eyre Estate Investment Fund for a total consideration of £16.1 million. Construction of the development is now well advanced with completion scheduled for May 2013. The 48,786 sq ft scheme has been pre-let to Sainsbury's for a 25 year term with RPI linked rent reviews and includes a petrol filling station.

Altira Park, Herne Bay
We have recently submitted a detailed planning application for a 99,653 sq ft Sainsbury's foodstore on a 6.84 acre site on the edge of the town. The development has been pre-let, subject to planning, for a 25 year term with RPI linked rental uplifts. We expect to start construction towards the middle of 2013.

St. Austell, Cornwall
We are working with Cornwall Council to promote a five acre Council-owned site on the edge of the town centre for a foodstore development. We submitted a detailed planning application in October 2012 and we expect the application to be determined in March 2013. Both Morrisons and Sainsbury's have requirements for the town.

Midsomer Norton, Somerset
We have recently entered into a conditional contract to acquire a 12.2 acre former industrial site on the edge of Midsomer Norton for the development of a foodstore and 6.5 acres of residential. We are currently in pre-planning application consultation with the Local Authority and detailed pre-letting negotiations with a retailer. We intend to sell the residential element of the site to a house builder following the grant of planning consent. Sainsbury's, Morrisons and Asda have requirements for the town.

Gateway Middlehaven, Teesside
Progress with the planning application process on this 16 acre site has been slower than anticipated, however matters are now moving forward more satisfactorily and we expect to make a full planning application for a 125,000 sq ft foodstore, a public house and a number of restaurants, in the spring next year. The foodstore has been pre-let, subject to planning, to Sainsbury's.

Whitchurch, Shropshire
We completed the sale of this site to Sainsbury's for £9.8 million in April this year following the grant of planning consent for a 55,000 sq ft retail unit and a petrol filling station.

Prestwich, Greater Manchester
We continue to work with the landowner and retailer on a re-configured arrangement for this development and anticipate being able to submit a planning application by the middle of 2013.

Hyde, Greater Manchester
The retailer with whom we had agreed terms has now decided not to purchase this site. We do not consider we can reasonably pursue any alternative strategy on this site and it is therefore no longer being progressed.

Other sites
We currently have nine further foodstore deals under consideration which we expect will contribute strongly to profits over the next two to three years. Our experience with the foodstore operators is that they are now focused on store sizes ranging from 30,000 to 70,000 sq ft as they reduce their exposure to non-food. We believe our expertise and the foodstore operators' requirements are well matched and that we will be successful in developing more foodstores for them in the future.

Central London offices

We have been very active in the central London office and mixed use development sector for a number of years. Over the past 12 years we have developed nine schemes in the West End, representing 350,000 sq ft and a capital value of £290.0 million. Our current activity comprises the following two schemes:

Howick Place, Victoria

The construction of this development has recently completed and comprises 135,000 sq ft of offices along with 25,300 sq ft of residential apartments. There has already been a strong level of interest in both the office space and apartments and we expect the lettings to progress well in an area which has become increasingly attractive but where rents are still at a meaningful discount to Mayfair and St. James's. The development has been carried out in joint venture with Doughty Hanson.

Savile Row/Conduit St W1

We act as the development manager on this office and retail development which is due to start on site in early 2013. We obtained detailed planning consent for this 29,000 sq ft scheme in March 2012 and the strength of the occupational market in this prime Mayfair location points towards premium lettings when the building completes in July 2014. We are rewarded through management and investment performance fees.

Regional opportunities

Our regional office network gives us a unique insight into local development opportunities in areas often overlooked by national companies. A number of these schemes are progressing well as follows:

Mayflower Plaza Southampton

In July 2012 we obtained detailed planning consent for a 1,100-bed student residential scheme on our site in the centre of Southampton and at the same time pre-let the development in its entirety to Southampton University. Since then we have entered into a conditional agreement with Legal & General, who propose to forward fund and purchase the completed development. We expect this contract to become unconditional in January 2013 and the scheme is scheduled for completion in August 2014. This development is being carried out in a joint venture with Osborne Group which is also the selected building contractor.

Feethams Leisure Development, Darlington

We entered into a conditional contract with the town centre site's landowners, Darlington Borough Council, to develop a leisure complex which will include a nine-screen cinema, an 80-bedroom hotel and nine restaurant units. Terms have already been agreed with Vue Cinemas and Whitbread and we intend to submit a planning application in early 2013, with anticipated completion of the £30.0 million development towards the end of 2014.

Christchurch

The sale of units in the first phase of small industrial units at our site in Christchurch is proceeding very well with the sale of 12 out of the 17 units now completed. There is strong interest in subsequent phases.

MAYFLOWER HALLS, SOUTHAMPTON

In July 2012 we obtained detailed planning consent for a 1,100-bed student residential scheme on our site in the centre of Southampton and at the same time pre-let the development in its entirety to Southampton University.

Terrace Hill Development Partnership

Over the past 12 months we have seen improved letting activity within this closed ended development fund in which the group has a 20% interest.

At Teesside we have recently let the whole of a 10,000 sq ft building to GSE, a design engineering business, at £106,000 p.a. and a floor of the last building to URS, also an engineering business. This leaves only two floors comprising 6,800 sq ft available to let out of the initial 33,000 sq ft three office building development. In addition at Filton, we have seen rental growth with new lettings at £19.00 per sq ft and lease terms of seven to ten years, while at Farnborough we have sold one building and let another, leaving three buildings to let and sell comprising 7,300 sq ft in total.

Non-core assets

We have a number of non-core assets which we have held for some time. These largely comprise development sites where we have been progressing planning and exploring development options. They will be developed or sold over time to maximise returns. Examples of our success in this strategy include our sites at Southampton and Christchurch mentioned above.

Residential investment

We are making good progress with our strategy of disposing of our residential assets in a controlled process over a period of time. Over the past 12 months we have sold (both wholly owned and through our associate Terrace Hill Residential PLC) 766 units for a consideration of £97.1 million and we are in an advanced position over the sale of the balance of our portfolios. We expect this process to be completed within the next 12-18 months which will leave our business free to focus on our core strength of commercial development.

The construction of this development has recently completed and comprises 135,000 sq ft of offices along with 25,300 sq ft of residential apartments.

HOWICK PLACE, VICTORIA, LONDON

JON AUSTEN
GROUP FINANCE DIRECTOR

SUMMARY

- Profit before tax of £1.8 million compared with £10.2 million loss before tax in 2011
- EPRA NAV increased by 0.7% to £60.3 million
- Look-through net gearing fell by 42.8% to 142.1%
- Look-through net debt reduced from £148.6 million to £85.7 million

Financial results and Net Asset Value
The group's IFRS NAV increased by 4.3% in the year ended 30 September 2012 to £50.2 million (23.7 pence per share) from £48.1 million (22.7 pence per share) at 30 September 2011 and our EPRA NAV also increased by 0.7% to £60.3 million (28.3 pence per share) from £59.8 million (28.1 pence per share) at 30 September 2011.

The group regards the EPRA NAV as a key performance indicator as it includes the market value adjustments of our commercial properties and is therefore a better indicator of the true value of the group, whereas the IFRS NAV includes our development properties at the lower of cost and net realisable value. As the majority of our activity is concerned with the development of commercial properties which undergo changes in value as we bring projects to fruition, the IFRS NAV cannot recognise the market value of such properties if their value is above cost.

During the year, the increase in our EPRA NAV was caused principally by the following:

- 5.6 pence per share increase from continuing operations;
- 1.1 pence per share decrease resulting from movement in the value of our development properties;
- 3.9 pence per share decrease resulting from our investment in joint ventures and associates; and
- 0.5 pence per share decrease arising from the movement in value and sales of our residential investment properties.

The group's EPRA Triple NAV, which takes into account any tax payable on profits arising if all the group's properties were sold at the values used for EPRA NAV, the write off of goodwill and any other fair value adjustments, increased by 1.1% to £57.1 million (26.8 pence per share) from £56.5 million (26.6 pence per share) at 30 September 2011.

Net debt	Net gearing	EPRA NAV pence per share
£47.2m -8.2% (2011: £51.4m)	78.2% -9.1% (2011: 86.0%)	28.3p +0.7% (2011: 28.1p)

Statement of comprehensive income
Revenue for the year ended 30 September 2012 includes:

(i) recognition of revenue under foodstore construction contracts and related site sales of £58.1 million in respect of our sites at Sunderland, Skelton, Sedgefield and Whitchurch;

(ii) rental income of £1.4 million in respect of commercial properties;

(iii) rental income of £1.1 million in respect of residential properties;

(iv) recognition of £2.1 million of deferred profit on a site in the Thames Valley; and

(v) sales income of £2.8 million in respect of the sales of units at our Christchurch development.

Rental income of £1.0 million and related costs of £1.5 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 £0.6 million relating to the movement in provisions for various properties. In particular, we have released a provision of £4.4 million made in previous years relating to our site at Southampton following the substantial progress we have made to date on that scheme, and made further provisions of £5.0 million in respect of certain non-core properties where the group believes that net realisable value has fallen. Direct costs also include full provision of £2.8 million against the group's advances to Achadonn Limited, a joint venture which owns land in Scotland, following the decision by the shareholders in January 2012 not to support a bank loan to the joint venture. The balance of the group's investment in Achadonn of £0.4 million has been written off as an impairment of £0.2 million and share of post tax loss of £0.2 million.

