Terrace Hill Group PLC
Annual Report and Accounts 2007

Corporate Statement

Terrace Hill Group PLC (THG) is a regionally based UK property development and investment group listed on AIM.

The group has offices in **London**, the **North East**, the **South West** and **Scotland**, offering national presence with local knowledge.

THG aims to provide shareholders with above average returns through its property skills and expertise and rigorous management of risk. Risk is managed throughout the business with a particular focus on:

➜ structuring finance to ensure all properties are funded to optimise the balance of risk and reward to the group

➜ portfolio diversity by sector and geography, focusing on areas where we perceive the potential for exceptional returns

➜ stock selection using expert knowledge of local markets and thorough due diligence prior to any acquisition

➜ managing construction through an internal project management team controlling cost, delivery and design risk

THG manages a total commercial development and investment programme with a projected end value of £1.3 billion, a residential investment portfolio of £302.6 million and a housebuilding landbank in Scotland with potential for over 1,400 units.

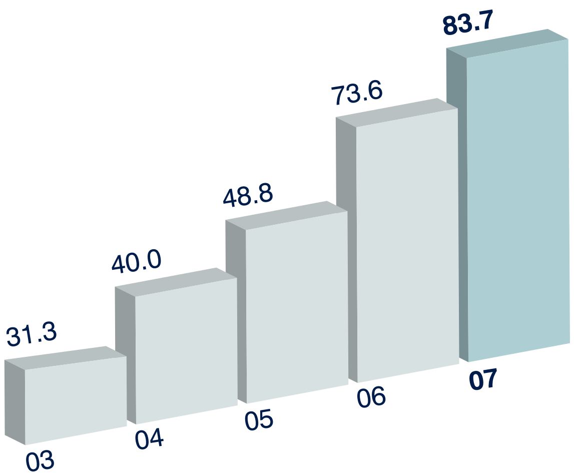
Highlights

£1.3bn
Development programme projected end value, including joint ventures

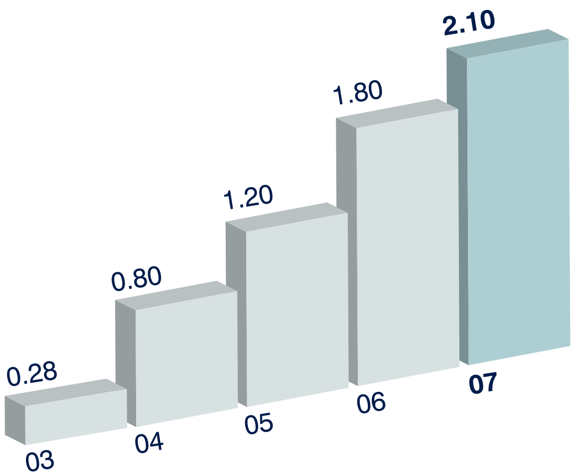
£302.6m
Residential investment portfolio under management

+16.1%
Growth in underlying triple net asset value per share

+16.7%
Growth in dividend per share



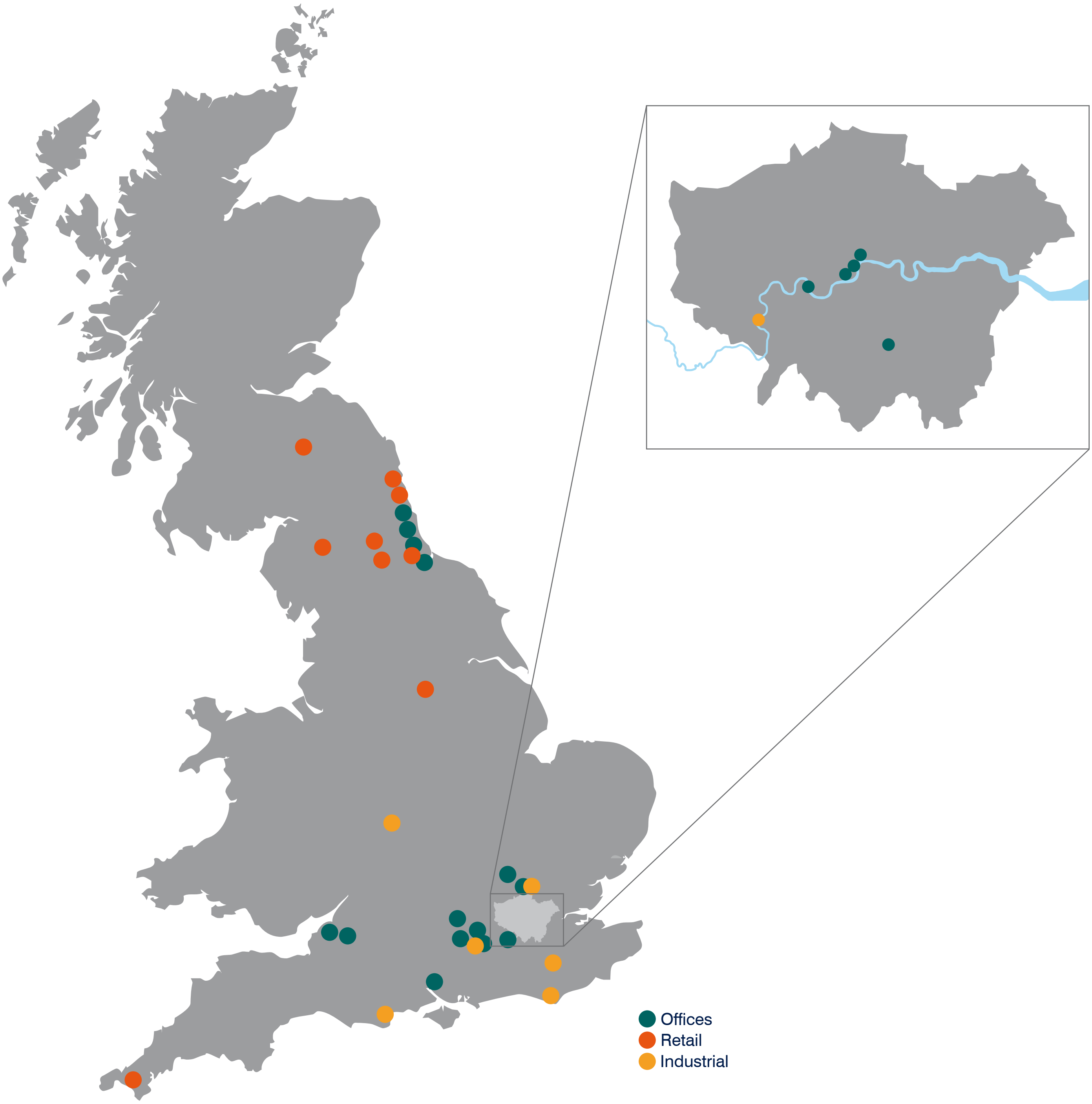
Triple net asset value (pence per share)



Total dividend (pence per share)

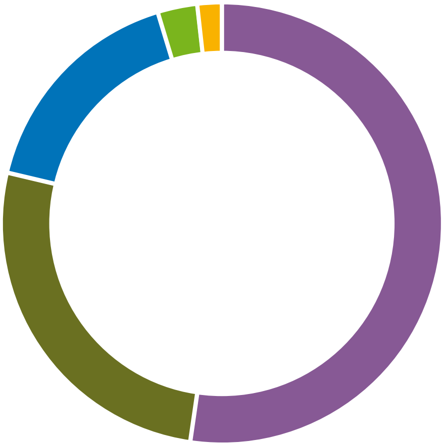
Our Portfolio at a Glance

THG manages a total commercial development and investment programme with a projected end value of £1.3 billion, a residential investment portfolio of £302.6 million and a housebuilding landbank in Scotland with potential for over 1,400 units.



Current Commercial Development Programme

Total % end value by region



52.3%
South East

26.4%
North East

16.6%
London

2.9%
Midlands

1.8%
South West

Total % end value by sector

84.2%
Offices

9.4%
Retail

6.4%
Industrial

Current Residential Investment Portfolio

Location of residential portfolio by % value

35.3%
London

24.9%
Scotland

14.0%
North West

11.4%
South East

8.1%
Midlands

3.7%
South West

2.6%
North East

Chairman's Statement

- TNAV has increased by 13.8% to 83.7 pence per share, adding back dividends, underlying TNAV growth for the year was 16.1%. Since 2003 underlying TNAV growth has averaged 30.9% per annum
- ADNAV increased by 7.6% to 96.3 pence per share
- Final dividend proposed of 1.3 pence per share, making a total dividend of 2.1 pence, an increase of 16.7%
- Share placing in May 2007 at 101 pence per share raised £24.3 million net of costs
- Strong cash position of over £26 million together with £37.7 million of undrawn debt facilities

I am delighted to present our results for the year to 31 October 2007, which are particularly pleasing given the uncertain economic environment.

During the period our triple net asset value (TNAV) has increased by an encouraging 13.8% to 83.7 pence per share (2006: 73.6 pence per share). The adjusted diluted net asset value (ADNAV) has increased by 7.6% to 96.3 pence per share (2006: 89.5 pence per share). ADNAV is affected by the timing of tax payable on realised profits whereas TNAV takes full account of all deferred and contingent tax on the revaluation of investment properties and gains on trading properties and is calculated after deducting dividends paid during the year. Adding back these dividend payments, underlying TNAV growth was 16.1% for the year. Our target remains to grow underlying TNAV, as adjusted for dividend payments, by at least 20% per annum and we have achieved an average growth since 2003 of 30.9% per annum.

The board is recommending a final dividend of 1.3 pence per share to be paid on 4 April 2008. Taken with the interim dividend of 0.8 pence per share paid in August, the total dividend in respect of the year to 31 October 2007 will be 2.1 pence per share, an increase of 16.7% over last year's figure. This is in line with our progressive dividend policy and demonstrates our confidence in the future of the business.

Our results include the effect of a fall in the projected end value of some of our commercial developments due to weakening investment yields, but this has been substantially offset by the value added to projects through successful lettings, sales and planning gains. The valuation of our residential investment portfolio has remained largely unchanged reflecting falls in value in parts of the Midlands and north of England, but modest gains in Scotland, London and the south east of England.

These are the first full year results that the group has prepared under International Financial Reporting Standards (IFRS), the most significant impact of which is the requirement to include the movement on the revaluation of investment properties in the income statement. The group's profit before tax for the year on this basis was £18.1 million (2006: £25.8 million). The profit before tax for 2006 includes our share of a net revaluation uplift as a result of the acquisition of the at.home Nationwide portfolio of £16.7 million, with no comparable uplift included in the profit for 2007.

In May 2007 we raised £24.3 million of capital net of costs through the placing of 24,752,475 new shares at 101 pence per share with a number of institutions, many of whom were new to our shareholder register. We were delighted with the success of this issue which was completed at a premium to the share price at the time and has increased our available funds to take advantage of good opportunities in a weakening market.

It is pleasing to note that the occupational market for our developments has remained strong with lettings and owner occupier sales continuing to take place across the portfolio. In some areas we are even seeing exceptional levels of demand, for example at Kean House in Covent Garden where rents achieved on lettings have risen by 35% in the past 12 months.

In the residential sales market there is some price weakness but I believe that the long-term fundamentals underlying the market are strong. Demand exceeding supply, particularly due to low levels of new housebuilding and relatively low unemployment coupled with falling short-term interest rates, means that we are expecting the market will strengthen in the medium term returning to sustainable levels of good growth. We are positive about the prospects for our portfolio due to the low average value per unit (£154,000) which helps mitigate the issue of affordability relative to incomes and the portfolio's geographic predominance in London and the South East, where the supply and demand imbalance is most acute, and in Scotland where the ratio of household incomes relative to house prices remains high.

Clansman Homes, our Scottish housebuilding business, is beginning to gather significant momentum with the purchase of a number of new sites and success in gaining new planning consents. We have a landbank with capacity for over 1,400 units and projected annualised turnover of 250 units by December 2009. We expect the business to continue its excellent growth, both through the existing landbank and new acquisitions, adding substantial value for shareholders. Currently, the poor market for new listings means that we will delay the planned demerger of Clansman until such time as we believe the value to our shareholders will be maximised.

We have a strong cash position of over £26 million together with £37.7 million of undrawn debt facilities and excellent relationships with lenders. This will allow us to take advantage of the weakening in the property market by purchasing attractive assets from distressed or forced sellers.

Once again, the directors and staff have performed exceptionally and are demonstrating their determination and ability to succeed in difficult times as much as in good.

Since the year end we have seen some further weakening in investor yields and foresee a modest slowdown in occupier demand but I am confident about the long-term outlook and in our ability to deliver enhanced returns to our shareholders. We have the skills and ambition for significant profitable expansion and I look forward to the opportunities presented by the current market with enthusiasm.

Robert FM Adair

Robert FM Adair
Chairman
19 February 2008

"… I am confident about the long-term outlook and in our ability to deliver enhanced returns to our shareholders. We have the skills and ambition for significant profitable expansion and I look forward to the opportunities presented by the current market with enthusiasm."

Review of Operations

- Commercial development programme of £1.3 billion projected end value, with 39% of the schemes currently on site pre-let
- Two significant new joint ventures established in Bracknell and Victoria, London
- Key new lettings achieved at Kean House, Covent Garden and Redd 42, Redditch
- Purchased Queen's Wharf, Hammersmith for £17 million subsequently sold as a site for residential development for £30.75 million
- Sales totalling £57.9 million from the at.home Nationwide portfolio achieved at 19.8% profit on cost

Despite more difficult markets we have continued to let completed commercial developments well and add significant value through planning gains, site assembly and development. We have made good progress within the Scottish housebuilding division, now known as Clansman Homes, acquiring new sites and achieving planning consents on our landbank allowing us to increase units under construction. The valuation of the residential investment portfolio has remained resilient with improving rental levels and reduced voids. We have seen that our very experienced development skills drive results in changing times and that we lead our peers by creating desirable space and understanding occupier needs.

A core strength of our business lies in our ability to manage risk effectively. This competence lies at the heart of our operations and is centred around the structuring of our finances, portfolio diversity, stock selection and managing construction. These skills are never more important than in the challenging economic climate and markets in which we now find ourselves. Our results during the period and progress since is testament to the fact we can perform well in difficult times and continue to deliver above average risk weighted returns for our shareholders.

Commercial development

Once again geographic and sector diversification have proved important, allowing us to spread our risk and utilise our specialist knowledge of specific locations and occupier markets.

Our total current and pending commercial development programme has grown to £1.3 billion by projected end value, of which 84.2% is in the office sector, 9.4% retail and 6.4% industrial. Our philosophy is always to mitigate letting risk where appropriate and of the schemes currently on site 39% have been pre-let or pre-sold.

The majority of our schemes at the development stage are carried out in financial joint ventures where we commit a minority equity stake in return for a substantial carried interest above benchmark returns. We also earn substantial development management fees from the joint ventures (£2.3 million in the period).

Structuring finance

Efficient funding of our property portfolio is fundamental to maximising returns to shareholders whilst managing the level of financial risk. We place great emphasis on a thorough assessment of the financing options available for each project and achieving optimum terms to balance returns, flexibility and risk.

Third party equity and debt are both used to fund development projects and investment portfolios with sufficient funding being secured prior to commencing construction to complete the project. All our major developments are funded in joint ventures with Terrace Hill providing a minority of the equity. The debt within these joint ventures is structured on a stand-alone basis with limited recourse to the group. Appropriate interest rate hedging is put in place at the outset to ensure adverse interest rate movements will not compromise the viability of the development. We balance this with the need to ensure that the funding is structured to allow flexibility for achieving pre-sales prior to completion in order to maximise risk balanced returns.

Location: Time Central, Newcastle

Stage: pre-let and forward sold

Sq ft: 83,000

Timescale: practical completion March 2008

Review of Operations

Two significant joint venture developments have been established during the year:

- Two Orchards, Bracknell – a prominent 7.9 acre office development site on the edge of Bracknell with planning consent for three buildings totalling 270,000 sq ft. The phased development is being carried out in joint venture with Hypo Real Estate Bank International A.G. and will have an end value of around £125 million. The first phase will be completed in 2009 when we predict that there will be a shortage of supply of good quality office space in the Thames Valley market.
- Howick Place, Victoria, London – we have acquired House of Fraser's office headquarters in joint venture with a view to redeveloping the site into a mixed use scheme of office and high quality residential with an end value of around £180 million. House of Fraser took a lease back of the property until July 2008 around which time we expect to receive detailed planning consent for our proposals.

Other significant achievements have been:

- At George Street, Croydon we won a planning consent for a 204,000 sq ft office development. Since then we have decided to submit an application to increase the size of the building to 240,000 sq ft in order to more closely match a number of occupier requirements in the Croydon office market and to enhance value further.
- The acquisition of a prominent 1.7 acre site in Southampton city centre for £7.4 million. The proposed mixed use development will comprise around 180 residential units, a 150 bedroom hotel and 110,000 sq ft of offices. The residential element has been sold, conditional on planning, to Crest Nicholson and the completed development is expected to have an end value of around £61 million.
- Lettings at Kean House, our 25,200 sq ft office refurbishment in Covent Garden, London, have exceeded expectations where four floors were pre-let to Adecco at a headline rent of £42.50 psf. Since completion in August a further five floors have been let at rents up to £57.50 psf and the remaining retail unit fronting Kingsway has been let to Costa Coffee.
- Redd 42, our 232,680 sq ft distribution warehouse developed within the Terrace Hill Development Partnership (THDP) was let to iForce Ltd at an initial rent of £5.75 psf. iForce use the unit as the national e-fulfilment centre for John Lewis Direct.
- The forward sale of a new 19,400 sq ft office development at Baltic Business Quarter, Gateshead to the Open University for £5.25 million. At the same scheme the 180,000 sq ft development for Gateshead College has been completed and handed over on schedule.
- Bristol Bridge House has been acquired for £9.2 million. An office refurbishment opportunity overlooking the floating harbour in one of the city's most central and attractive locations. We expect to make a planning application in Spring 2008.
- The sale of a 4.5 acre industrial site at Edmonton, North London, to an owner occupier for £7.7 million, realising a profit of £3.2 million.
- Our appointment by Middlesbrough Borough Council as preferred developer of Central Gardens East, a town centre urban regeneration scheme, which will include up to 130,000 sq ft of offices and a 100 bed hotel.

Portfolio diversity

Portfolio diversity allows us to spread risk and performance across a range of property sectors and geographic locations. This is achieved through our wide geographic representation and our sector specialisms. Our portfolio is divided between commercial development and investment, residential investment and housebuilding.

We target our projects on sectors where there is a strong case for growth and value enhancement and in areas where there is strong occupier and investment demand. A recent emphasis on office development in strong locations is testament to this philosophy.

In the residential markets, we have focused on low cost housing but with special emphasis on the growth markets in Scotland and the south east of England.

Review of Operations

- In Ashington town centre in Northumberland we have, conditional on planning, contracted to acquire a 3.3 acre retail warehouse development site for a development of around 30,000 sq ft of open A1 non-food retail warehouses. The site has the potential to be extended to accommodate up to 100,000 sq ft of additional retail space through an agreement with adjoining landowners.
- In December, following the year end, we entered into unconditional contracts to sell our riverside site at Queens Wharf in Hammersmith for £30.75 million. We completed the acquisition of the property in November from a private investor for £17.0 million having held an option on the site for the preceding 12 months. We identified Queens Wharf as a site with great potential for redevelopment for a variety of uses and worked with the local authority to maximise value through different planning options as a result of which we decided to sell the site to a specialist high quality residential developer.

Residential investment

We have continued to manage our residential investment assets aggressively. Since the purchase of the at.home Nationwide portfolio in July 2006, where we hold a 49% interest, we have continued to drive performance through increased rental levels, improved occupancy rates and reduced management costs. We are experiencing good demand from tenants and fully expect to maintain and improve upon these results. Further, we have continued to rationalise the portfolio through the sale of selected properties, aiming to maintain a balanced portfolio for future growth. By the year end we had properties sold or under contract for sale totalling £57.9 million, realising profit on cost of 19.8%.

The overall value of our residential investments has remained static since the half-year. Some weakness has been seen in properties in the north of England and Midlands with London, the South East and Scotland proving most resilient.

We believe that, whilst not immune from a downturn in the housing market, our properties are well located to withstand these pressures, being predominantly in London and Scotland, and with a low average value of £154,000 which will remain affordable. Furthermore, we continue to see strong rental demand across the portfolio.

Clansman Homes

Clansman Homes, our Scottish housebuilding division, has made good progress during the period. We have acquired new sites for development at Fenwick, south of Glasgow and Carnwath, near Lanark, a prime commuting area for both Edinburgh and Glasgow. As a result, our landbank now has capacity for over 1,400 units and we are currently on site in four different locations. Significantly, we obtained detailed planning consent for 168 units at Shotts in North Lanarkshire where the first homes will be delivered to the market in Spring 2008.

Demand for our homes remains strong with the Scottish housing market appearing to hold up well compared to other parts of the UK. We believe that our focus on affordable, suburban homes with no exposure to high cost city centre dwellings, will help us to withstand the challenges of any housing downturn. It continues to be our intention to demerge Clansman Homes from the Group when markets are appropriate.

Philip Leech.

Philip Leech
Chief Executive
19 February 2008

Stock selection

An important part of Terrace Hill's development and investment strategy is stock selection. This is a bottom up approach to acquisition opportunities, which complements the top down approach of portfolio diversity. Whether it be a bare site or existing building, all projects are rigorously investigated prior to acquisition. The due diligence process includes reviewing all opportunities and constraints be they physical, legal or market led.

Our constant objective is to select development and investment stock which maximise returns on equity, balanced against risk.

Fundamental to our successful stock selection is the application of our local knowledge and expertise together with a detailed understanding of local occupier demand and needs.

Location: Kean House, London WC1

Stage: now letting the last two floors

Sq ft: 25,200

Timescale: completed

Corporate and Social Responsibility

Corporate Social Responsibility

Through the group's acquisition, development and management of commercial and residential property, we aim to conduct our business with honesty, integrity and openness, respecting human rights and the interests of our shareholders and employees. We aim to provide timely, regular and reliable information on the business to all our shareholders and conduct our operations to the highest standards.

We strive to create a safe and healthy working environment for the wellbeing of our staff and create a trusting and respectful environment, where all staff are encouraged to feel responsible for the reputation and performance of the company. We continue to establish a diverse and dynamic workforce with team players who have the experience and knowledge of the business operations and markets in which we operate. Through maintaining good communications, staff are encouraged to realise the objectives of the company and their own potential.

Corporate Environmental Responsibility

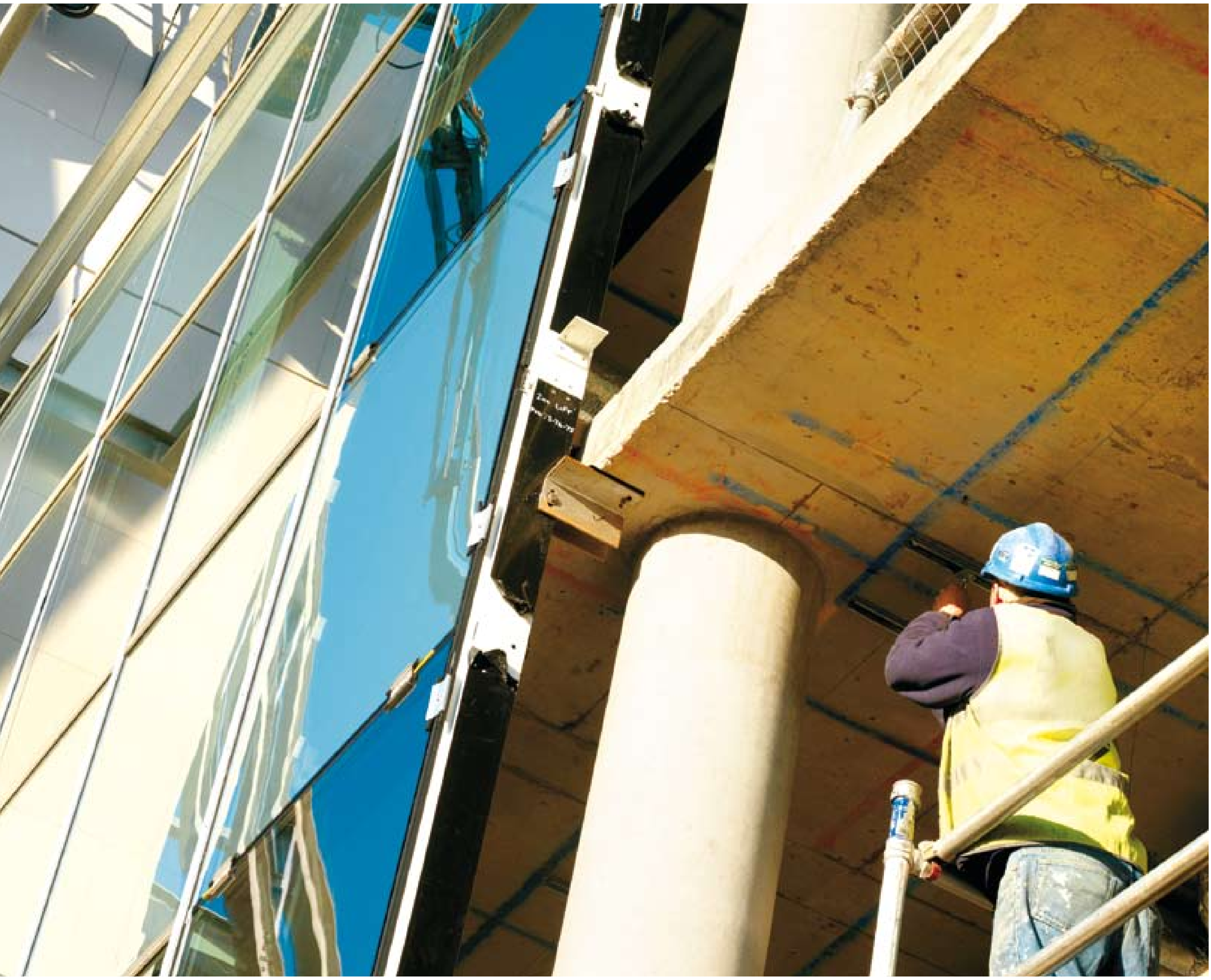
The group's policy is to minimise the risk of any adverse affect on the environment associated with its development activities with a thoughtful consideration of such key areas as energy use, pollution, transport, land use, ecology, renewable resources, health and wellbeing.