Administrative expenses for the year ended 30 September 2012 amounted to £4.9 million (2011: £4.3 million). The increase is largely due to the inclusion of an impairment charge in relation to goodwill, higher professional fees and a higher share scheme charge (which is credited to retained earnings and so has no impact on NAV).

Calculation of EPRV NAV and EPRA Triple NAV (unaudited)

	30 September 2012			30 September 2011		
	£'000	Number of shares 000s	Pence per share	£'000	Number of shares 000s	Pence per share
Audited net asset value	**50,213**	**211,971**	**23.69**	48,134	211,971	22.71
Revaluation of property held as current assets	**10,026**			11,641		
Shares to be issued under the LTIP	**12**	**595**		12	595	
EPRA NAV	**60,251**	**212,566**	**28.34**	59,787	212,566	28.13
Increase %			**0.7%**			
Goodwill	**(3,188)**			(3,336)		
EPRA Triple NAV	**57,063**	**212,566**	**26.84**	56,451	212,566	26.56
Increase %			**1.1%**			

Statement of comprehensive income continued
The group incurred a loss of £0.6 million on the disposal of certain wholly owned residential investment properties which were disposed of in advance of a bank re-financing. The group continues to dispose of its residential properties in pursuit of its strategic decision to exit the residential sector as announced in last year's results.

The group has also increased its provision against its investment in Terrace Hill Residential PLC by a further £5.1 million such that the total amount provided at 30 September 2012 is now £6.0 million. Of this, £4.4 million had been included in the results for the six month period ended 31 March 2012. Terrace Hill Residential PLC is in the process of an orderly disposal of its property portfolio and in the period realised £91.4 million from its sales programme, reflecting a 3% discount on its 30 September 2011 carrying values.

Finance income less finance costs amounted to £1.5 million (2011: £4.6 million). The group paid £4.4 million of interest in the year of which £0.6 million was in respect of projects where work is currently underway and which has been capitalised and £1.6 million which was paid under an interest shortfall guarantee that was fully provided in previous years. The 2011 comparative includes a provision of £2.0 million in respect of this interest shortfall guarantee which has now been fully settled. There are no abnormal items in the current period.

The post tax loss of £0.2 million (2011: £1.7 million) arising from our share of joint venture and associated undertakings is represented by the group's share of the results of Achadonn Limited before the group provided for its investment as noted elsewhere.

The group's tax charge for the period of £0.1 million (2011: £0.2 million) reflects principally the restatement of our deferred tax asset to current rates of corporation tax and utilisation of losses reflected in the deferred tax asset to shelter tax profits arising on the property sales noted above.

Balance sheet
The group's IFRS net assets at 30 September 2012 were £50.2 million, an increase of 4.3% on the amount reported at 30 September 2011 of £48.1 million. Investment properties fell from £21.4 million at 30 September 2011 to £15.2 million at 30 September 2012 due principally to the sale of £5.3 million of wholly owned residential investment properties. Trade and other receivables have increased by £7.3 million to £17.3 million at 30 September 2012 due principally to the inclusion in the results of the sales of three foodstores (Sunderland, Skelton and Sedgefield) where under IFRS substantially all of the overall profit is recognised ahead of the receipt of cash, the

Summary of debt position

	September 2012	September 2011
Net debt	**£47.2m**	£51.4m
Net gearing	**78.2%**	86.0%
Net debt including share of joint venture and associated undertaking debt	**£85.7m**	£148.6m
Total net gearing	**142.1%**	248.6%
Loan to value	**49.2%**	48.5%

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

balance sheet reflecting amounts still owed under those contracts. These projects are expected to reach practical completion in the first half of 2013 when the outstanding amounts due under the sales contracts will be received. Other payables have increased from £0.9 million at 30 September 2011 to £6.0 million at 30 September 2012, reflecting the provision the group has made for its investment in Terrace Hill Residential PLC referred to above.

The group's gearing has continued to improve and net debt as a percentage of EPRA net assets was 78.2% at 30 September 2012 compared with 86.0% at 30 September 2011 and 93.1% at 31 March 2012. The amount of net debt has also reduced to £47.2 million at 30 September 2012 from £51.4 million at 30 September 2011. The group's look-through net gearing, which includes its share of the net debt in those joint venture and associated undertakings in which it has ongoing liabilities, fell substantially from 248.6% at 30 September 2011 to 142.1% at 30 September 2012. The group's net debt, including its share of joint venture and associated undertakings as above, also fell sharply, from £148.6 million at 30 September 2011 to £85.7 million at 30 September 2012.

Financial resources and capital management

The group funds itself through its fixed capital, cash and debt facilities. As the group has not raised new fixed 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. Comments on both these items are elsewhere in this review.

Our net debt reduced in the period by £4.2 million. This was largely due to the completion of forward funding agreements on our Sunderland, Skelton and Sedgefield foodstore projects and the sale of the Whitchurch site, all of which generated strong cash inflows for the group. The most significant cash outflows were in relation to development expenditure on our active development projects and our administrative expenses. Our gross debt reduced by £9.8 million funded by property sales and cash resources.

As reported in the interim statement, the group has been successful in re-financing a number of bank loans in the period. The group's two residential bank loans have been re-financed with new maturities of March 2014 and March 2015 and the maturity of the debt within Terrace Hill Residential PLC has also been extended.

Debt expiry profile

	On balance sheet £m	Off balance sheet* £m
Bank loans and overdraft repayable in one year	40.7	38.5
Bank loans repayable in more than one year	12.5	–
Total	53.2	38.5

* Group share.

Financial resources and capital management continued

These extended maturities greatly help the group's orderly withdrawal from the residential sector.

The group has £4.8 million of outstanding loan re-financings to complete where we are in discussion with the lender and the group expects to achieve a satisfactory re-financing.

The group has a number of loan facilities maturing in 2013. We have opened discussions with the relevant lenders and are confident that we shall negotiate new, extended maturities in the same way that we have been successful in the past. After the year end we have agreed new terms on one bank loan and as a result £3.0 million of debt shown as short-term on the balance sheet is now repayable between 2014 and 2017 as shown in the narrative of note 19 to the accounts.

The average maturity of group debt is now 12.5 months with a weighted average margin of 3.3%, with the weighted maturity extending to 16.2 months if we take into account loans where terms have been commercially agreed but not yet documented. The average maturity of joint venture and associated undertaking debt is now 19.9 months with a weighted average margin of 2.9%.

The group continues to monitor interest rates closely and continues to believe that the risk on the upside is limited. The group therefore has no interest rate hedging in place and consequently benefits from the very low current LIBOR rates. 72% of joint venture and associated undertaking debt is hedged with an average interest rate of 2.9%.

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.

As noted in the chairman's statement, the group carried out a reduction of capital during the year, during which the Scottish Court of Session confirmed the group's transfer of £25.0 million from its share premium account to distributable reserves. This exercise has eliminated the deficit on the distributable reserves account and has put the company in a position so that, should it decide to do so, it can now pay dividends.

Philip Leech
Philip Leech
Chief executive
11 December 2012

Jon Austen
Group finance director

Summary of loan to value ratios of group property

	September 2012 %	September 2011 %
Commercial property	**52.2**	52.1
Residential property	**76.7**	93.3
Total	**49.2**	48.5

Managing risk effectively lies at the heart of our operations.

The group's operations result in it encountering numerous risks. These are managed by the board of directors with delegated authority to certain senior personnel. This team meets on a regular basis to consider new business opportunities, review existing projects, contemplate long-term group funding and identifying and quantifying the risks arising from these activities. Appropriate personnel are then tasked with managing these activities within acceptable risk levels and reporting on a monthly basis with updates.

The key risk areas, associated mitigants and comments, are set out below.

Risk management has always been a core part of our DNA and our systematic approach to mitigating these risks has been enshrined within our strategic and operational practices since our inception. We believe that risk management gives us the opportunity to outperform rather than using the systems for defensive processes. For risk to be properly controlled, we need to identify, assess and manage both known and "known unknowns" and relate them to our return model.

DESCRIPTION	MITIGANT	CHANGE IN THE YEAR	
STRATEGY			
Implementing a strategy inconsistent with the market environment, 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. The implementation of the exit from residential investments is proceeding satisfactory	➡	• This process is unchanged from last year and we believe we have the right strategy setting procedure in place to deliver growth in shareholder value
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 reputation has enabled us to continue to win new business throughout the year
Collapse of a JV partner	Detailed counterparty credit due diligence is undertaken prior to entering into a JV with a party. Our legal agreements are binding but also flexible	➡	• Our partners on our various joint ventures are financially strong

DESCRIPTION	MITIGANT		CHANGE IN THE YEAR
DEVELOPMENT			
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	➡	• We have not suffered from any construction delays in the past year
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-price 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 joint venture developments
Reputational risk	The group has an excellent reputation built over a quarter of a century and benefits from the transparency arising from an AIM listing	➡	• The group has not suffered from any damage to its reputation
INVESTMENT			
Devaluation due to lower rental rates, increased voids, yield shift and building condition	Our in-house asset management team ensures that buildings are optimally leased, within market constraints, thereby minimising the risk of devaluation	➡	• No change

DESCRIPTION	MITIGANT		CHANGE IN THE YEAR
FINANCIAL			
Solvency, liquidity, interest rate, re-financing and covenant breach risk	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 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 – the in-house, treasury team models various scenarios including interest rate shocks to ascertain the optimal mix of fixed and floating rate debt Re-financing – credit facilities are monitored closely and bank discussions are held in good time prior to debt maturity 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	→	• The group has managed its liquidity well during the year, negotiating a 364 day working capital facility in March and benefiting from the timely receipts of cash from disposals of foodstores. There have been no unanticipated interest costs and the group has been proactive in discussing re-financing with banks
PERSONNEL			
Attracting and retaining the right people	We offer a competitive remuneration package which includes both short and long-term incentives 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. Staff turnover remaining low
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 cover for all its activities	→	• 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	↑	• Legislation is increasing, but the group has been compliant

Recent developments, both political and corporate, have thrust business ethics into the spotlight. As a quoted business, which has been in operation for over 25 years, we have a track record of honesty, transparency and fairness that we need to maintain in order be seen as a credible counterpart for all of our stakeholders and to generate further business opportunities for the group.