Terrace Hill also aims to ensure that its contractors meet with their legislative and regulatory requirements and that codes of best practice are met and exceeded.

The group is committed to maintaining high environmental standards in all its operations and to minimise the impact of its activities on the surrounding environment. The nature of the work that Terrace Hill is involved in means that the group has an opportunity, not only to minimise the negative impact on the environment but also to enhance and improve the environment in which we all live and work.

Our projects at Victoria and Croydon target the top BREEAM rating of "Excellent", as well as achieving an additional 20% of their energy from on site renewable sources, including ground source heat pumps (GSHP), combined heat & power (CHP), coupled with absorption chillers and solar hot water technology.

At our mixed-use development at Mayflower Plaza in Southampton, we are also targeting a BREEAM "Excellent" rating, in addition to utilising the city's district heating system to reduce the scheme's CO_2 emissions.



Managing construction

A fundamental skill of successful property development is the management and control of the construction process and risk. At Terrace Hill we pride ourselves on our ability to manage construction and professional consulting teams effectively, not only to mitigate the inherent physical and financial risks of the design and construction process but also to get the best out of our teams.

We place such importance on this aspect of the business that we oversee the construction process in-house with our own dedicated project managers. They not only ensure that the developments are delivered on time and on budget to exacting standards but are also fundamental to the initial scheme appraisal and development design, helping the development managers to maximise a scheme's potential whilst carefully controlling cost and delivery risk.

This team approach to design, construction risk and opportunity is central to our philosophy and, in our view, a crucial aspect of successful development.

Location: Quantum, Maidenhead

Stage: on site

Sq ft: 120,000

Timescale: completion due April 2008

Finance Review

- Net assets increased by 36.5% to £136.9 million and TNAV increased by 31.1% to £183.3 million
- Balance sheet loan to value gearing, net of cash, is 38% with total loan to value gearing including share of associates and joint ventures of 50%
- Total shareholder return on an annualised basis since October 2002 of 42.2% per annum

Basis of accounting

The key figures for the year ended 31 October 2007 are summarised in the financial highlights on page 1 of this report. These are the first full year results that the group has prepared under International Financial Reporting Standards (IFRS) and this has required the results of prior periods to be restated using IFRS. A reconciliation of profits and equity previously reported under UK GAAP for the year ended 31 October 2006 to IFRS is shown in Note 30 on page 56. The application of these new reporting standards does not affect the economic value of the business but it has led to differences in the level of profits and net assets reported.

Triple net asset value (TNAV) and adjusted diluted net asset value (ADNAV)

In line with many publicly quoted property companies we highlight both TNAV and ADNAV as the principal measures of the group's performance. The following adjustments are made to the audited net asset value in arriving at our ADNAV:

(1) **Property revaluation:** properties and rights to properties held as current assets are revalued from cost (or realisable value if less) to market value. The valuation has been performed by relevant directors qualified as chartered surveyors based on valuation advice from CB Richard Ellis and takes account of costs to complete and whether or not the property has been let and/or pre-sold.

(2) **Share dilution:** the nominal value of shares to be issued under the employee long-term incentive plan is added to net assets.

(3) **Taxation:** the amount of deferred tax provided in respect of investment properties is added to net assets.

The ADNAV per share at 31 October 2007 was 96.3 pence (2006: 89.5 pence) an increase of 7.6%.

The following adjustments are made to ADNAV in calculating our TNAV:

(4) **Taxation:** the amount of taxation estimated to be payable were all of the group's properties to be sold at the value used for the TNAV calculation has been deducted. This includes the deferred tax provided on investment properties and the taxation estimated to be payable on realisation of the uplift of trading properties to market value.

(5) **Goodwill:** positive goodwill is excluded.

The TNAV per share at 31 October 2007 was 83.7 pence (2006: 73.6 pence) an increase of 13.8%. This TNAV is calculated after the deduction of dividends paid to shareholders during the period. Adding back these dividend payments, underlying TNAV growth was 16.1% for the year.

Income statement

The most significant impact of the change from reporting under UK GAAP to IFRS has been the effect on the income statement of including movements in the revaluation of investment properties and the consequent tax thereon in the disclosed profit for the year. The majority of the group's property interests are held for trading purposes and are not revalued in the group's balance sheet. However, our residential investments, largely comprising our interest in the at.home Nationwide portfolio, held in an associated undertaking, are included in the balance sheet at their revalued amount. The income statement for 2006 prepared under IFRS includes a revaluation uplift net of tax amounting to £16.7 million as a result of the acquisition of the at.home Nationwide portfolio with no comparable uplift included in the profit for 2007. The revaluation of the at.home Nationwide portfolio is based on advice received from CRGP Robertson for the Scottish properties and Savills for the remainder of the portfolio.

Gross profit for the period was £20.7 million (2006: £14.6 million) an increase of 42% despite a reduction in turnover during the period of 13% to £69.8 million for 2007 (2006: £80.5 million). Operating profit for the period was £18.6 million (2006: £12.6 million) an increase of 47.6%. The major contributors to profit for the period comprise £7.5 million from the sale of a site at Wokingham, £6.1 million received from an associate in respect of additional consideration following receipt of planning consent at our site in Maidenhead and £3.5 million from the pre-sale of the group's interest in Time Central, Newcastle.

Group overheads for the year are £9.6 million (2006: £6.7 million) an increase of 43.2%. This increase is due to including charges for the cost of the share-based payment scheme of £1.5 million (2006: £0.3 million); additional remuneration costs by way of bonuses, costs of our new housebuilding division and additional costs relating to the continued expansion of our team and operations.

Our investment in joint ventures and associated undertakings generated a profit of £0.5 million (2006: £15.7 million). The most significant being Terrace Hill Residential PLC, the company that owns the at.home Nationwide residential portfolio, of which our share is 49%. The group's share of the results of Terrace Hill Residential PLC comprised a revaluation gain net of tax of £5.9 million (2006: £16.7 million) and a trading loss in the period of £5.3 million (2006: £0.8 million). The trading loss includes £1.3 million being our share of exceptional redundancy and management costs associated with the acquisition of the portfolio.

Calculation of ADNAV and TNAV (unaudited)

		31 October 2007			31 October 2006		
	Notes	£'000	Number of shares 000s	Pence per share	£'000	Number of shares 000s	Pence per share
Audited net asset value		136,879	211,971	64.6	100,278	187,219	53.6
Revaluation of property held as current assets	1	68,560			62,401		
Shares to be issued under the LTIP	2	140	6,965		57	2,836	
Deferred taxation in respect of investment properties	3	5,301			7,281		
Adjusted diluted net asset value		**210,880**	**218,936**	**96.3**	**170,017**	**190,055**	**89.5**
% increase				**7.6%**			
Estimated taxation on revaluation of current assets, unrealised gains and availability of tax losses	4	(23,953)			(25,983)		
Goodwill	5	(3,589)			(4,149)		
Triple net asset value		**183,338**	**218,936**	**83.7**	**139,885**	**190,055**	**73.6**
% increase				**13.8%**			

Finance Review

Balance sheet

Total group assets at 31 October 2007 were £274.3 million (2006: £211.7 million) an increase of 29.5 % and net assets after deducting minority interests were £136.9 million (2006: £100.3 million) an increase of 36.5%. The placing of 24,752,475 new ordinary shares of 2 pence at £1.01 per share during the period, raising £24.3 million net of expenses, contributed to this growth in group assets.

Gearing

Bank debt at the year end was £65.5 million (2006: £70.4 million) net of cash of £26.9 million (2006: £8.6 million) and gearing was 47.8% of equity (2006: 70%). The group had undrawn facilities at the end of the period of £37.7 million (2006: £28 million).

During the year we arranged two revolving credit facilities totalling £35 million of which £15.7 million remains undrawn. These facilities allow us the flexibility to drawdown debt quickly to finance new site acquisitions.

The loan to value gearing, net of cash, in relation to the group's property portfolio held on balance sheet was 38%. Loan to value gearing including the group's share of joint ventures and associated undertakings was 50%.

Interest rate risk is hedged for 79% of net debt, including that in joint ventures and associated undertakings. In setting our hedging strategy we always seek a balance between retaining the flexibility to achieve an early disposal and ensuring adverse interest rate movements will not compromise the viability of a development.

Dividends

Dividends paid in the year amounted to 1.9 pence per share (2006: 1.4 pence) and comprised the final dividend in respect of the period to 31 October 2006 of 1.1 pence (2005: 0.7 pence) and the interim dividend for 2007 of 0.8 pence (2006: 0.7 pence). In accordance with accounting standards these have been accounted for through a movement in reserves rather than in the income statement. The board is recommending to shareholders at the Annual General Meeting on 3 April 2007 a final dividend of 1.3 pence per share making a total dividend for the year ended 31 October 2007 of 2.1 pence (2006: 1.8 pence) an increase of 16.7%. The final dividend will be paid on 4 April 2008 to all shareholders on the register of the company at 25 March 2008.

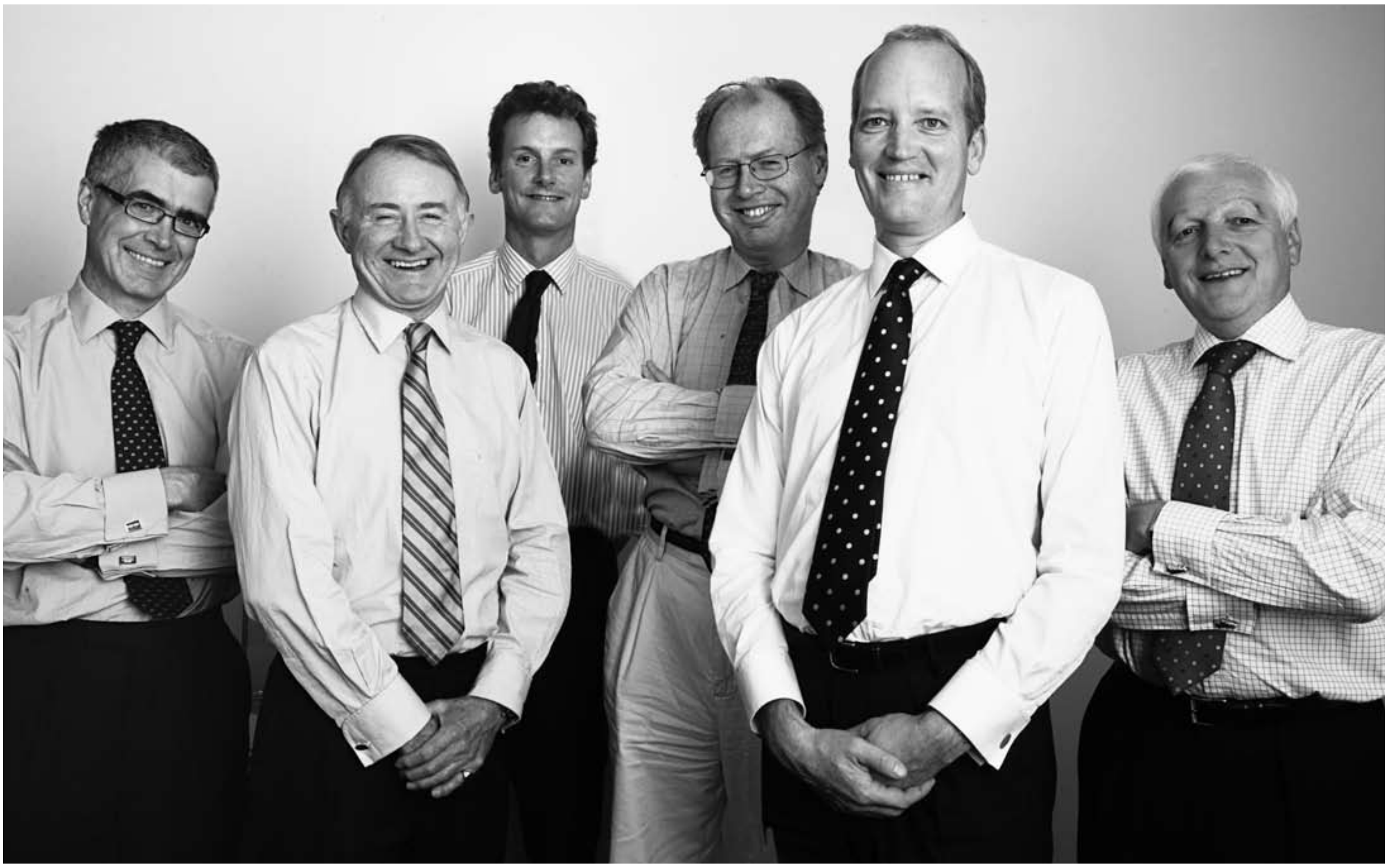
Total shareholder return (TSR)

This measures the return to shareholders from share price movements and dividend income and is used to compare returns between companies listed on the Stock Exchange.

For the first time since the company was listed on AIM the year on year share price has fallen from 80.0 pence at 31 October 2006 to 71.75 pence at 31 October 2007, this 10.3% fall compares favourably to the reduction in the FTSE 350 Real Estate Index of 20.8% but results in a negative TSR for the period. On an annualised basis the TSR since October 2002 was 42.2% per annum with an aggregate TSR since that date of 458.3%. thus providing shareholders with excellent returns over this five year period.

Tom Walsh
Group Finance Director
19 February 2008

Directors



From left to right: Kelvin Hudson, Robert Dyson, Will Wyatt, Robert Adair, Philip Leech and Tom Walsh

Robert F M Adair MA, ACA, CTA, FGS (51)
Executive Chairman

Robert founded Terrace Hill in 1986. He is executive chairman of Melrose Resources plc, a listed oil and gas company and non-executive chairman of Plexus Holdings plc, a company producing innovative wellheads for the oil industry also quoted on AIM. Robert is also a non-executive director of Chameleon Trust Plc, a quoted investment trust.

Philip Leech (44)
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.

Tom Walsh (46)
Group Finance Director

Tom is a qualified chartered accountant who has worked in the property sector since 1988. He joined Terrace Hill in 1996 and is Group Finance Director. Previously Tom worked with Rush & Tomkins and Vestey Estates.

Robert Dyson (59)
Non-executive Director

Bob is chairman for the North West region of property advisers, Jones Lang LaSalle, having previously been executive chairman of Dunlop Haywards.

Kelvin Hudson (46)
Non-executive Director

A chartered accountant and managing director of Saffery Champness Guernsey. Kelvin has worked in the fiduciary sector in Guernsey since 1995 and prior to that spent six years as finance director of Network Security (Holdings) Limited, a London group specialising in the detection and prevention of fraud.

Will Wyatt (39)
Non-executive Director

A director of Caledonia Investments plc, Will is also a non-executive director of Avanti Screenmedia Group, a specialist media and satellite company, Cobepa, a Belgian-based investment company, Melrose Resources plc and Chairman of the Advisory Board of TGE Holdings GmbH, a specialist gas engineering business.

Operations Board


Nicky Wilden, Director, Corporate Finance


Duncan McEwan, Director, Retail Development


Adam Pratt, Director, South West Development


Eric Beaven, Director, Projects


Mandy Kelly, Director, Residential
and Group Company Secretary


Philip Littlehales, Director, Investment


Robert Lane, Director, London Development


Martin Vickerman, Director, North East Development


Some of Tom Walsh's London finance team (L to R):
Dominic Sykes, Janet Li Tienzo, Davinya Principe, Olu Ogunleye and Frances Chan


Some of Eric Beaven's London project management team (L to R):
Sharon Marchant, Steve Lee-Sang and James Rosier

Terrace Hill Portfolio

Bristol, Brabazon Office Park

Bracknell, Maxis

Maidenhead, Quantum

Croydon, George Street

Office development programme

Current schemes

Sites completed, under construction or with detailed planning permission

Development	Region	Size (sq ft)	Description	Timing	Potential value at completion (£ million)
Victoria, SW1 129 Wilton Road	London	130,000	Substantial mixed-use scheme of office, retail, private and affordable residential. All residential pre-sold.	On site Completes Feb 2008	£88.4
Bracknell Maxis	South East	270,000	Prominent 7.9 acre site with planning for three buildings. Phase 1, comprising two buildings, totalling 180,000 sq ft, is on site.	On site Completes May 2009	£125.0
Farnborough Phase 1 Aeropark Cirrus	South East	36,300	Development of 15 small office units ranging in size from 1,793-2,975 sq ft. Located adjacent to Farnborough Airfield and Aerospace Business Park. Four units sold.	Completed	£9.2
Guildford Phase 2 Parklands	South East	4,650	Mixed use scheme. Three remaining small office units to be sold/let.	Completed	£1.2
Wokingham Pinewood	South East	200,000	New HQ office scheme for Johnson & Johnson. Pre-sold with building contract in place.	On site Completes April 2008	£40.0
Maidenhead Quantum 1 & 2 Vanwall Business Park	South East	120,000	Prime office park, development of two buildings. Under construction.	On site Completes April 2008	£59.6
Newcastle Time Central, Gallowgate	North East	83,000	Seven-storey office development, fully let and forward sold.	Completes March 2008	£32.5
Teesside Phase 1, Hudson Quay Middlehaven	North East	30,700	First speculative office building on a planned 160,000 sq ft office park adjoining Middlesbrough FC. The Crown Prosecution Service have taken a ten-year lease on 50%.	Completed	£6.7
Teesside Resolution Teesdale Business Park	North East	60,000	Prime development site on Teesdale Business Park, with detailed planning consent.	Awaiting pre-let	£14.5
Teesside 3 Acre Teesdale Business Park	North East	55,000	Office scheme of five buildings. Phase 1 comprises three buildings totalling 33,000 sq ft. Part pre-let of building 3 to HBoS.	Completed	£14.6
Gateshead Baltic Business Quarter Admiral, Baltimore and Chalk Hill	North East	70,000	Detailed planning for three office buildings. Phase 1, buildings Baltimore and Chalk Hill are under construction. Chalk Hill has been pre-sold to the Open University.	Completes July 2008	£19.5
Gateshead Gateshead College	North East	180,000	College development for owner occupier.	Completed	£25.0
Filton, Bristol Phase 1 & 2 Brabazon Office Park	South West	44,600	Small unit office scheme for owner occupation or to let. Phase 1, 40% has been sold or let. Phase 2 start on site is conditional on a part pre-sale.	Phase 1 completed Phase 2 on site early 2008	£11.8
Covent Garden, WC1 Kean House	London	25,200	Substantial refurbishment of an existing office building arranged over nine floors. Two floors remaining.	Completed	£22.0
Welwyn Garden City Broadwater Road	South East	42,151	Site with detailed planning for small unit office scheme of seven units. Located close to railway station.	On site 2008	£4.0
Croydon George Street	South East	204,000	Office development site in prime location opposite East Croydon railway station. Existing planning consent for HQ office being increased to 240,000 sq ft.	On site 2008	£84.5

Terrace Hill Portfolio

Teesdale, 3 Acre

Bristol, Bristol Bridge House

Southampton, Mayflower Plaza

Middlehaven, Gateway

Office development programme continued
Pending schemes
Medium-term developments held prior to detailed planning

Development	Region	Size (sq ft)	Description	Timing	Potential value at completion (£ million)
Bristol Bristol Bridge House	South West	56,155	Substantial office refurbishment opportunity in central city location.	On site 2008	£22.5
Teesside Phase 2-5, Hudson Quay Middlehaven	North East	99,500	Office park with option to drawdown sites under preferred developer agreement with English Partnerships.	Subject to letting of Phase 1	£19.5
Gateshead Balance of site at Baltic Business Quarter	North East	34 acres	Unserviced land with benefit of OPP. Whole 50 acre site has planning consent for 1.5m sq ft of business use.	Ten year programme	£127.0
Hammersmith, W6 Queens Wharf	London	110,000	Option to acquire freehold of existing 30,000 sq ft office building with vacant posession. Sold for residential use since year end.	Completed	£63.7
Stevenage Knebworth Innovation Park	South East	40 acres	Ten year option from March 2002 for employment use (such as business or science park). Currently negotiating planning consents.	Anticipated planning consent 2009	£30.0
Farnborough HQ/Hotel site Aerospace Park	South East	273,000	Remaining site comprising 11.5 acres with planning consent for mixed use. Seeking pre-lets. Two acres under offer to Driving Standards Agency.	Anticipated start on site 2008	£63.0
Southampton Mayflower Plaza	South East	110,000	Mixed-use scheme, to include office, hotel and residential uses.	On site 2009	£61.0
Victoria, SW1 Howick Place	London	200,000	Substantial mixed-use development of House of Fraser HQ.	Anticipated start on site 2008	£180.0
Middlesbrough Central Gardens East	North East	130,000	Town centre urban regeneration scheme to include offices and hotel.	On site 2009	£20.0

Retail development programme
Current schemes
Sites completed, under construction or with detailed planning permission

Development	Region	Size (sq ft)	Description	Timing	Potential value at completion (£ million)
Blyth, Northumberland Phase 1, Blyth Retail Park	North East	55,000	A bulky goods retail park. 90% let. Forward sold to a UK institution. One unit remaining, with three year overage payment due upon letting.	Completed	£13.4
Bishop Auckland Phase 1	North East	85,500	Proposed retail warehouse with ancillary garden centre and builder's yard. Outline planning consent obtained.	On site 2008	£13.2
Bishop Auckland Phase 2	North East	6,500	Single retail unit, to be commenced subject to a pre-let.	On site 2008	£1.4
Middlesbrough Marsh Road and Cargo Fleet Road	North East	63,000	16.8 acre cleared site with existing consent for a mixed-use scheme; non-food retail warehouse, B1, B2 or B8 and car showroom. Planning application submitted to increase the retail units by a further 34,025 sq ft.	On site 2009	£34.7

Blyth, Blyth Retail Park

Penrith, Retail warehouse site

Eastbourne, Brampton Business Park

Redditch, Redd 42

Retail development programme continued

Pending schemes

Medium-term developments held prior to detailed planning

Development	Region	Size (sq ft)	Description	Timing	Potential value at completion (£ million)
Blyth, Northumberland Phase 2, Blyth Retail Park	North East	15,000	Adjacent to Phase 1. Planning consent for further 15,000 sq ft in three units.	Anticipated start on site 2008	£3.1
Galashiels, Scotland Phase 2, Gala Retail Park	Scotland	15,000	Small parcel of land held for strategic ownership, forming access to Phase 2 land. Site assembly and planning consent required.	Anticipated start on site 2009	£4.5
Helston Retail warehouse site	South West	55,750	Option to acquire 5.25 acre site adjacent to Flambards tourist attraction. Planning sought for retail warehouse scheme.	Anticipated planning consent 2009	£14.2
Site at Darlington	North East	24 acres	An option to acquire the site which will run until a planning consent is obtained.	Anticipated planning consent 2009	£15.0
Penrith Retail warehouse site	North West	44,000	Option on proposed scheme for non-food, bulky goods, retail accommodation and an A3 restaurant. Planning application anticipated in 2008.	Anticipated start on site 2009	£9.5
Ashington Town Centre Retail warehouse site	North East	30,000	Conditional contract to acquire town centre retail warehouse site.	Anticipated start on site 2009	£8.0

Industrial development programme

Current schemes

Sites completed, under construction or with detailed planning permission

Development	Region	Size (sq ft)	Description	Timing	Potential value at completion (£ million)
Eastbourne Brampton Business Park	South East	103,000	Industrial and trade counter scheme. By value, 57% sold or let.	Completed	£11.0
Farnborough Phase 1, Aeropark Nimbus	South East	40,000	Small unit industrial scheme. Last unit remaining, currently under offer to sell.	Completed	£5.3
Tunbridge Wells Unit F2, Phase II Decimus Park	South East	10,800	Last industrial unit available on Decimus Park.	Completed	£1.3
Welwyn Garden City Broadwater Road	South East	42,151	Site with detailed planning for small unit industrial scheme of 13 units.	On site 2008	£5.9
Redditch REDD 42 Ravensbank Business Park	Midlands	232,680	High bay distribution warehouse. Let to iForce Limited, the e-fulfilment provider for John Lewis Direct.	Completed	£19.1

Pending schemes

Medium-term developments held prior to detailed planning

Development	Region	Size (acres)	Description	Timing	Potential value at completion (£ million)
Christchurch Site at Grange Road	South West	9.1	Proposed mixed-use scheme, to include industrial, care home and residential uses.	Anticipated planning consent 2008	£19.5