EMPLOYEES

We provide our staff with a stimulating and energetic working ambience with inspirational leadership at board level, which helps us to recruit the best people, to grow them and then retain them. We believe that this gives us a sustainable competitive advantage over our peer group.

Progress from 2011

Recruitment – we are a meritocracy, recruiting the best, committed to equal opportunities and with a very diverse workforce. We have never had to enforce our equal opportunities, harassment or sexual discrimination policies.

- All recruitment during the year has been undertaken on the basis of merit with candidates having to undergo a rigorous selection process. There have been no equality or harassment policy violations during the year.

Growth – the implementation of a more streamlined, flat culture, reported last year, has encouraged our people to be more ambitious and to take enhanced responsibility for the decisions delegated to them. All staff are encouraged to enrol for CPD courses to build their skillsets and stay current with regards to legislation.

- The successful outcome of our streamlined organisation can be seen in our results for 2012. Relevant staff are up to date with CPD.

Retention – our culture whereby those who create value are commensurately remunerated has led to a virtuous circle which benefits all of our stakeholders.

The average length of service of staff is as follows:

	Total number of staff	Average length of service (years)
Property	17	9.4
Finance	9	7.0
Administration	5	10.0
Total	31	8.8

OPERATIONS

Our tenants often have sustainability targets which we aim to better by working with our consultants and using our in-house skills.

- All buildings reaching practical completion during the year have met the occupiers' sustainability targets.

COMMUNITY AND CHARITY

Our developments are always carried out with sensitivity to local needs and after taking into account the feedback we receive from local stakeholders. We are proud that our foodstores provide employment both locally and in the wider distribution chain.

- We have achieved planning consent by offering planners schemes which enhance and benefit lifestyles within their local communities and also provide employment. Our foodstore developments at Sedgefield, Skelton and Sunderland will result in 925 new jobs being created.
- Terrace Hill Group successfully fielded a team for the Etape Pennines, raising £8,000 for Marie Curie Cancer Care.

Our team did a great job cycling the Etape Pennines in a bike ride for Marie Curie, cycling 80 miles, climbing over 8,000 feet and raising £8,000 for the charity.

ACTIVITIES IN 2011–12

925 NEW JOBS IN THREE NEW FOODSTORES

Our site at Sedgefield will create 250 new jobs once the development is completed.

We expect the ASDA store at Skelton to employ 225 staff when open.

Our Sunderland development will generate approximately 450 new jobs when open.

ENVIRONMENTAL

Our products are driven by our desire to reduce wastage and emissions and to deliver developments that are as efficient as possible. This is good business sense for us, as our customers and tenants often have environmental targets to comply with, particularly within the foodstore sector.

Please see the following case studies on our student accommodation and foodstore successes.

MAYFLOWER HALLS, SOUTHAMPTON

This scheme of 1,100 student accommodation units commenced on site in November 2012. It is a redevelopment of a key brownfield city centre site that has remained derelict for over 20 years. Southampton's District Energy System will provide sustainable power, heating and hot water for the students.

Other sustainable initiatives will include: limited car parking (15 spaces only); a dedicated, regular bus service to the university; green roof; sustainable drainage system; low energy lighting; underground storage for 400 cycles; and BREEAM "Excellent" certification.

FOODSTORES

The Sunderland, Sedgefield and Skelton foodstores are rated BREEAM "very good" with Sunderland and Sedgefield benefiting from biomass boilers, sun pipes, air source heat pumps and photo voltaics to the roof, and Skelton having air source heat pumps and heat exchange/reclaim technologies.

All of these foodstores have recycling centres and electric car charging points and incorporate segregated walking and cycling routes with Skelton also having a bus interchange.

In addition to this, no material is being taken off site at Sedgefield and Skelton due to an earthworks balance exercise and Sunderland has recycled 99% of the waste generated on site.

The vehicle km savings are: Sunderland 1.5m km and 236 tonnes carbon emission saving per annum; Sedgefield 9.3m km and 1,516 tonnes carbon emission saving per annum; and Skelton 15m km savings and 2,445 tonnes carbon emission savings per annum.

ROBERT F M ADAIR MA ACA CTA FGS (56)
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 MRICS (49)
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 (56)
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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London W1B 1PN

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Suite E
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Farnham
Surrey GU9 7LL

REGISTERED NUMBER
SC149799

WILL WYATT (44)
NON-EXECUTIVE DIRECTOR

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

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

BOB DYSON MSC FRICS (64)
NON-EXECUTIVE DIRECTOR (INDEPENDENT)

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

NICK GASKELL ACA (63)
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 which hold the majority of the chairman's shareholding in the company and is therefore considered non-independent.

The directors submit their report and the group financial statements for the year ended 30 September 2012.

Results and dividends

The group profit for the year, after taxation and non-controlling interests, amounted to £1,742,000 (2011: loss £10,423,000). The directors do not recommend the payment of a final dividend.

Principal activities and review of business

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

The chairman's statement, business review and risk management on pages 2 to 15 include a review of the development, risks and uncertainties of the business of the company and its subsidiaries during the year.

Directors and their interests

The beneficial interests of the directors who held office at 30 September 2012 in the ordinary share capital of the company were as follows:

	At 30 September 2012 Ordinary shares	At 30 September 2011 Ordinary shares
R F M Adair	**133,266,239**	130,241,329
P A J Leech	**2,389,447**	1,639,447
J M Austen	**440,000**	180,000
W P Wyatt	**—**	—
R W Dyson	**623,000**	623,000
A N Gaskell	**—**	—

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

	Year ended 30 September 2012	Year ended 30 September 2011
R F M Adair	**585,484**	534,063
P A J Leech	**585,484**	534,063
J M Austen	**496,065**	452,497

The number of outstanding awards granted to directors are:

	At 30 September 2012	At 30 September 2011
R F M Adair	**1,119,547**	2,367,396
P A J Leech	**1,119,547**	2,367,396
J M Austen	**1,542,621**	2,599,889

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

	At 30 September 2012	At 30 September 2011
R F M Adair	**1,833,333**	495,495
P A J Leech	**1,833,333**	495,495
J M Austen	**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.

Creditors' payment policy and practice
It is the group's payment policy to ensure settlement of suppliers' invoices in accordance with the stated terms. In certain circumstances, settlement terms are agreed prior to any business taking place. It is our policy to then abide by those terms.

At the year end the group had an average of 18 days (2011: 18 days) of purchases outstanding in trade creditors.

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

Substantial shareholding
At 11 December 2012, Caledonia Investments PLC held 17,600,000 ordinary shares of 2.0 pence, equivalent to 8.3% of the issued share capital of the company. The company is not aware of any other holding (other than the chairman's holding noted on page 20) in excess of 3.0% of the issued share capital of the company.

Statement of directors' responsibilities in respect of the accounts
The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and 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.

Statement of directors' responsibilities in respect of the accounts continued

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 which 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
11 December 2012

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

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

The board and its committees

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

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.

The board and its committees continued

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 43. 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 2011 to date	6	6	1
R F M Adair	6		
P A J Leech	6		
J M Austen	6		
R W Dyson	6	5	1
A N Gaskell	6	6	
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.