Terrace Hill Portfolio

Manchester, Tagore Close

Patna

Ayr, Wellington Square

Manchester, Sundial Bank

Commercial investment portfolio

Commercial investments with development potential

Development	Sector	Region	Size (sq ft)	Description	Current value (£ million)
Platts Eyot, TW12	Mixed use	London	12 acres	Listed island on the Thames at Hampton, with residential potential.	£5.0
Sheffield Castle Gate House and 20–22 Haymarket	Mixed use	North East	110,000	Vacant department store, let to Bhs, and an adjacent occupied corner retail unit. Redevelopment potential for mixed-use scheme.	£9.5
Bristol Canningford House	Offices	South West	20,500	Multi-let office building on long leasehold with potential redevelopment.	£2.5

Residential investment portfolio

Residential investments

Property portfolio	Number of units	Description	Current value (£ million)
TH "Portfolio One"	251	Mixed portfolio of residential units, principally in Scotland, with small representation in England.	£32.0
TH Residential PLC	1715	Acquired from at.home Nationwide in July 2006 in an associated company in which Terrace Hill Group PLC has a 49% interest. Portfolio of residential properties located across the UK.	£270.6

Scottish housebuilding programme

Scottish housebuilding sites

Sites with planning

Development	Size (acres)	Description	Timing
Carnshalloch Avenue, Patna	2	Strip of ground which gives access to the caravan park. Development of 16 units.	Completed
Torbothie Road/ Benhar Road, Shotts	22	Former brickworks site. Development of 168 units.	On site
The County Hotel, Wellington Square, Ayr	0.45	Refurbishment of a former hotel into 16 flats and three-storey office building.	On site
Cairn Road, Cumnock	1.55	Development of 18 units.	On site
Bertram House, Carnwath South Lanarkshire	11.49	Former country house and grounds. Development comprises conversion of country house into 11 flats and 20 detached houses in the grounds.	On site

Sites held pending detailed planning consent

Development	Size (acres)	Description	Timing
Irvine Road, Kilmarnock	18	Former brickworks site. Planning application submitted for 182 units.	Anticipated planning consent 2008
Patna Caravan Park	30	Former Caravan Park. Potential for 250 units.	Anticipated planning consent 2008
Lower Bathville, Armadale	63	Industrial brownfield land. Partly owned in JV. Potential for 500 units.	Anticipated planning consent 2009
Mayfield Brickworks, Carluke	10.9	Industrial brownfield land. Currently owned in JV. Potential for 90 units.	Anticipated planning consent 2009
Boghall Road, Carluke	10	Industrial brownfield land. Currently owned in JV. Potential for 40 units.	Anticipated planning consent 2008
"Dunselma", Fenwick	3	Former Church of Scotland home. Planning application submitted for 20 detached houses.	Anticipated planning consent 2008
Loganhill, Cumnock	8.8	Conditional purchase, subject to the site being included in the local plan. Potential for 90 units.	Anticipated planning consent 2008

Financial Contents

Directors' Report

The directors submit their report and the group financial statements for the year ended 31 October 2007.

Results and dividends

The group profit for the period, after taxation and minority interests, amounted to £14,527,222. The directors recommend the payment of a final dividend of 1.3 pence per share making a total dividend for the year of 2.1 pence per share.

Principal activity and review of business

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

The Chairman's Statement, Review of Operations and Financial Review on pages 4 to 16 include a review of the development of the business of the company and its subsidiaries during the period.

Acquisitions and disposals

During the period, the group acquired Tay Homes (Glasgow) Limited and details of the acquisition are included in Note 27.

Directors and their interests

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

	At 31 October 2007 Ordinary shares	At 1 November 2006 Ordinary shares
R F M Adair	129,258,549	129,258,549
P A J Leech	1,594,447	1,584,447
T G Walsh	50,000	40,000
K M Hudson	100,000	—
R W Dyson	623,000	—
W P Wyatt	—	—

Under a long-term incentive scheme, the following maximum number of share awards were granted at 75.39p per share on 1 November 2006:

	Year ended 31 October 2007
R F M Adair	312,500
P A J Leech	312,500
T G Walsh	125,000

The maximum number of awards granted to directors are:

	At 31 October 2007	At 1 November 2006
R F M Adair	847,259	534,759
P A J Leech	847,259	534,759
T G Walsh	445,855	320,855

No director had any interest in the shares of any of the subsidiary companies.

Details of directors' material interests in contracts are given in Note 28 to the accounts.

Financial instruments

Details of the use of financial instruments by the company and its subsidiary undertakings are contained in Note 21 to the financial statements.

Creditors' payment policy and practice

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

At the period end, the group had an average of 22 days (2006: 19 days) purchases outstanding in trade creditors.

Substantial shareholding

On 19 February 2008, the company had been notified of the following interests (other than those of directors) in excess of 3% of the issued ordinary share capital of the company.

	Number of ordinary shares of 2p	% of issued share capital
Caledonia Investments PLC	17,600,000	8.3

Auditors

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

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

On behalf of the board

M A Kelly
Company Secretary
19 February 2008

Statement of Directors' Responsibilities
in respect of the accounts

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group, for safeguarding the assets of the company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985.

The directors are responsible for preparing the Annual Report and the financial statements in accordance with the Companies Act 1985. The directors are also required to prepare financial statements for the group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. The directors have chosen to prepare financial statements for the company in accordance with UK Generally Accepted Accounting Practice.

Group financial statements

International Accounting Standard 1 requires that financial statements present fairly for each financial year the group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. A fair presentation also requires the directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Parent company financial statements

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

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

Financial statements are published on the group'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 group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Independent Auditors' Report
to the shareholders of Terrace Hill Group PLC

We have audited the group and parent company financial statements (the financial statements) of Terrace Hill Group PLC for the year ended 31 October 2007 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Change in Equity and the related Notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union, and for preparing the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at 31 October 2007 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 October 2007;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

BDO Stoy Hayward LLP
Chartered Accountants and Registered Auditors, London
19 February 2008

Consolidated Income Statement
for the year ended 31 October 2007

	Notes	**Year ended 31 October 2007 £'000**	Year ended 31 October 2006 £'000
Revenue	2	**69,849**	80,493
Direct costs		**(49,142)**	(65,941)
Gross profit		**20,707**	14,552
Administrative expenses		**(9,587)**	(6,708)
Profit on disposal of investment properties		**404**	457
Gain on revaluation of investment properties		**7,062**	4,343
Operating profit		**18,586**	12,644
Finance income	4	**1,447**	1,031
Finance costs	4	**(2,400)**	(3,555)
Share of joint venture and associated undertakings post tax profit		**505**	15,712
Profit before tax		**18,138**	25,832
Tax expenses	8	**(3,577)**	(1,551)
Profit from continuing operations		**14,561**	24,281
Attributable to			
Equity holders of the parent		**14,527**	24,283
Minority interest		**34**	(2)
		14,561	24,281
Basic earnings per share	10	**7.33p**	12.97p
Diluted earnings per share	10	**7.09p**	12.78p

The notes on pages 32 to 57 form part of these financial statements.

Consolidated Statement of Changes in Equity
for the year ended 31 October 2007

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000	Minority interest £'000	Total £'000
Balance at 1 November 2005	3,744	19,369	849	8,386	45,974	78,322	350	78,672
Profit for the year	—	—	—	—	24,283	24,283	(2)	24,281
Total recognised income and expense for the year	—	—	—	—	24,283	24,283	(2)	24,281
Acquisition of minority interest	—	—	—	—	—	—	(34)	(34)
Share-based payment	—	—	—	—	294	294	—	294
Interim ordinary dividends	—	—	—	—	(1,310)	(1,310)	—	(1,310)
Final ordinary dividends	—	—	—	—	(1,311)	(1,311)	—	(1,311)
Balance at 31 October 2006	3,744	19,369	849	8,386	67,930	100,278	314	100,592
Profit for the year	—	—	—	—	14,527	14,527	34	14,561
Total recognised income and expense for the year	—	—	—	—	14,527	14,527	34	14,561
Acquisition of minority interest	—	—	—	—	—	—	(42)	(42)
Share-based payment	—	—	—	—	1,494	1,494	—	1,494
Interim ordinary dividends	—	—	—	—	(1,696)	(1,696)	—	(1,696)
Final ordinary dividends	—	—	—	—	(2,059)	(2,059)	—	(2,059)
Issue of ordinary share capital	496	23,839	—	—	—	24,335	—	24,335
Balance at 31 October 2007	**4,240**	**43,208**	**849**	**8,386**	**80,196**	**136,879**	**306**	**137,185**

Consolidated Balance Sheet
at 31 October 2007

	Notes	31 October 2007 £'000	31 October 2006 £'000
Non-current assets			
Investment properties	13	**53,887**	56,967
Property plant and equipment	12	**594**	36
Investments in equity – accounted associates and joint ventures	14	**18,619**	18,088
Other investments	14	**147**	1,338
Intangible assets	11	**3,589**	4,149
Deferred tax assets	20	**661**	128
		77,497	80,706
Current assets			
Property inventories	15	**126,950**	75,693
Trade and other receivables	16	**42,888**	46,700
Cash and cash equivalents		**26,958**	8,591
		196,796	130,984
Total assets		**274,293**	211,690
Non-current liabilities			
Bank loans	19	**(64,339)**	(52,997)
Other payables	18	**(7,480)**	(7,000)
Deferred tax liabilities	20	**(1,863)**	(1,342)
		(73,682)	(61,339)
Current liabilities			
Trade and other payables	17	**(34,094)**	(22,915)
Current tax liabilities		**(1,190)**	(875)
Bank overdrafts and loans	19	**(28,142)**	(25,969)
		(63,426)	(49,759)
Total liabilities		**(137,108)**	(111,098)
Net assets		**137,185**	100,592
Equity			
Called up share capital	22	**4,240**	3,744
Share premium account	23	**43,208**	19,369
Capital redemption reserve	23	**849**	849
Merger reserve	23	**8,386**	8,386
Retained earnings	23	**80,196**	67,930
Equity attributable to equity holders of the parent		**136,879**	100,278
Minority interests		**306**	314
Total equity		**137,185**	100,592

The financial statements were approved and authorised for issue by the board of directors on 19 February 2008 and were signed on its behalf by:

P A J Leech
Director

T G Walsh
Director

The notes on pages 32 to 57 form part of these financial statements.

Consolidated Cash Flow Statement
for the year ended 31 October 2007

	Year to 31 October 2007 £'000	Year to 31 October 2006 £'000
Cash flows from operating activities		
Profit before taxation	18,138	25,832
Adjustments for:		
Finance revenue	(1,447)	(1,031)
Finance costs	2,400	3,555
Share of joint venture and associated undertakings post tax profit	(505)	(15,712)
Depreciation and impairment charge	598	592
Gain on revaluation of investment properties	(7,062)	(4,343)
(Profit)/loss on disposal of investment properties	(404)	(457)
Share-based payment	1,494	294
Cash flows from operational activities before change in working capital	13,212	8,730
(Increase) in property inventories	(34,026)	(7,689)
Decrease/(increase) in trade and other receivables	5,565	(23,787)
(Decrease)/increase in trade and other payables	(6,466)	9,713
Cash consumed by operations	(21,715)	(13,033)
Income from investments	41	193
Finance costs	(2,745)	(6,007)
Finance income	1,155	355
Tax paid	(3,174)	(585)
Net cash flows from operating activities	(26,438)	(19,077)
Investing activities		
Purchase of investment property	(4,491)	(6,570)
Sale of investment property	15,101	11,316
Purchase of investments	(100)	(221)
Sale of investments	1,207	1,714
Purchase of tangible fixed assets	(678)	(5)
Net cash flows from investing activities	11,039	6,234
Financing activities		
Borrowings drawn down	58,827	38,807
Borrowings repaid	(46,022)	(25,927)
Issue of ordinary share capital:		
– gross proceeds	25,001	—
– issue costs	(666)	—
Equity dividends paid	(3,755)	(2,621)
Net cash flows from financing activities	33,385	10,259
Net increase/(decrease) in cash and cash equivalents	17,986	(2,584)
Cash and cash equivalents at 1 November 2006	8,385	10,969
Cash and cash equivalents at 31 October 2007	26,371	8,385

Notes to the Consolidated Financial Statements

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 (IFRS 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 1985 applicable to companies preparing its financial statements in accordance with IFRS. This is the first time the group has prepared its financial statements in accordance with IFRS, having previously prepared its financial statements in accordance with UK GAAP. Details of how the transition from UK accounting standards to EU adopted IFRS has affected the group's reported financial position, financial performance and cash flows are given in Note 30. The company has elected to prepare its company financial statements in accordance with UK GAAP.

Changes in accounting policies

(a) First-time adoption

In preparing these financial statements, the group has elected to apply the following transitional arrangements permitted by IFRS 1 First-time Adoption of International Financial Reporting Standards:

- business combinations effected before 1 November 2005, including those that were accounted for using the merger method of accounting under UK accounting standards, have not been restated;
- the carrying amount of capitalised goodwill at 31 October 2005 that arose on business combinations accounted for using the acquisition method under UK GAAP was frozen at this amount and tested for impairment at 1 November 2005. The carrying amount was adjusted for intangible assets that would have been required to be recognised;
- goodwill written off directly to reserves on business combinations effected before 1 November 2005 has not retrospectively been capitalised and will not be transferred to the income statement on the disposal of a subsidiary to which it relates; and
- designation of previously recognised financial assets and financial liabilities as at fair value through profit and loss was made at 1 November 2005.