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 2012, options over 3,871,023 shares were awarded to participating staff, of which 1,667,033 were awarded to executive directors. The performance conditions attached to these awards are as follows (relating to the three year period ending 30 September 2014):

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

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

Non-executive directors

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

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

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

Directors' emoluments

The remuneration of each director, excluding long-term incentive awards, during the year ended 30 September 2012 is detailed in the table below:

	Salary £'000	**Benefits £'000**	**Bonus £'000**	**Total for year ended 30 September 2012 £'000**	Total for year ended 30 September 2011 £'000	**Pension contribution for year ended 30 September 2012 £'000**	Pension contribution for year ended 30 September 2011 £'000
Executive							
R F M Adair	**294**	**–**	**–**	**294**	293	**50**	98
P A J Leech	**294**	**1**	**–**	**295**	361	**50**	39
J M Austen	**244**	**3**	**–**	**247**	295	**49**	45
Non-executive							
R W Dyson	**23**	**–**	**–**	**23**	23	**–**	–
A N Gaskell	**17**	**–**	**–**	**17**	17	**–**	–
A J Green	**–**	**–**	**–**	**–**	8	**–**	–
W P Wyatt	**17**	**–**	**–**	**17**	17	**–**	–
Total	**889**	**4**	**–**	**893**	1,014	**149**	182

Directors' interest in performance share awards

Full details of outstanding performance share awards in the company held by executive directors at 30 September 2012 are shown below:

	Number of awards	Date of grant	Grant price	Exercise period
R F M Adair	534,063	29 March 2011	24.75p	1 October 2013 – 28 March 2021
R F M Adair	585,484	28 March 2012	10.50p	1 October 2014 – 27 March 2022
P A J Leech	534,063	29 March 2011	24.75p	1 October 2013 – 28 March 2021
P A J Leech	585,484	28 March 2012	10.50p	1 October 2014 – 27 March 2022
J M Austen	594,059	1 September 2008	25.00p	1 September 2010 – 31 August 2017
J M Austen	452,497	29 March 2011	24.75p	1 October 2013 – 28 March 2021
J M Austen	496,065	28 March 2012	10.50p	1 October 2014 – 27 March 2022

FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF TERRACE HILL GROUP PLC

We have audited the financial statements of Terrace Hill Group plc for the year ended 30 September 2012 which comprise the Consolidated statement of comprehensive income, the Consolidated statement of changes in equity, the Consolidated and company balance sheets, the Consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 30 September 2012 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 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
11 December 2012

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER 2012

	Notes	Year ended 30 September 2012 £'000	Year ended 30 September 2011 Restated* £'000
Revenue	2	**66,965**	67,766
Direct costs		**(52,150)**	(61,333)
Gross profit		**14,815**	6,433
Administrative expenses	5	**(4,895)**	(4,343)
Loss on disposal of investment properties		**(570)**	–
Impairment of joint venture and associated undertakings	12	**(219)**	(1,000)
Provision for financial guarantee for debts of associate	15	**(5,094)**	(917)
Loss on revaluation of investment properties	11	**(530)**	(4,128)
Operating profit/(loss)		**3,507**	(3,955)
Finance income	4	**261**	508
Finance costs	4	**(1,768)**	(5,097)
Share of joint venture and associate undertakings post tax loss	12	**(200)**	(1,695)
Profit/(loss) before tax		**1,800**	(10,239)
Tax	7	**(58)**	(184)
Profit/(loss) from continuing operations		**1,742**	(10,423)
Total comprehensive income		**1,742**	(10,423)
Profit/(loss) attributable to:			
Equity holders of the parent		**1,742**	(10,423)
		1,742	(10,423)
Total comprehensive income/(expense) attributable to:			
Equity holders of the parent		**1,742**	(10,423)
		1,742	(10,423)
Basic earnings per share	8	**0.83p**	(4.94)p
Diluted earnings per share	8	**0.82p**	(4.94)p

* See note 1 Restatement of prior years.

The notes on pages 34 to 60 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

AT 30 SEPTEMBER 2012

	Notes	**30 September 2012 £'000**	30 September 2011 Restated* £'000	30 September 2010 Restated* £'000
Non-current assets				
Investment properties	11	**15,178**	21,393	25,541
Property, plant and equipment	10	**145**	176	235
Investments in equity accounted associates and joint venture	12	**1,000**	1,419	2,656
Other investments	12	**4,279**	4,279	4,455
Intangible assets	9	**3,188**	3,336	3,336
Deferred tax assets	18	**6,467**	5,710	5,789
		30,257	36,313	42,012
Current assets				
Development properties	13	**70,284**	72,961	104,902
Trade and other receivables	14	**17,251**	9,918	22,763
Cash and cash equivalents		**5,999**	11,630	1,759
		93,534	94,509	129,424
Total assets		**123,791**	130,822	171,436
Non-current liabilities				
Bank loans	17	**(12,466)**	(36,230)	(36,286)
Other payables	19	**—**	(917)	(3,000)
Deferred tax liabilities	18	**(851)**	—	—
		(13,317)	(37,147)	(39,286)
Current liabilities				
Trade and other payables	15	**(10,537)**	(15,624)	(14,640)
Other payables – guarantee	15	**(6,011)**	—	—
Current tax liabilities		**(3,014)**	(3,109)	(3,012)
Bank overdrafts and loans	17	**(40,699)**	(26,808)	(56,137)
		(60,261)	(45,541)	(73,789)
Total liabilities		**(73,578)**	(82,688)	(113,075)
Net assets		**50,213**	48,134	58,361
Equity				
Called up share capital	20	**4,240**	4,240	4,240
Share premium account	21	**18,208**	43,208	43,208
Own shares	21	**(609)**	(609)	(609)
Capital redemption reserve	21	**849**	849	849
Merger reserve	21	**7,088**	7,088	7,088
Retained earnings	21	**20,437**	(6,642)	3,585
Total equity		**50,213**	48,134	58,361

* See note 1 Restatement of prior years.

The financial statements were approved by the board and authorised for issue on 11 December 2012 and were signed on its behalf by:

P A J Leech
Director

J M Austen
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AT 30 SEPTEMBER 2012

	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 2010	4,240	43,208	(609)	849	7,088	3,585	58,361
Total comprehensive loss for the year	—	—	—	—	—	(10,423)	(10,423)
Share-based payments	—	—	—	—	—	196	196
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**

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2012

	Year ended 30 September 2012 £'000	Year ended 30 September 2011 Restated* £'000
Cash flows from operating activities		
Profit/(loss) before taxation	**1,800**	(10,239)
Adjustments for:		
Finance income	**(261)**	(508)
Finance costs	**1,768**	5,097
Share of joint venture and associated undertakings post tax loss	**200**	1,695
Provision for financial guarantee for debts of associate	**5,094**	917
Depreciation and impairment charge	**207**	94
Loss on revaluation of investment properties	**530**	4,128
Impairment of associated undertakings	**219**	1,000
Loss on disposal of investment properties	**570**	—
Profit on sale of tangible fixed assets	**—**	(64)
Share-based payments	**337**	196
Cash flows from operating activities before change in working capital	**10,464**	2,316
Decrease in property inventories	**3,289**	31,856
(Increase)/decrease in trade and other receivables	**(7,334)**	10,934
Decrease in trade and other payables	**(3,475)**	(1,999)
Cash generated from operations	**2,944**	43,107
Finance costs paid	**(4,380)**	(4,425)
Finance income received	**261**	590
Tax paid	**(59)**	(147)
Net cash flows from operating activities	**(1,234)**	39,125
Investing activities		
Sale of investment property and tangible fixed assets	**5,115**	100
Sale of investments	**—**	167
Purchase of property, plant and equipment	**(28)**	(70)
Net cash flows from investing activities	**5,087**	197
Financing activities		
Borrowings drawn down	**10,426**	1,325
Borrowings repaid	**(19,824)**	(30,743)
Net cash flows from financing activities	**(9,398)**	(29,418)
Net (decrease)/increase in cash and cash equivalents	**(5,545)**	9,904
Cash and cash equivalents at 1 October 2011	**11,543**	1,639
Cash and cash equivalents at 30 September 2012	**5,998**	11,543
Cash at bank and in hand 30 September 2012	**5,999**	11,630
Bank overdraft at 30 September 2012	**(1)**	(87)
Cash and cash equivalents at 30 September 2012	**5,998**	11,543

* See note 1 Restatement of prior years.

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 properties and financial instruments. The company has elected to prepare its financial statements, on pages 61 to 66, in accordance with UK GAAP.

Changes in accounting policies

The group has adopted the following new or amended IFRS and IFRIC interpretations in the year:

IAS 1	Presentation of Items of Other Comprehensive Income
IAS 12	Income Taxes
IAS 24	Related Party Disclosures – revised definition of related parties

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
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 2012 and which have not been adopted early, are expected to have a material effect on the group's future financial statements.

Basis of consolidation

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

Business combinations

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

Goodwill

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

1 Accounting policies continued

Goodwill continued

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.

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	length of lease

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 profit 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.

Restatement of prior years

Cash flow statement

The cash flow has been restated from that published in the 30 September 2011 accounts for the period then ended to correct mis-classifications in the "cash flow from operating activities" segment of the cash flow statement. The impact on 30 September 2011 cash flow has been to decrease the depreciation and impairment charge by £3,738,000, reduce the share of joint venture and associated undertakings post tax loss by £917,000, increase the provision for financial guarantee over debts of associate by £917,000, increase the decrease in property inventories by £4,226,000, reduce the decrease in trade and other receivables by £2,864,000 and to reduce the increase in trade and other payables by £2,376,000. There was no change to cash generated from operations as previously reported.

Statement of comprehensive income

The statement of comprehensive income has been restated from that published in the 2011 accounts to correct a mis-classification. The impact has been to reduce the share of joint venture and associated undertakings post tax loss by £917,000 and to increase the provision for financial guarantee over debts of the associate by £917,000. There has been no impact on the loss reported for the year then ended 30 September 2011.

Investments

The balance sheets at 30 September 2011 and 30 September 2010 have been restated to correct the mis-classification of an amount of £4,273,000 previously disclosed as a receivable within current assets. It is considered more appropriate to include the amount in "other investments" under the heading of non-current assets. The impact of the restatement is to increase other investments by £4,273,000 and reduce trade and other receivables by the same amount. The restatement has no impact on net assets for both balance sheet dates.

1 Accounting policies continued

Restatement of prior years continued

Non-current liabilities

The balance sheet at 30 September 2011 has been restated to correct the mis-classification of an amount of £917,000 previously disclosed within current liabilities under other payables. It is considered more appropriate to include the amount in "other payables" under the heading of non-current liabilities. The impact of the restatement is to increase non-current other payables by £917,000 and to reduce trade and other payables by the same amount. There was no equivalent amount for reclassification in the 2010 financial statements. The restatement has no impact on the net assets at the balance sheet date.

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.

Going concern

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

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

Bank facilities – the group maintains a regular dialogue with its lenders and keeps them informed of how the group is trading. A consequence of the nature of the group's business is that it has a number of discrete bank facilities, each secured on the project they finance. Consequently, the group always has some debt to re-finance and during the year re-financed £13.5 million of group debt, which includes a new £2.5 million working capital facility, agreed terms on a further £3.6 million and re-financed £43.3 million (group share) of joint venture and associated undertaking debt. The group has a further £4.8 million loan where we are in discussions with the lender and expect to achieve a satisfactory re-financing. The group has £30.3 million of debt facilities to be re-financed by 30 September 2013 which will diminish as developments complete and assets are disposed of. Discussions with regards these re-financings will be commenced closer to their maturities. The group maintains a good dialogue with a sizeable number of banks and believes that the remaining loans that require re-financing will be re-financed on acceptable terms. Terrace Hill Residential PLC, an associate company, has £77.8 million of bank debt with a maturity of June 2014 which can be accelerated to September 2013 under certain circumstances. Terrace Hill Residential PLC has to date exceeded all bank loan amortisation requirements and has a close relationship with its lender. As a consequence the group believes that it is likely the June 2014 maturity will remain but the impact on the group of an acceleration of the maturity to September 2013 is not expected to be material.

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

Investment property and inventory

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

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

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 9.

2 Revenue

	2012 £'000	2011 £'000
Sales of development properties	**62,583**	61,200
Rents receivable	**3,517**	4,608
Project management fees and other income	**865**	1,958
	66,965	67,766

Construction contracts

	2012	2011
Number of construction contracts	**4**	2
	£'000	£'000
Revenue on construction contracts	**47,004**	16,030
Costs of construction contracts	**(33,141)**	(12,878)
Profit on construction contracts	**13,863**	3,152

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

	2012 £'000	2011 £'000
Revenue	**15,579**	45,170

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 the foodstores and central London office developments. The group does not operate outside the UK.

	Residential 2012 £'000	**Commercial 2012 £'000**	**Unallocated items 2012 £'000**	**Total 2012 £'000**	Residential 2011 £'000	Commercial 2011 £'000	Unallocated items 2011 £'000	Total 2011 £'000
Statement of comprehensive income								
Revenue	**1,066**	**65,899**	**—**	**66,965**	1,356	66,410	—	67,766
Direct costs	**(407)**	**(51,743)**	**—**	**(52,150)**	(518)	(60,815)	—	(61,333)
Gross profit	**659**	**14,156**	**—**	**14,815**	838	5,595	—	6,433
Administrative expenses	**—**	**—**	**(4,895)**	**(4,895)**	—	—	(4,343)	(4,343)
Loss on disposal of investment properties	**(570)**	**—**	**—**	**(570)**	—	—	—	—
Impairment of associated undertakings and joint venture	**—**	**(219)**	**—**	**(219)**	—	(1,000)	—	(1,000)
Provision for financial guarantee over debts of associate	**(5,094)**	**—**	**—**	**(5,094)**	(917)	—	—	(917)
Loss on revaluation of investment properties	**(30)**	**(500)**	**—**	**(530)**	(3,628)	(500)	—	(4,128)
Operating profit/(loss)	**(5,035)**	**13,437**	**(4,895)**	**3,507**	(3,707)	4,095	(4,343)	(3,955)
Net finance costs	**(481)**	**(1,033)**	**7**	**(1,507)**	(514)	(4,073)	(2)	(4,589)
Share of results of joint venture before tax	**—**	**(200)**	**—**	**(200)**	—	(236)	—	(236)
Share of results of associated undertakings before tax	**—**	**—**	**—**	**—**	(1,459)	—	—	(1,459)
Profit/(loss) before tax	**(5,516)**	**12,204**	**(4,888)**	**1,800**	(5,680)	(214)	(4,345)	(10,239)

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, four major customers generated £54,751,000 of revenue. Each of these represented 10% or more of the total revenues. The amounts were £9,826,000, £26,256,000, £8,896,000 and £9,773,000.

In the year ended 30 September 2011, there were also four major customers that generated £50,680,000 of revenue. Each of these represented 10% or more of the total revenues. The amounts were £7,187,000, £8,843,000, £26,750,000 and £7,900,000.

3 Segmental information continued

	Residential 2012 £'000	Commercial 2012 £'000	Unallocated items 2012 £'000	Total 2012 £'000	Residential 2011 £'000	Commercial 2011 £'000	Unallocated items 2011 £'000	Total 2011 £'000
Balance sheet								
Investment properties	**12,928**	**2,250**	**—**	**15,178**	18,643	2,750	—	21,393
Property, plant and equipment	**—**	**17**	**128**	**145**	—	15	161	176
Investments – associates and joint venture	**—**	**1,000**	**—**	**1,000**	—	1,419	—	1,419
Other investments	**—**	**4,279**	**—**	**4,279**	—	4,279	—	4,279
Intangible assets	**823**	**2,365**	**—**	**3,188**	971	2,365	—	3,336
Deferred tax assets	**—**	**—**	**6,467**	**6,467**	—	—	5,710	5,710
	13,751	**9,911**	**6,595**	**30,257**	19,614	10,828	5,871	36,313
Development properties	**—**	**70,284**	**—**	**70,284**	—	72,961	—	72,961
Trade and other receivables	**231**	**17,020**	**—**	**17,251**	257	9,661	—	9,918
Cash	**493**	**5,506**	**—**	**5,999**	93	11,537	—	11,630
	724	**92,810**	**—**	**93,534**	350	94,159	—	94,509
Borrowings	**(9,987)**	**(43,178)**	**—**	**(53,165)**	(17,407)	(45,631)	—	(63,038)
Trade and other payables	**(6,515)**	**(10,033)**	**—**	**(16,548)**	(1,330)	(15,211)	—	(16,541)
Current tax	**—**	**—**	**(3,014)**	**(3,014)**	—	—	(3,109)	(3,109)
Deferred tax liabilities	**—**	**—**	**(851)**	**(851)**	—	—	—	—
	(16,502)	**(53,211)**	**(3,865)**	**(73,578)**	(18,737)	(60,842)	(3,109)	(82,688)
Net assets	**(2,027)**	**49,510**	**2,730**	**50,213**	1,227	44,145	2,762	48,134

4 Finance costs and finance income

	2012 £'000	2011 £'000
Interest payable on borrowings	**2,381**	3,471
Interest shortfall guarantee	**—**	2,000
Interest capitalised	**(613)**	(374)
Finance costs	**1,768**	5,097
Interest receivable from cash deposits and other financial assets	**261**	508
Finance income	**261**	508

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. In the prior year £177,000 of gains were included in finance income, representing the reversal of fair value adjustments on interest rate swaps that expired during the year.

5 Administrative expenses

Is arrived at after charging/(crediting):

	2012 £'000	2011 £'000
Depreciation of property, plant and equipment	**59**	94
Impairment of goodwill	**148**	–
Gain on disposal of property, plant and equipment	**–**	(64)
Operating lease charges – rent of properties	**1,393**	1,327
Share-based payment remuneration	**337**	196
Fees paid to BDO LLP in respect of:		
– audit of the parent company and consolidated annual accounts	**119**	100
– audit of the company's subsidiaries	**35**	35
– audit of the group's associates	**25**	17
– review of the interim consolidated group accounts	**35**	30
– other services	**15**	–

6 Employment costs

(a) Total staff costs

	2012 £'000	2011 £'000
Wages and salaries	**4,231**	4,777
Employer's national insurance contributions and similar taxes	**549**	676
Defined contribution pension cost	**487**	497
Share-based payments	**337**	196
	5,604	6,146

(b) Directors' remuneration

	2012 £'000	2011 £'000
Emoluments	**855**	980
Amounts paid to third parties in respect of directors' services	**34**	34
Defined contribution pension cost	**149**	182
Share-based payments	**151**	180

Pension contributions to defined contribution schemes were made during the year in respect of three directors (2011: three).

Remuneration of highest paid director

	2012 £'000	2011 £'000
Total emoluments (excluding pension contributions)	**295**	361
Defined contribution pension cost	**50**	39
	345	400

There is a charge of £53,000 (2011: £63,000) in respect of the share-based payments scheme.

The average monthly number of employees during the year was:

	2012	2011
Property	**17**	19
Administration	**14**	16
	31	35

7 Tax on profit/(loss) on ordinary activities

(a) Analysis of charge in the year

	2012 £'000	2011 £'000
Current tax		
UK corporation tax on profit/(loss) for the period	**—**	59
Adjustment in respect of prior periods	**(36)**	46
Total current tax	**(36)**	105
Deferred tax		
Impact of rate change	**222**	210
Origination and reversal of temporary differences	**(128)**	(131)
Total deferred tax charge	**94**	79
Total tax charge	**58**	184

(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% (2011: 27%). The differences are explained below:

	2012 £'000	2011 £'000
Profit/(loss) before tax	**1,800**	(10,239)
Plus joint venture and associates	**200**	1,695
Profit/(loss) attributable to the group before tax	**2,000**	(8,544)
Profit/(loss) multiplied by the average rate of UK corporation tax of 25% (2011: 27%)	**500**	(2,307)
Disallowables	**(181)**	2,366
Other temporary differences	**(447)**	(131)
Impact of rate change	**222**	210
	94	138
Adjustments in respect of prior periods	**(36)**	46
Total tax charge	**58**	184

(c) Associates and joint venture

The group's share of tax on the associates and joint venture is £Nil (2011: £Nil).