The group has made estimates under IFRS at the date of transition, which are consistent with those estimates made for the same date under UK GAAP unless there is objective evidence that those estimates were in error, i.e. the group has not reflected any new information in its opening IFRS balance sheet but reflected that new information in its income statement for subsequent periods.

(b) Standards, amendments and interpretations to published standards not yet effective

Certain new standards, amendments and interpretations to existing standards have been published and issued by the IASB and IFRIC which are mandatory for the group's accounting periods commencing on or after 1 November 2007 and which the group has decided not to apply early. These are:

New or amended International Accounting Standards (IAS/IFRS)

IFRS 2	Share-based payments – Vesting conditions
IFRS 3	Business combinations
IFRS 7	Financial Instruments – Disclosures
IFRS 8	Operating Segments
IAS 23	Amendment – Borrowing Costs

International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 11	IFRS 2 – Group and Treasury Shares Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Upon adoption of IFRS 7, the group will have to disclose additional information about its financial instruments, their significance and the nature and extent of risks that they give rise to. More specifically the group will need to disclose the fair value of its financial instruments and its risk exposure in greater detail. There will be no effect on reported income or net assets.

The directors do not anticipate that the adoption of the other standards and interpretations stated above will have a material impact on the group's financial statements in the period of initial application.

1 Accounting policies continued

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. 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 income statement from the date on which control is obtained.

Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in fair value of the identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the Consolidated Income Statement. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the Consolidated Income Statement.

At the date of transition to IFRS (1 November 2005), the goodwill carrying amount under UK GAAP was tested for impairment. Based on the conditions existing at the transition date no impairment of positive goodwill was identified, negative goodwill was taken to the income statement. From the date of transition to IFRS, the amortisation of positive goodwill was discontinued and annual impairment tests were implemented.

Joint ventures

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

In the group financial statements, interests in joint ventures are accounted for using the equity method of accounting whereby the Consolidated Balance Sheet incorporates the group's share of the net assets of the joint venture. The group income statement incorporates the group's share of the joint ventures profits after tax. The profit of the joint venture includes revaluation movements on investment properties.

Associates

Where the group has the power to participate in (but not control) 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 Income Statement, 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.

Any premium paid for an associate above the fair value of the group's share of the identifiable assets, liabilities and contingent liabilities is capitalised and included in the carrying amount of the associate and subject to impairment in the same way as goodwill arising on business combinations described above.

Investment properties

The group's investment properties are revalued annually to fair value, with changes in fair value being recognised in the Consolidated Income Statement.

When the group redevelops an existing investment property for continued future use as investment property, the property remains an investment property measured at fair value and is not reclassified. Finance costs are capitalised when borrowing costs and the activities necessary for intended use are being incurred. Capitalisation ceases when all of the activities necessary to prepare the property for its intended use are complete.

Notes to the Consolidated Financial Statements

1 Accounting policies continued

Leases
Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

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 income statement on a straight-line basis over the lease term.

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

Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost less estimated residual value based on prices prevailing at the date of acquisition of each asset over its expected useful life as follows:

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

Property inventory
Trading and development properties and work in progress are inventory and are included in the balance sheet at the lower of cost and net realisable value.

All costs, including attributable interest 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 received, excluding discounts, rebates, VAT and other sales taxes or duty. 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 residential development operations is recognised on completion.

➜ Rental income

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

➜ Fees and other income

Fees earned from development management service and other agreements, are recognised when earned in accordance with the relevant agreement.

1 Accounting policies continued

Taxation

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

Deferred tax is provided on all temporary differences, except:

- the initial recognition of goodwill;
- goodwill for which amortisation is not tax deductible;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the same time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and joint ventures where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. It is recognised in the income statement 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 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 income statement. The value of shares awarded was calculated by discounting the share price at the date of award by the anticipated dividend yield of 2% over the vesting period and the resulting fair value is amortised through the income statement over the vesting period. The charge is reversed if it is likely that any non-market based criteria will not be met.

Retirement benefits

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

Dividends

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

Impairment

The group's assets 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 net selling price 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.

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 remeasured 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 income statement as a finance cost or income.

Notes to the Consolidated Financial Statements

1 Accounting policies continued

Investments
Other investments are included in the balance sheet and revalued to fair value. Realised and unrealised gains or losses arising from changes in fair value are included in the income statement in the period in which they arise.

Cash and cash equivalents
Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, 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. Provision is made when there is evidence that the group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Trade and other payables
Trade and other payables are not interest bearing and are initially recorded at fair value and subsequently at amortised cost.

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

Borrowing costs
Finance and other costs incurred in respect of the obtaining and maintenance of borrowings are accounted for on an accruals basis and using the effective interest method and written off to the income statement over the length 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 income statement in the period in which they are incurred.

Segmental analysis
A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service and that is subject to risks and returns that are different from those of other business segments.

The group operates in three principal segments, commercial property development, property investment and housebuilding. The group does not operate outside the UK.

Financial guarantee contracts
Financial guarantee contracts are initially recognised at fair value when the group becomes party to the contract. If it subsequently becomes probable that there will be an outflow of economic benefits under the finance guarantee contract, then the liability is remeasured at the higher of the best estimate of the obligation arising under the contract and the amount initially recognised less cumulative amortisation which has been recognised as revenue.

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 ad 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:

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.

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 in order to calculate the present value of the cash flows. Actual outcomes may vary. More information including carrying values is shown in Note 11.

Share-based payment
The fair value of share awards is estimated by using valuation models on the date of grant based on certain assumptions. More details including carrying values are disclosed in Note 25.

1 Accounting policies continued

Taxation

During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the company recognises tax liabilities based on estimates of whether additional taxes and interest will be due. The company 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 the 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, or in the period of the revision and future periods if the revision affects both current and future periods.

2 Revenue

	Total 2007 £'000	Total 2006 £'000
Sales of development properties	**63,246**	73,689
Rents receivable	**4,211**	4,422
Fees and other income	**2,392**	2,382
	69,849	80,493

3 Segmental information

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

	Property investment 2007 £'000	**Commercial property development 2007 £'000**	**House building 2007 £'000**	**Unallocated items 2007 £'000**	**Total 2007 £'000**	Property investment 2006 £'000	Commercial property development 2006 £'000	Unallocated items 2006 £'000	Total 2006 £'000
Revenue	**3,496**	**64,719**	**1,634**	**—**	**69,849**	3,342	77,151	—	80,493
Direct costs	**(2,009)**	**(45,726)**	**(1,407)**	**—**	**(49,142)**	(2,256)	(63,685)	—	(65,941)
Gross profit	**1,487**	**18,993**	**227**	**—**	**20,707**	1,086	13,466	—	14,552
Administrative expenses	**—**	**—**	**—**	**(9,587)**	**(9,587)**	—	—	(6,708)	(6,708)
Profit on disposal of investment properties	**244**	**160**	**—**	**—**	**404**	453	4	—	457
Gain on revaluation of investment properties	**1,221**	**5,841**	**—**	**—**	**7,062**	1,938	2,405	—	4,343
Operating profit	**2,952**	**24,994**	**227**	**(9,587)**	**18,586**	3,477	15,875	(6,708)	12,644
Net finance costs	**(1,379)**	**451**	**(25)**	**—**	**(953)**	(773)	(1,751)	—	(2,524)
Share of results of joint venture before tax	**—**	**—**	**(167)**	**—**	**(167)**	(135)	—	—	(135)
Share of results of associated undertaking before tax	**(1,954)**	**88**	**—**	**—**	**(1,866)**	21,825	—	—	21,825
Joint venture tax	**—**	**—**	**—**	**—**	**—**	—	—	—	—
Associated undertaking tax	**2,538**	**—**	**—**	**—**	**2,538**	(5,978)	—	—	(5,978)
Profit before tax	**2,157**	**25,533**	**35**	**(9,587)**	**18,138**	18,416	14,124	(6,708)	25,832

Notes to the Consolidated Financial Statements

3 Segmental information continued

Balance sheet	Property investment 2007 £'000	Commercial property development 2007 £'000	House building 2007 £'000	Unallocated items 2007 £'000	Total 2007 £'000	Property investment 2006 £'000	Commercial property development 2006 £'000	Total 2006 £'000
Investment properties	31,962	21,925	—	—	53,887	37,177	19,790	56,967
Property, plant and equipment	23	45	22	504	594	10	26	36
Investments – associates and joint ventures	16,902	1,864	(147)	—	18,619	16,137	1,951	18,088
Other investments	—	147	—	—	147	1,299	39	1,338
Goodwill	2,729	860	—	—	3,589	3,167	982	4,149
Deferred tax assets	—	—	—	661	661	128	—	128
	51,616	24,841	(125)	1,165	77,497	57,918	22,788	80,706
Land, development and trading properties	—	105,269	21,681	—	126,950	11,787	63,906	75,693
Trade and other receivables	12,803	30,085	—	—	42,888	10,956	35,744	46,700
Cash	702	26,256	—	—	26,958	3,465	5,126	8,591
	65,121	186,451	21,556	1,165	274,293	84,126	127,564	211,690
Borrowings	(29,545)	(59,199)	(3,737)	—	(92,481)	(29,688)	(49,278)	(78,966)
Trade and other payables	(1,129)	(38,619)	(681)	(1,145)	(41,574)	(5,024)	(24,891)	(29,915)
Current tax	—	(1,190)	—	—	(1,190)	(78)	(797)	(875)
Deferred tax liabilities	(464)	(1,399)	—	—	(1,863)	—	(1,342)	(1,342)
	(31,138)	(100,407)	(4,418)	(1,145)	(137,108)	(34,790)	(76,308)	(111,098)
Net assets	33,983	86,044	17,138	20	137,185	49,336	51,256	100,592

Other segmental information

	Investment 2007 £'000	Developments 2007 £'000	Total 2007 £'000	Investment 2006 £'000	Developments 2006 £'000	Total 2006 £'000
Depreciation	95	—	95	20	—	20
Goodwill impairment	438	14	452	523	—	523
Capital expenditure	653	25	678	5	—	5
Share-based payment	1,494	—	1,494	294	—	294

4 Finance costs and finance income

	2007 £'000	2006 £'000
Interest payable on borrowings	5,025	5,867
Interest capitalised	(2,625)	(2,312)
Finance costs	2,400	3,555
Interest receivable on cash deposits	1,447	1,031
Finance income	1,447	1,031

Interests is capitalised at the same rates as the group pays on the borrowings.

5 Administrative expenses

	2007 £'000	2006 £'000
Depreciation of property, plant and equipment	95	20
Loss on disposal of property, plant and equipment	6	—
Operating lease charges – rent of properties	1,276	1,332
Impairment of goodwill	452	523
Share-based payment remuneration	1,494	294
Fees paid to BDO Stoy Hayward LLP in respect of:		
– audit of the company's annual accounts	117	79
– audit of subsidiary companies	75	49
– other services	19	16

6 Directors' emoluments

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Emoluments	1,143	674	—	—
Amounts paid to third parties in respect of directors' services	13	91	14	12
Amounts receivable under long-term incentive schemes	34	70	—	—
Compensation for loss of office	—	60	—	—
Defined contribution pension cost	56	78	—	—

Pension contributions to defined contribution schemes were made during the year in respect of three directors (2006: four). Share-based payments in year were £531,000 (2006: £89,000).

Emoluments of highest paid director:

	2007 £'000	2006 £'000
Total emoluments (excluding pension contributions)	523	241
Contributions to money purchase schemes	21	—
	544	241

Share-based payments in the year were £213,000 (2006: £34,000).

7 Staff costs (excluding directors)

	2007 £'000	2006 £'000
Wages and salaries	4,186	2,350
Employer's national insurance contributions and similar taxes	356	244
Defined contribution pension cost	380	99
Share-based payment expense	963	205
	5,885	2,898

The average monthly number of employees (including directors) during the year:

	2007	2006
Property development and administration	41	23

Notes to the Consolidated Financial Statements

8 Tax on profit on ordinary activities

(a) Analysis of charge in year

	2007 £'000	2006 £'000
Current tax		
UK corporation tax on profits of the year	3,943	1,376
Adjustment in respect of prior periods:	(354)	(537)
Total current tax	3,589	839
Deferred tax		
Origination and reversal of temporary differences	(12)	712
Total deferred tax charge	(12)	712
Total tax expense	3,577	1,551

(b) Factors affecting the tax expense for the year

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

	2007 £'000	2006 £'000
Profit before tax	18,138	25,832
Less joint ventures and associates	(505)	(15,712)
Pre-tax profit attributable to the group	17,633	10,120
Profit multiplied by the standard rate of UK corporation tax of 30%	5,290	3,036
Disallowables	253	123
Provisions released	(11)	(83)
Gain on sale of properties	(149)	(52)
Other temporary differences	547	16
Consortium loss relief utilised	(2,168)	(456)
Indexation	(781)	(462)
Unutilised losses carried forward	950	—
Losses brought forward utilised	—	(34)
	3,931	2,088
Adjustments in respect of prior periods:	(354)	(537)
Total tax expense	3,577	1,551

(c) Joint venture and associates

No tax charge arises on the results of the joint venture, the group's share of tax on the associate is £2,538,000 credit (2006: £5,978,000 charge).