8 Earnings per ordinary share

The calculation of basic earnings per ordinary share is based on a profit of £1,742,000 (2011: loss £10,423,000) and on 210,951,299 (2011: 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 2012 is based on earnings of £1,742,000 and on 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. The calculation of diluted earnings per share for 2011 is the same as that for basic earnings per share.

9 Intangible fixed assets – goodwill

	£'000
Cost	
At 1 October 2010	5,997
At 1 October 2011	5,997
At 30 September 2012	**5,997**
Impairment	
At 1 October 2010	(2,661)
At 1 October 2011	(2,661)
Charge for year	(148)
At 30 September 2012	**(2,809)**
At 30 September 2012	**3,188**
At 30 September 2011	3,336

Impairment tests for goodwill

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

	2012 £'000	2011 £'000
Commercial properties	**2,365**	2,365
Investment properties	**823**	971
	3,188	3,336

The value of goodwill allocated to the investment activity is directly related to a number of residential units held. As these units are disposed of an impairment charge is made. During the period 32 properties were sold and an amount of £148,000 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.

10 Property, plant and equipment

	Leasehold improvements £'000	Motor vehicles £'000	Office equipment £'000	Furniture and fittings £'000	Total £'000
Cost					
At 1 October 2010	159	273	120	216	768
Additions	—	—	69	1	70
Disposals	—	(258)	(3)	(5)	(266)
At 1 October 2011	159	15	186	212	572
Additions	—	2	16	10	28
Disposals	—	—	—	—	—
At 30 September 2012	**159**	**17**	**202**	**222**	**600**
Depreciation					
At 1 October 2010	54	210	93	176	533
Charge for period	16	28	26	24	94
Disposals	—	(224)	(2)	(5)	(231)
At 1 October 2011	70	14	117	195	396
Charge for year	16	—	31	12	59
Disposals	—	—	—	—	—
At 30 September 2012	**86**	**14**	**148**	**207**	**455**
Net book value					
At 30 September 2012	**73**	**3**	**54**	**15**	**145**
At 30 September 2011	89	1	69	17	176

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

11 Investment properties

	£'000
Valuation	
At 1 October 2010	25,541
Transfers	(20)
Loss on revaluation	(4,128)
At 1 September 2011	21,393
Disposals	(5,685)
Loss on revaluation	(530)
At 30 September 2012	**15,178**

The commercial investment properties situated in England owned by the group have been valued as at 30 September 2012 by qualified valuers from CBRE Limited, an independent firm of chartered surveyors, on the basis of open market value. The valuations were carried out in accordance with guidance issued by the Royal Institution of Chartered Surveyors.

Residential investment properties owned by the group have been valued as at 30 September 2012 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.

11 Investment properties continued

	2012 £'000	2011 £'000
Rental income generated from investment property	**1,023**	1,106
Direct rental operating costs	**(447)**	(500)
	576	606

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

12 Investments
Associates and joint venture

	Associates £'000	Joint venture £'000	Total £'000
Cost or valuation			
At 1 October 2010	2,001	655	2,656
Share of results	(1,459)	(236)	(1,695)
Impairment	(1,000)	—	(1,000)
Share of results for period applied against long-term receivables forming part of net investment	1,458	—	1,458
At 1 October 2011	1,000	419	1,419
Share of results	—	(200)	(200)
Impairment	—	(219)	(219)
At 30 September 2012	**1,000**	**—**	**1,000**

The group's interests in its associates, which have been equity accounted in the Consolidated financial statements, were as follows:

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

Terrace Hill Residential PLC is incorporated in Scotland.

Summarised information 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)**

12 Investments continued

Associates and joint venture continued

Summarised information 2012 continued

Terrace Hill Group plc has no legal or constructive obligations to fund the losses of Terrace Hill Development Partnership, Devcap 2 Partnership and Castlegate House Partnership. 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.

In the case of Terrace Hill Residential PLC the group has given a guarantee to the bank as part of its security arrangements and has recognised its share of this obligation. See note 22 for further details.

Summarised information 2011

	Terrace Hill Development Partnership £'000	Devcap 2 Partnership £'000	Castlegate House Partnership £'000	Terrace Hill Residential PLC £'000	Two Orchards Limited £'000	Total £'000
Revenue	2,581	2,508	608	10,989		16,686
(Loss)/profit after taxation	(1,313)	(1,895)	7	(4,849)		(8,050)
Total assets	36,770	42,057	7,290	165,743		251,860
Bank debt	(19,881)	(40,580)	(8,248)	(165,103)		(233,812)
Other liabilities	(19,761)	(12,809)	(2,718)	(34,684)		(69,972)
Total liabilities	(39,642)	(53,389)	(10,966)	(199,787)		(303,784)
Net liabilities	(2,872)	(11,332)	(3,676)	(34,044)		(51,924)
Opening carrying amount of interest under equity method	2,000	—	—	—	1	2,001
Share of results for year	—	—	—	(1,459)	—	(1,459)
Share of results for period applied against long-term receivables forming part of net investment	—	—	—	1,459	(1)	1,458
Impairment	(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	(263)	(494)	2	(2,376)		(3,131)
Cumulative share of unrecognised profit/(loss)	1,426	(856)	(425)	(1,889)		(1,744)

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

12 Investments continued

Associates and joint venture continued

Summarised information 2011 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

	2012 Achadonn Limited £'000	2011 Achadonn Limited £'000
Revenue	**31**	63
Loss	**(399)**	(335)
Total assets	**14,652**	15,067
Bank debt	**(8,110)**	(8,110)
Other liabilities	**(6,104)**	(6,000)
Total liabilities	**(14,214)**	(14,110)
Net assets	**438**	957
At 1 October 2011	**419**	655
Share of results for the period	**(200)**	(236)
Impairment of joint venture	**(219)**	—
At 30 September 2012	**—**	419

The group has provided in full for its investment in and loan to Achadonn Limited, following the decision by the shareholders not to support a bank loan to the joint venture. Subsequently, the joint venture reached agreement with the bank whereby the bank will continue its support, with the joint venture mandated to dispose of its assets within a three-year timescale. There is uncertainty whether sufficient proceeds will be realised to repay the bank and to provide any surplus funds to shareholders. The group considers full provision against its investment and its loan to the joint venture to be the most prudent position and will only release any of this provision when surplus proceeds are remitted to the shareholders.

Other investments

	2012 £'000	2011 £'000	2010 £'000
Other investments	**4,279**	4,279	4,455

Included in other investments is a balance due from Howick Place JV S.a.r.l. totalling £4,273,000 (2011 and 2010: £4,273,000) that has a final maturity date of 31 December 2014.

13 Development properties

	2012 £'000	2011 £'000
At 1 October 2011	**72,961**	104,902
Additions	**28,807**	3,899
Transfers	**—**	20
Disposals	**(30,919)**	(29,754)
Amounts written back on the value of development properties	**4,410**	—
Amounts written off the value of development properties	**(4,975)**	(6,106)
At 30 September 2012	**70,284**	72,961
Included in these figures is capitalised interest of	**8,614**	9,839

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

One property has been written back to cost by an amount of £4,410,000 where the directors have assessed that the net realisable value of the property exceeds the cost, following the conclusion of an agreement for lease on the future development of the site and the grant of planning permission.

14 Trade and other receivables

	2012 £'000	2011 Restated £'000
Trade receivables	**2,507**	2,720
Other receivables	**2,216**	2,665
Trade and other receivables	**4,723**	5,385
Amounts recoverable under construction contracts	**7,558**	—
Prepayments and accrued income	**4,970**	1,819
Amounts due from associates and joint venture	**28,605**	28,379
Provision for amounts due from associates and joint venture	**(28,605)**	(25,665)
	17,251	9,918

At 30 September 2011, trade and other receivables of £14,191,000 have been restated to £9,918,000 being a reclassification of £4,273,000 to "other investments".

Amounts recoverable under construction contracts

	2012 £'000	2011 £'000
Contract costs incurred plus recognised profits less recognised losses to date	**44,979**	—
Less: progress billings	**(37,421)**	—
Contracts in progress at balance sheet date	**7,558**	—

The ageing of trade and other receivables was as follows:

	2012 £'000	2011 £'000
Up to 30 days	**3,228**	2,973
31 to 60 days	**2**	61
61 to 90 days	**7**	7
Over 90 days	**77**	169
Total	**3,314**	3,210
Amounts not yet due	**1,409**	2,175
Closing balance	**4,723**	5,385

No amounts were overdue at the year end.

14 Trade and other receivables continued

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

	2012 £'000	2011 £'000
At 1 October 2011	**25,665**	24,180
Increase in allowance on amounts due from associates and joint venture	**2,940**	1,485
Closing balance	**28,605**	25,665

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

The group has provided in full for the loan to its joint venture, following uncertainty whether sufficient proceeds will be realised on property sales to repay the bank and to provide any surplus funds to shareholders. The group considers full provision against its loan to the joint venture to be the most prudent position. The investment in the joint venture has also been written down as shown in note 12.

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 2012 £'000	Non-financial assets 2012 £'000	Total 2012 £'000	Loans and receivables 2011 £'000	Non-financial assets 2011 £'000	Total 2011 £'000
Current assets						
Trade receivables	**2,507**	**–**	**2,507**	2,720	–	2,720
Other receivables	**2,216**	**–**	**2,216**	2,665	–	2,665
Amounts recoverable under construction contracts	**7,558**	**–**	**7,558**	–	–	–
Prepayments and accrued income	**–**	**4,970**	**4,970**	–	1,819	1,819
Amounts due from associates and joint venture	**–**	**–**	**–**	2,714	–	2,714
Cash and cash equivalents	**5,999**	**–**	**5,999**	11,630	–	11,630
	18,280	**4,970**	**23,250**	19,729	1,819	21,548
Non-current assets						
Other investments	**4,279**	**–**	**4,279**	4,279	–	4,279
	4,279	**–**	**4,279**	4,279	–	4,279

15 Trade and other payables

	2012 £'000	2011 Restated £'000
Trade payables	**3,487**	2,979
Other taxation and social security costs	**1,084**	2,204
Accruals and deferred income	**4,210**	7,195
Other payables	**1,756**	3,246
Other payables – guarantees	**6,011**	–
	16,548	15,624

The group has given a guarantee of £15.0 million (2011: £15.0 million) as part of the security arrangements for the bank facilities of Terrace Hill Residential PLC, one of its associated undertakings. The group has fully provided for its share of net liabilities in its associate. An amount of £6,011,000 (2011: £917,000 included in non-current other payables) is included in other payables in respect of the guarantee and the charge for the year was £5,094,000.

16 Other payables (non-current)

	2012 £'000	2011 Restated £'000
Other payables	—	917

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 2012 £'000	Liabilities not within scope of IAS 39 2012 £'000	Total 2012 £'000	Financial liabilities at amortised cost 2011 £'000	Liabilities not within scope of IAS 39 2011 £'000	Total 2011 £'000
Current payables						
Trade payables	**3,487**	**—**	**3,487**	2,979	—	2,979
Other tax and social security costs	**—**	**1,084**	**1,084**	—	2,204	2,204
Accruals and deferred income	**4,210**	**—**	**4,210**	7,195	—	7,195
Other payables	**7,767**	**—**	**7,767**	3,246	—	3,246
	15,464	**1,084**	**16,548**	13,420	2,204	15,624
Non-current payables						
Other payables	**—**	**—**	**—**	917	—	917
	—	**—**	**—**	917	—	917

17 Bank overdrafts and loans

	2012 £'000	2011 £'000
Bank loans	**53,624**	63,112
Bank overdrafts	**1**	87
	53,625	63,199
Unamortised loan issue costs	**(460)**	(161)
	53,165	63,038
Amounts due:		
Within one year	**40,699**	26,808
After more than one year	**12,466**	36,230
	53,165	63,038

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:

	2012 £'000	2011 £'000
Trade losses	**749**	138
Share-based payments	**163**	(59)
Short-term timing differences	**(818)**	—
	94	79

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

	2012 £'000	2011 £'000
Deferred tax liability		
Short-term timing differences	**851**	—
	851	—

	2012 £'000	2011 £'000
Deferred tax asset		
Share option scheme	**—**	163
Short-term timing differences	**1,382**	—
Trade losses	**5,085**	5,547
	6,467	5,710

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 £17,813,000 (2011: £9,140,000).

19 Financial instruments

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

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.

19 Financial instruments continued

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. Further information is given in note 1 on page 39.

Categories of financial assets and financial liabilities

	2012 £'000	2011 £'000
Current financial assets		
Trade and other receivables	**4,723**	5,385
Amounts due from associates and joint venture	**—**	2,714
Amounts recoverable under construction contracts	**7,558**	—
Cash and cash equivalents	**5,998**	11,543
Total current financial assets	**18,279**	19,642
Non-current financial assets		
Other investments	**4,279**	4,279
Total non-current financial assets	**4,279**	4,279
Total financial assets	**22,558**	23,921

Financial assets measured at fair value amount to £6,000 (2011: £6,000).

The maximum exposure to credit risk in financial assets is £16,560,000 (2011: £12,378,000). The maximum amount due from any single party is £4,279,000 (2011: £4,279,000) included in other investments.

Financial liabilities measured at amortised cost

	2012 £'000	2011 £'000
Current financial liabilities		
Trade and other payables	**15,464**	13,420
Loans and borrowings	**40,745**	26,876
Total current financial liabilities	**56,209**	40,296
Non-current financial liabilities		
Other payables	**—**	917
Loans and borrowings	**12,879**	36,236
Total non-current financial liabilities	**12,879**	37,153
Total financial liabilities	**69,088**	77,449

There are no financial liabilities designated at fair value (2011: £Nil).

19 Financial instruments continued

Interest rate risk profile of financial assets and liabilities

The interest rate profile of financial assets and liabilities of the group at 30 September 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**

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 (2011: £Nil).

The interest rate profile of financial assets and liabilities of the group at 30 September 2011 was as follows:

	Total £'000	Floating rate financial assets £'000	Fixed rate financial assets £'000	Financial assets on which no interest is earned £'000
Sterling	23,921	11,543	3,480	8,898

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

The floating rate financial assets comprise:

- cash on deposit.

The floating rate financial liabilities comprise:

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

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

Borrowings

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

	2012 £'000	2011 £'000
On demand or within one year	**40,745**	26,975
In more than one year but less than two	**9,949**	36,224
In more than two years but less than five	**2,931**	—
	53,625	63,199

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

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

After the year end bank loan terms were renegotiated and as a result an amount of £3,646,000 classified as due within one year of the balance sheet date is now due as follows: £285,000 due within one year, £315,000 due between one and two years and £3,046,000 due in more than two but less than five years.

19 Financial instruments continued

Borrowing facilities

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

	2012 £'000	2011 £'000
Expiring in one year or less	**2,500**	2,698

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)	**442**	**(442)**
Impact on interest receivable – (loss)/gain	**(64)**	**64**
Total impact on pre-tax loss and equity	**378**	**(378)**

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 2011.

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

20 Called up share capital

	2012 £'000	2011 £'000
Authorised:		
500,000,000 (2011: 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 (2011: 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 2010 restated	43,208	(609)	849	7,088	3,585
Total comprehensive income and expense for the year	—	—	—	—	(10,423)
Share-based payments	—	—	—	—	196
Balance 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 30 September 2012	**18,208**	**(609)**	**849**	**7,088**	**20,437**

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. A special resolution was passed during the year at a general meeting to reduce the share premium account, which was later confirmed by the Scottish Court of Session.

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

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

Merger reserve – the merger reserve has arisen following acquisitions where the group's 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 £15.0 million (2011: £15.0 million) as part of the security arrangements for the bank facilities of Terrace Hill Residential PLC, one of its associated undertakings. In the 2012 financial statements the group has included within payables an amount of £6,011,000 (2011: £917,000), being its share of net liabilities in its associate.

The group has given a guarantee of £600,000 (2011: £600,000) as part of the development obligations of another of its associated undertakings.

On the acquisition by Terrace Hill Group plc of a subsidiary company, amounts were repayable in the event of:

(a) disposal of the property/ies prior to an agreed cut-off point; or

(b) the discontinuation of rental income from the property/ies.

The directors are of the opinion that neither of these contingencies will crystallise, since the principal activity of the subsidiary concerned is the letting of the properties for rental income and it is not anticipated that the properties will be disposed of within the timeframe of (a) above. In the event of crystallisation of (a) and/or (b), the subsidiary concerned will be obligated to pay an amount calculated with reference to the properties disposed of/not let out. The maximum sum repayable is £247,000 (2011: £278,000).

Capital commitments relating to development sites are as follows:

	2012 £'000	2011 £'000
Contracted but not provided for	**10,854**	3,171

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 2012, options over 3,871,023 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 2014):

- 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% for 100% vesting.

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

	2012			2011		
	Value of award at date of grant	**Share price for grant**	**Number of share awards granted**	Value of award at date of grant	Share price for grant	Number of share awards granted
Awards outstanding at the start of the period			**17,322,937**			16,463,770
29 March 2012	**1.51p–8.53p**	**10.50p**	**3,871,023**	16.00p–22.80p	24.75p	3,815,915
Awards granted in the period			**3,871,023**			3,815,915
Awards lapsed in the period			**(12,939,111)**			(2,956,748)
Awards outstanding at the end of the period			**8,254,849**			17,322,937

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: 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 £337,000 (2011: £196,000).