9 Dividends

	2007 £'000	2006 £'000
Ordinary shares		
Final paid of 1.1p (2006: final dividend for 2005 of 0.7p) per share for the year ended October 2006	**2,059**	1,311
Interim paid of 0.8p per share (2006: 0.7p) per share for the year ended October 2007	**1,696**	1,310
	3,755	2,621
Ordinary shares		
Final dividend after the year of 1.3p (2006: 1.1p) per share	**2,756**	2,059

The proposed final dividend has not been accrued at the balance sheet date.

10 Earnings per ordinary share

The calculation of basic earnings per ordinary share is based on a profit of £14,527,222 (2006: £24,283,312) and on 198,069,224 (2006: 187,218,824) ordinary shares, being the weighted average number of shares in issue during the period.

The calculation of diluted earnings per ordinary share is based on a profit of £14,527,222 (2006 profit: £24,283,312) and on 204,787,224 (2006: 190,055,289) ordinary shares, being the weighted average number of shares in issue during the period adjusted to allow for the issue of shares in relation to all performance related share awards.

11 Intangible fixed assets – goodwill

	£'000
Cost:	
At 1 November 2005	5,898
Acquisitions	207
At 1 November 2006	6,105
Adjustment	(122)
Acquisitions	14
At 31 October 2007	**5,997**
Impairment:	
At 1 November 2005	(1,433)
For the period	(523)
At 1 November 2006	(1,956)
For the period	(452)
At 31 October 2007	**(2,408)**
At 31 October 2007	**3,589**
At 31 October 2006	4,149

Notes to the Consolidated Financial Statements

11 Intangible fixed assets – goodwill continued

Impairment tests for goodwill

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

	2007 £'000	2006 £'000
Commercial properties	860	982
Investment properties	2,729	3,167
	3,589	4,149

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

In assessing the value in use, the future cash flows of the group are reviewed to ensure that those units in respect of which the goodwill arose continues to generate cashflows in excess of the carrying value of the goodwill. The cash flows are then discounted to present value to arrive at a recoverable amount. 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. An 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.

It is the opinion of the directors that at 31 October 2007 there was no impairment other than that shown in this note.

12 Property, plant and equipment

	Leasehold improvements £'000	Motor vehicles £'000	Office equipment £'000	Furniture and fittings £'000	Total £'000
Cost:					
At 1 November 2005	—	6	78	65	149
Additions	—	—	5	—	5
Disposals	—	—	(1)	(10)	(11)
At 1 November 2006	—	6	82	55	143
Additions	151	315	78	134	678
Disposals	—	(25)	(74)	—	(99)
At 31 October 2007	**151**	**296**	**86**	**189**	**722**
Depreciation:					
At 1 November 2005	—	4	65	21	90
Charge for period	—	—	8	12	20
Disposals	—	—	(1)	(2)	(3)
At 1 November 2006	—	4	72	31	107
Charge for period	9	39	17	30	95
Disposals	—	—	(74)	—	(74)
At 31 October 2007	**9**	**43**	**15**	**61**	**128**
Net book value:					
At 31 October 2007	**142**	**253**	**71**	**128**	**594**
At 31 October 2006	—	2	10	24	36

The net book value of assets under finance leases was £87,000 (2006: £Nil) and are secured on the assets concerned.

13 Investment properties

	£'000
Cost or valuation:	
At 1 November 2005	52,899
Additions	13,271
Disposals	(11,628)
Transfer to development work in progress	(1,869)
Surplus on revaluation	4,294
At 31 October 2006	56,967
Additions	4,491
Disposals	(14,486)
Surplus on revaluation	6,915
At 31 October 2007	**53,887**

Included in additions for the year is capitalised interest of £431,000 (2006: £Nil).

The investment properties situated in Scotland owned by the group have been valued as at 31 October 2007 by qualified valuers from CRGP Robertson, 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 Institute of Chartered Surveyors.

Investment properties situated in England owned by the group have been valued at open market value by directors, who are suitably qualified or experienced, at 31 October 2007 having regard to professional advice and/or sales evidence during the period.

14 Investments

Associates and joint ventures

	Associates £'000	Joint ventures £'000	Total £'000
Cost or valuation:			
At 1 November 2005	—	156	156
Additions	2,220	—	2,220
Share of results	15,848	(136)	15,712
At 31 October 2006	18,068	20	18,088
Additions	26	—	26
Share of results	672	(167)	505
At 31 October 2007	**18,766**	**(147)**	**18,619**

The group's interest in its principal associates which have been equity accounted in the consolidated financial statements were as follows:

Terrace Hill Residential PLC	49%	Property investment
Castlegate House Partnership	30%	Property development
Devcap Partnership	26%	Property development
Terrace Hill Development Partnership	20%	Property development
Howick Place JV S.a.r.l.	20%	Investment holding company

Terrace Hill Residential PLC was incorporated in Scotland and Howick Place JV S.a.r.l. is resident in Luxembourg.

Notes to the Consolidated Financial Statements

14 Investments continued

Summarised aggregate information 2007

	Terrace Hill Development Partnership £'000	Devcap Partnership £'000	Castlegate House Partnership £'000	Terrace Hill Residential PLC £'000	Other £'000	Total £'000
Revenue	31,550	—	702	14,268	—	46,520
Profit/(loss) after taxation	2,765	—	(1,550)	1,192	—	2,407
Total assets	46,527	37,255	9,747	276,947	—	370,476
Total liabilities	(34,448)	(37,247)	(11,250)	(242,865)	—	(325,810)
Net assets/(liabilities)	12,079	8	(1,503)	34,082	—	44,666
Share of results for the period	553	—	(465)	584	—	672
Share of net assets/(liabilities)	2,416	2	(451)	16,700	99	18,766

Summarised aggregate information 2006

Name of associate Date of acquisition	Terrace Hill Development Partnership £'000 12 April 2006	Devcap Partnership £'000 3 October 2006	Castlegate House Partnership £'000 20 January 2006	Terrace Hill Residential PLC £'000 31 July 2006	Other £'000	Total £'000
Revenue	9,728	—	426	3,759	—	13,913
Profit/(loss) after taxation	(681)	—	46	32,591	—	31,956
Total assets	41,836	11,624	10,891	314,545	—	378,896
Total liabilities	(32,516)	(11,620)	(10,844)	(281,653)	—	(336,633)
Net assets	9,320	4	47	32,892	—	42,263
Share of results for the period	(136)	—	14	15,970	—	15,848
Share of net assets	1,864	2	14	16,117	71	18,068

14 Investments continued

Terrace Hill Residential PLC

Group share of bank loans secured on investment property

	2007 £'000	2006 £'000
In more than two years but less than five	104,562	126,404
Unamortised issue costs	(666)	(1,029)
	103,896	125,375

The group's interest in its principal joint ventures and partnerships which have been equity accounted in the consolidated financial statements were as follows:

Guildford Partnership	50%	Property development
Templar Circus Partnership	50%	Property development
Achadonn Limited	50%	Property development
Wilton Road Partnership	50%	Property development
Two Orchards Holdings Limited	50%	Investment holding company

Summarised aggregate information

	Achadonn Limited	
	2007 £'000	2006 £'000
Revenue	39	69
Profit/(loss) after taxation	(334)	(272)
Current assets	—	40
Current liabilities	(294)	—
Net (liabilities)/assets	(294)	40
Share of results for the period	(167)	(136)
Share of net (liabilities)/assets	(147)	20

Other investments

The group's interest in its other investments was as follows:

	2007 £'000	2006 £'000
Unquoted	1	1
Quoted	146	1,337
	147	1,338

	Total £'000
Cost or valuation:	
At 1 November 2005	2,792
Additions	—
Disposals	(1,587)
Surplus on revaluation	133
At 31 October 2006	1,338
Additions	1
Disposals	(1,250)
Surplus on revaluation	58
At 31 October 2007	**147**

Notes to the Consolidated Financial Statements

14 Investments continued

At 31 October 2007, the principal subsidiaries, held directly or indirectly by the company were as follows:

Incorporated in the United Kingdom:	Proportion of voting rights and ordinary shares held	Nature of business
PCG Residential PLC	100%	Property investment
Paisley Pattern Homes Limited	100%	Property investment
Park Circus (Management) Limited	100%	Management and administration
Park Circus Registrars Limited	100%	Corporate registrars
Mercantile Securities (Scotland) Limited	100%	Corporate finance services
NC (Res) Limited	100%	Holding company/property investment
South Eastern Recovery II Limited	100%	Property investment
Pacific Shelf 1058 Limited	100%	Property investment
Belgrave Residential Assets Limited	100%	Property investment
Belgrave Residential Investments Limited	100%	Property investment
PCG Residential Lettings (No.3) Limited	100%	Property investment
PCG Residential Lettings Limited	100%	Property investment
Spath Holme Limited	100%	Property investment
Terrace Hill (Central Scotland) Limited	100%	Property development
Terrace Hill (Kilmarnock) Limited	100%	Property development
Terrace Hill (Shotts) Limited	100%	Property development
Terrace Hill (Residential Developments) Limited	100%	Property development
Britannic Global Income Trust PLC	100%	Investment holding company
Neill Clerk Energy US Limited	100%	Property investment
Terrace Hill (Armadale No.2) Limited	100%	Property development
Terrace Hill (Patna) Limited	100%	Property development
Terrace Hill Limited	100%	Holding company/property development
Terrace Hill Properties Limited	100%	Property investment
Terrace Hill Developments Limited	100%	Property development
Mount York Estates Limited	100%	Property development
Terrace Hill Projects Limited	100%	Project coordination and management services
Terrace Hill North East Limited	100%	Holding company/property development
Terrace Hill (Bracknell) Limited	100%	Investment holding company
Terrace Hill (Howick Place) Investments Limited	100%	Investment holding company
Terrace Hill (Hammersmith) Limited	100%	Property development
Terrace Hill (Welwyn Garden City) Limited	100%	Property development
Terrace Hill (Ashington) Limited	100%	Property development
Terrace Hill (Victoria Street) Limited	100%	Property development
Terrace Hill (Redcliff Street) Limited	100%	Property development
Terrace Hill (Baltic) Limited	100%	Property development
Terrace Hill (Baltic) No.2 Limited	100%	Property development
Terrace Hill (Baltic) No.3 Limited	100%	Property development

14 Investments continued

Incorporated in the United Kingdom	Proportion of voting rights and ordinary shares held	Nature of business
Terrace Hill (Middlehaven) Limited	100%	Property development
Terrace Hill (Guildford No.1) Limited	100%	Property development
Thanet Reach Estates Limited	100%	Property development
PCG Investments Limited	100%	Investment holding company
Port Hampton Limited	100%	Property investment and moorings hire
Platts Eyot Limited	100%	Property investment
Terrace Hill (Swansea) Limited	100%	Property development
Terrace Hill (Tunbridge Wells) Limited	100%	Property development
Middlehaven Properties Limited	100%	Property development
Terrace Hill (Bishop Auckland) Limited	100%	Property development
Terrace Hill (Edmonton) Limited	100%	Property investment
Terrace Hill (Croydon) Limited	100%	Property development
Terrace Hill Castlegate House Limited	100%	Investment holding company
Terrace Hill (Aeropark) Limited	100%	Property development
Terrace Hill (Galashiels) No.1 Limited	100%	Property development
Terrace Hill (Galashiels) No.2 Limited	100%	Property development
Terrace Hill (Awdry) Holdings Limited	100%	Investment holding company
Terrace Hill (Awdry) Limited	100%	Property investment
Terrace Hill (Maidenhead) Limited	100%	Property development
Terrace Hill Pinewood Limited	100%	Property development
Terrace Hill (Resolution) Limited	100%	Property development
Terrace Hill (Wilton Road) Holdings Limited	100%	Investment holding company
Terrace Hill (Wilton Road) No.1 Limited	100%	Property development
Terrace Hill Blyth Limited	100%	Property development
Grosvenor Land Holdings Limited	100%	Holding company/property development
Grosvenor Land South Limited	100%	Property investment
SERAH Properties PLC	89%	Property investment
TH (Development Partnership) General Partner Limited	100%	Investment holding company
TH (Development Partnership) Limited	100%	Investment holding company
Terrace Hill Southampton Limited	100%	Property development
Clansman Homes Limited	100%	Property development

Notes to the Consolidated Financial Statements

15 Property inventories

	2007 £'000	2006 £'000
Development sites	126,950	75,693
Included in these figures is capitalised interest of	4,162	2,876

16 Trade and other receivables

	2007 £'000	2006 £'000
Trade receivables	2,299	3,320
Prepayments and accrued income	12,261	5,571
Amounts due from associates and joint ventures	24,051	13,564
Other receivables	4,277	24,245
	42,888	46,700

All amounts fall due for payment within one year except for amounts due from associates and joint ventures of £24,051,000 (2006: £10,653,000) and prepayments of £575,000 (2006: £22,000).