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 2012 the Trust held 1,020,000 (2011: 1,020,000) ordinary 2 pence shares in Terrace Hill Group plc at a cost of £609,000 (2011: £609,000). On that date outstanding awards over 17,322,937 (2011: 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 lease rentals payable under non-cancellable operating leases are as follows:

	Land and buildings 2012 £'000	Land and buildings 2011 £'000
In one year or less	**1,357**	1,338
Between two and five years	**5,399**	5,331
In five years or more	**4,117**	5,409
	10,873	12,078

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 2012 £'000	Land and buildings 2011 £'000
In one year or less	**1,668**	1,608
Between two and five years	**5,625**	5,601
In five years or more	**4,732**	6,071
	12,025	13,280

25 Related party transactions

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

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

	2012 £'000	2011 £'000
Castlegate House Partnership	**18**	18
Terrace Hill Residential PLC	**340**	168
Devcap 2 Partnership	**20**	20
Howick Place Office S.a.r.l.	**231**	297
Two Orchards Limited	**—**	18
Achadonn Limited	**20**	40
Skye Investments Limited	**—**	15
Included in interest receivable for the year are amounts charged to the following partnerships and associates:		
Devcap 2 Partnership	**—**	111
Achadonn Limited	**54**	59

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

	2012 £'000	2011 £'000
Castlegate House Partnership	**678**	678
Terrace Hill Residential PLC	**14,943**	14,943
Devcap 2 Partnership	**5,188**	5,188
Two Orchards Limited (in administration)	**5,000**	5,000
Achadonn Limited	**2,796**	2,570
	28,605	28,379

The group has made full provision for the amounts due from Achadonn Limited in the financial year and amounts due from Castlegate House Partnership, Terrace Hill Residential PLC, Devcap 2 Partnership and Two Orchards Limited have been fully provided for in previous years.

The relationship with the partnerships is disclosed in note 12.

25 Related party transactions continued

Terrace Hill Residential PLC

As stated in note 12 the group has accounted for its 49% share of Terrace Hill Residential PLC as an associate company. Of the other 51% shareholding in that company, 49% is held by the Skye Investments group and 2% by R F M Adair. Skye Investments Limited is a company ultimately owned by family trusts for the benefit of R F M Adair and family. As part of the security arrangements for the financing of a residential investment property portfolio by Terrace Hill Residential PLC, Skye Investments Limited has given a guarantee for £20,000,000. Skye Investments Limited and R F M Adair also advanced to Terrace Hill Residential PLC £15,800,000 (2011: £15,800,000) by way of shareholder loans to assist in the funding of the acquisition and the ongoing working capital requirements of the associate. The group has agreed to a fee of 4.41% per annum on £5,000,000 (being the amount by which the Skye Investments Limited guarantee exceeds the guarantee provided by the group), which is accrued in the group accounts. The charge in the year was £218,000 (2011: £217,000) and the total accrued at the end of the year is £521,000 (2011: £303,000).

26 Controlling party

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

COMPANY BALANCE SHEET – UK GAAP

AT 30 SEPTEMBER 2012

	Notes	30 September 2012 £'000	30 September 2011 Restated* £'000
Fixed assets			
Investments	4	**12,294**	12,772
		12,294	12,772
Current assets			
Debtors due within one year	5	**36,737**	42,660
Cash at bank and in hand		**536**	242
		37,273	42,902
Creditors: amounts falling due within one year	6	**(3,719)**	(12,126)
Net current assets		**33,554**	30,776
Provision for liabilities: guarantee	6	**(6,011)**	(917)
Total assets less current liabilities		**39,837**	42,631
Capital and reserves			
Called up share capital	9	**4,240**	4,240
Share premium account	10	**18,208**	43,208
Share scheme reserve	10	**990**	653
Own shares	10	**(609)**	(609)
Capital redemption reserve	10	**849**	849
Merger reserve	10	**7,412**	14,688
Profit and loss account	10	**8,747**	(20,398)
Shareholders' funds		**39,837**	42,631

* See note 1 Restatement of prior years.

The financial statements on pages 61 to 66 were approved by the board and authorised for issue on 11 December 2012 and were signed on its behalf by:

Philip Leech

P A J Leech
Director

J M Austen
Director

The notes on pages 62 to 66 form part of these financial statements.

1 Accounting policies

Accounting convention

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

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

Rental income

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

Share-based payments

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

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

Investments

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

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.

1 Accounting policies continued

Restatement of prior years

Provision for liabilities

The balance sheet at 30 September 2011 has been restated to correct the mis-classification of an amount of £917,000 previously disclosed within current liabilities under accruals and deferred income. It is considered more appropriate to include the amount in "Provision for liabilities: guarantee". The impact of the restatement is to increase provision for liabilities: guarantee by £917,000 and to decrease accruals and deferred income by the same amount. There was no equivalent amount for reclassification in the 2010 financial statements. The restatement has no impact on the net assets at the balance sheet date.

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 £3,131,000 (2011: £27,984,000 loss) which is dealt with in the financial statements of the parent company.

3 Directors' remuneration

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

4 Investments

Company	Subsidiary undertakings £'000
Cost or valuation	
At 1 October 2011	27,548
Capital contribution on share scheme options to employees of subsidiaries	337
At 30 September 2012	**27,885**
Cost	27,885
Valuation	—
	27,885
Amounts written off	
At 1 October 2011	14,776
Written off during the year	815
At 30 September 2012	**15,591**
Net book value	
At 30 September 2012	**12,294**
At 30 September 2011	12,772

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

5 Debtors

	2012 £'000	2011 £'000
Amounts due within one year:		
Trade debtors	**16**	217
Prepayments and accrued income	**560**	218
Amounts due from subsidiaries	**34,779**	41,850
Other debtors	**—**	375
Deferred tax asset	**1,382**	—
	36,737	42,660

6 Creditors

	2012 £'000	2011 £'000
Amounts due within one year:		
Trade creditors	**433**	520
Accruals and deferred income	**819**	292
Amounts due to subsidiaries	**1,690**	10,865
Other creditors	**777**	449
	3,719	12,126
Provision for liabilities: guarantee	**6,011**	917
	9,730	13,043

The company has given a guarantee of £15,000,000 (2011: £15,000,000) as part of the security arrangements for the bank facilities of Terrace Hill Residential PLC, one of its associated undertakings. The company has fully provided for its share of net liabilities in its associate. An amount of £6,011,000 (2011: £917,000) is included as provision for liabilities in respect of the guarantee and the charge for the year was £5,094,000.

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:

	2012 £'000	2011 £'000
At 1 October 2011	**—**	—
Credited to the profit and loss account	**1,382**	—
At 30 September 2012	**1,382**	—

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 company's overheads and finance costs. Sales are included where the company assess the sale as probable. The company 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.

9 Called up share capital

	2012 £'000	2011 £'000
Authorised		
500,000,000 (2011: 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 (2011: 211,971,299) ordinary shares of 2 pence each	**4,240**	4,240

10 Reserves

	Share scheme reserve £'000	Share premium £'000	Revaluation reserve other £'000	Own shares £'000	Capital redemption reserve £'000	Merger reserve £'000	Profit and loss account £'000
At 1 October 2010	457	43,208	96	(609)	849	14,688	7,490
Loss for the year	—	—	—	—	—	—	(27,984)
Share-based payments	196	—	—	—	—	—	—
Reserve transfers	—	—	(96)	—	—	—	96
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 30 September 2012	**990**	**18,208**	**—**	**(609)**	**849**	**7,412**	**8,747**

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

A special resolution was passed during the year at a general meeting to reduce the share premium account, which was later confirmed by the Scottish Court of Session.

The merger reserve release is in excess of the amount written off investments due to a release that related to previous periods.

11 Reconciliation of movement in shareholders' funds

	2012 £'000	2011 £'000
Loss for the financial year	**(3,131)**	(27,984)
Share-based payments	**337**	196
Net reduction to shareholders' funds	**(2,794)**	(27,788)
Opening shareholders' funds	**42,631**	70,419
Closing shareholders' funds	**39,837**	42,631

12 Financial commitments

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

	Land and buildings 2012 £'000	Land and buildings 2011 £'000
Operating leases which expire:		
After five years	**1,245**	1,225
	1,245	1,225

13 Contingent liabilities and guarantees

The company has given a guarantee of £15,000,000 (2011: £15,000,000) as part of the security arrangements for the bank facilities of Terrace Hill Residential PLC, one of its associated undertakings. In the 2012 financial statements the company has included within payables an amount of £6,011,000 (2011: £917,000), being its share of net liabilities in its associate.

The company has also given a guarantee of £600,000 (2011: £600,000) as part of the development obligations of another of its associated undertakings.

14 Controlling party

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

SUMMARY FIVE-YEAR FINANCIAL HISTORY

		IFRS				
	Unit	**Year ended 30 September 2012**	Year ended 30 September 2011	Eleven months ended 30 September 2010 Restated	Year ended 31 October 2009 Restated	Year ended 31 October 2008
Revenue	£'000	**66,965**	67,766	30,747	29,065	63,366
Profit/(loss) before tax	£'000	**1,800**	(10,239)	17,874	(61,919)	(31,602)
Tax	£'000	**(58)**	(184)	(2,818)	3,135	4,327
Profit/(loss) after tax	£'000	**1,742**	(10,423)	15,056	(58,784)	(27,275)
Dividends per share	pence	**—**	—	—	—	1.34
Basic earnings per share	pence	**0.83**	(4.94)	7.14	(27.87)	(12.90)
Diluted earnings per share	pence	**0.82**	(4.94)	7.14	(27.87)	(12.90)
EPRA triple net assets	pence	**26.84**	26.60	34.50	26.56	53.39
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	**10.00**	17.88	18.25	17.00	24.00

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 2012

Size of holding	Number	Number of shares	%
1–1,000	127	57,310	0.03
1,001–10,000	620	3,168,478	1.50
10,001–100,000	521	14,198,411	6.70
100,001–1,000,000	52	15,776,242	7.44
1,000,001 and over	14	178,770,858	84.33
	1,334	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 2011	17.88
30 September 2012	10.00

Financial calendar

Annual General Meeting	28 February 2013
Half year results	June 2013
Full year results	December 2013

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