17 Trade and other payables

	2007 £'000	2006 £'000
Trade payables	3,398	3,599
Other taxation and social security costs	1,499	510
Accruals and deferred income	27,384	11,420
Other payables	1,813	7,386
	34,094	22,915

18 Other payables (non-current)

	2007 £'000	2006 £'000
Amounts due to associates and joint ventures	3,000	3,000
Other payables	4,480	4,000
	7,480	7,000

19 Bank overdrafts and loans

	2007 £'000	2006 £'000
Bank loans	92,410	79,270
Bank overdrafts	587	206
	92,997	79,476
Unamortised loan issue costs	(516)	(510)
	92,481	78,966
Amounts due:		
Within one year	28,142	25,969
After more than one year	64,339	52,997
	92,481	78,966

An analysis of interest rates and information on fair value and security is given in Note 21.

20 Deferred tax

Details of the deferred tax (credited)/charged to the Consolidated Income Statement are as follows:

	2007 £'000	2006 £'000
Taxation of gains on investment properties	521	840
Share-based payment	(413)	(88)
Other	(120)	(40)
	(12)	712

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

	2007 £'000	2006 £'000
Deferred tax provision		
Taxation of gains on investment properties	(1,863)	(1,342)
	(1,863)	(1,342)
Deferred tax asset		
Share-based payment	501	88
Other timing differences	160	40
	661	128

Under IAS 12, deferred tax is recognised for tax potentially payable on the realisation of investment properties at fair value at the balance sheet date. No deferred tax asset is recognised in respect of losses is there is any uncertainty over future recoverability.

21 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.

The group has various other financial instruments such as trade receivables and trade payables that arise directly from its operations, listed 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 period is detailed below.

Interest rate risk

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

The group borrows cash in the form of loans and overdrafts, which are subject to interest at floating rates, recognising that rates will fluctuate according to changes in the bank base rate. 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. The group had not entered into any direct derivative contracts in the current or previous year but some of its associates and joint ventures have arranged interest rate swaps and other instruments in respect of their debts.

Credit risk

The group's principal financial assets are cash and trade receivables. The credit risk associated with cash is limited as the counterparties have high credit ratings. The principal risk therefore arises from its trade receivables. Trade receivables from the sale of properties are secured against those properties until the proceeds are received. Rent receivables are unsecured but the group's exposure to tenant default is limited as no tenant accounts for more than 10% of total rent.

Liquidity risk

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

Notes to the Consolidated Financial Statements

21 Financial instruments continued

Interest rate risk profile of financial assets and liabilities

The interest rate profile of financial assets and liabilities of the group at 31 October 2007 was as follows:

	Total £'000	Floating rate financial assets £'000	Financial assets on which no interest is earned £'000
Sterling	**26,958**	**26,958**	**—**

	Total £'000	Fixed rate financial liabilities £'000	Floating rate financial liabilities £'000
Sterling	**92,997**	**—**	**92,997**

Floating rate financial liabilities bear interest at LIBOR or base rate plus margins of between 1% and 2.5%.

The interest rate profile of financial assets and liabilities of the group at 31 October 2006 was as follows:

	Total £'000	Floating rate financial assets £'000	Financial assets on which no interest is earned £'000
Sterling	8,591	8,591	—

	Total £'000	Fixed rate financial liabilities £'000	Floating rate financial liabilities £'000
Sterling	79,476	—	79,476

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 approximates to book value.

Borrowings

The group bank borrowings and overdrafts are repayable as follows:

	2007 £'000	2006 £'000
On demand or within one year	**27,687**	26,272
In more than one year but less than two	**51,932**	21,951
In more than two years but less than five	**13,378**	18,324
In more than five years	**—**	12,929
	92,997	79,476

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

The bank loans are secured by legal charges over the group's investment and development sites 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.

21 Financial instruments continued

Borrowings continued

The group's share of bank borrowings and overdrafts of its joint ventures are repayable as follows:

	2007 £'000	2006 £'000
In more than one year but less than two	15,017	—
In more than two years but less than five	—	7,147
	15,017	7,147

Borrowing facilities

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

At 31 October 2007	2007 £'000	2006 £'000
Expiring in one year or less	8,782	2,504
Expiring in more than one year but not more than two	24,877	5,072
Expiring in more than two years but not more than five	4,000	11,718
Expiring in more than five years	—	9,071
	37,659	28,365

Guarantees

The group has given a guarantee of £15.0 million as part of the security arrangements for the bank facilities of Terrace Hill Residential PLC, one of its associated undertakings.

22 Called up share capital

	2007 £'000	2006 £'000
Authorised:		
500,000,000 (2006: 250,000,000) ordinary shares of 2 pence each	10,000	5,000
200,000 cumulative 8% redeemable preference shares of £1 each	200	200
3,300,000 convertible shares of 20 pence each	660	660
	10,860	5,860

	£'000	£'000
Allotted, called up, and fully paid:		
211,971,299 (2006: 187,218,824) ordinary shares of 2 pence each	4,240	3,744

On the 24 May 2007, 24,752,475 new ordinary shares of 2 pence each were issued at a price of 101 pence per share. Share issue costs were £666,000, and these have been taken to the share premium reserve.

Notes to the Consolidated Financial Statements

23 Reserves

	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Retained earnings £'000
At 1 November 2005	19,369	849	8,386	45,974
Profit for the year	—	—	—	24,283
Interim ordinary dividends	—	—	—	(1,310)
Final ordinary dividends	—	—	—	(1,311)
Share-based payment	—	—	—	294
At 31 October 2006	19,369	849	8,386	67,930
Profit for the year	—	—	—	14,527
Interim ordinary dividends	—	—	—	(1,696)
Final ordinary dividends	—	—	—	(2,059)
Issue of ordinary share capital:				
– gross proceeds	24,505	—	—	—
– issue costs	(666)	—	—	—
Share-based payment	—	—	—	1,494
At 31 October 2007	**43,208**	**849**	**8,386**	**80,196**

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.
Capital redemption reserve	–	represents amount paid to purchase issued shares for cancellation at their nominal value.
Merger reserve	–	the Merger reserve has arisen following acquisitions where the group's equity has formed all or part of the consideration and represents the premium on the issued shares less costs.
Retained earnings	–	represents cumulative net gains and losses recognised in the consolidated income statement.

24 Contingent liabilities and capital commitments

On the acquisition by the group of a subsidiary, 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. These are repayable in the amount of £442,000 (2006: £503,000).

Capital commitments relating to development sites are as follows:

	2007 £'000	2006 £'000
Contracted but not provided for	**13,772**	38,503

The group has an obligation to pay additional consideration of £1.5 million (2006: £2.2 million) in June 2009, or earlier depending on the outcome of a planning application for the acquisition of a site at Patna.

25 Share-based payments

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

Under the scheme, ordinary share awards will vest if Triple Net Asset Value per share increases by averages of between 5% and 25% per annum plus retail price index over a maximum three-year period from the date of the balance sheet before the date of the grant. Awards will lapse if not vested at the end of the vesting period.

Date of award	**2007 Value of award at date of grant**	**2007 Share price at date of grant**	**2007 Number of share awards granted**	2006 Value of award at date of grant	2006 Share price at date of grant	2006 Number of share awards granted
7 February 2006	—	—	—	42.78p	46.75p	4,577,528
1 May 2006	—	—	—	52.49p	56.00p	263,158
1 November 2006	**75.39p**	**80.00p**	**2,037,500**	—	—	—
1 November 2006	**76.89p**	**80.00p**	**450,000**	—	—	—
Awards granted in the year			**2,487,500**			4,840,686
Awards outstanding at the end of the year			**7,328,186**			4,840,686

None of the total number of share awards granted had vested at the year end. The charge to the income statement was £1,493,673 (2006: £294,503). The value of shares awarded was calculated by discounting the share price at the date of the award by the anticipated dividend yield of 2% over the vesting period.

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 31 October 2007, the Trust held 125,000 (31 October 2006: 75,000) ordinary 2 pence shares in Terrace Hill Group PLC. On that date, awards over 7,328,186 (31 October 2006: 4,840,686) ordinary 2 pence shares in Terrace Hill Group PLC had been made under the share-based payment plan.

26 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 2007 £'000	Land and buildings 2006 £'000
In one year or less	**1,373**	1,336
Between two and five years	**5,492**	5,267
In five years or more	**8,358**	9,157
	15,223	15,760

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 2007 £'000	Land and buildings 2006 £'000
In one year or less	**1,463**	1,136
Between two and five years	**5,565**	4,544
In five years or more	**1,584**	238
	8,612	5,918

Notes to the Consolidated Financial Statements

26 Leases continued

Obligations under finance leases

Finance lease liabilities are payable as follows:

	Minimum lease payment £'000	Interest £'000	Principal £'000
In one year or less	**23**	**2**	**21**

There were no obligations under finance leases for the year ended 31 October 2006.

27 Acquisition of subsidiaries

	Tay Homes (Glasgow) Limited
Nature of business	House builder
Percentage of issued share capital acquired	100%
Date of acquisition	1 November 2006

	£'000
Fair values of assets and liabilities acquired:	
Inventories	419
Receivables	3,373
Payables	(3,777)
Consideration	15

Represented by:

	£'000
Cash	15

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

	Tay Homes (Glasgow) Limited
Start of the financial period	1 June 2006
Date of acquisition	1 November 2006

	£'000
Turnover	8,138
Cost of sales	(7,926)
Administration expenses	(100)
Interest payable	(67)
Profit in the period	45

28 Related party transactions

(a) Office facility and staff costs of £2,177,000 (2006: £3,546,000) were billed to the group from Terrace Hill Partnership. Rent charges of £101,000 (2006: £243,000) were billed by the group to Terrace Hill Partnership. R F M Adair, P A J Leech and T G Walsh are partners in Terrace Hill Partnership. Terrace Hill Partnership ceased to trade on 31 March 2007 and its employees and partners became employees of the group with effect from 1 April 2007.

(b) Included in management fees for the period are amounts charged to the following partnerships and associates:

	2007 £'000	2006 £'000
Guildford Partnership	**1**	41
Templar Circus Partnership	**9**	230
Wilton Road Partnership	**174**	174
Terrace Hill Development Partnership	**242**	488
Castlegate House Partnership	**18**	11
Terrace Hill Residential PLC	**300**	483
Devcap 2 Partnership	**369**	—
Howick Place Office S.a.r.l.	**411**	—

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

	2007 £'000	2006 £'000
Guildford Partnership	**—**	841
Templar Circus Partnership	**—**	1,900
Wilton Road Partnership	**2,515**	2,515
Castlegate House Partnership	**678**	678
Terrace Hill Residential PLC	**10,196**	5,234
Devcap 2 Partnership	**2,098**	—
Howick Place Office S.a.r.l.	**3,062**	—
Two Orchards Limited	**5,000**	—

The relationship with the partnerships and associates is disclosed in Note 14.

The following amount due to the group's partnerships and associates is included in payables at the year end:

	2007 £'000	2006 £'000
Wilton Road Partnership	**3,000**	3,000

(c) Joint venture company – Achadonn Limited
The following transactions took place between the group and its joint venture during the year:

	2007 £'000	2006 £'000
Net short-term loan movements advances/(repayments)	**150**	140
Management fees received	**70**	70
Interest received	**68**	51

The following receivable balances relating to the joint venture undertakings were included in the Consolidated Balance Sheet:

	2007 £'000	2006 £'000
Short-term loans	**940**	790
Management fees	**70**	70
Interest	**68**	51

Notes to the Consolidated Financial Statements

28 Related party transactions continued

(d) Terrace Hill Residential PLC

As stated in Note 14, 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 the acquisition of the at.home Nationwide portfolio by Terrace Hill Residential PLC, Skye has given a guarantee for £15.0 million. Skye and R F M Adair also advanced £10.1 million (2006: £5.6 million) by way of shareholder loans to Terrace Hill Residential PLC to assist in the funding of the acquisition and the ongoing working capital requirements of the associate.

29 Controlling party

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

30 Transition from UK GAAP to IFRS

These are the group's first consolidated financial statements prepared in accordance with IFRS as adopted by the European Union. The accounting policies section sets out the accounting policies that have been applied in preparing the financial statements for the year ended 31 October 2007, the comparative information presented in these financial statements for the year ended 31 October 2006 and in the preparation of an opening IFRS balance sheet at 1 November 2005 (the group's date of IFRS transition).

In preparing the opening IFRS balance sheet and the comparative information, the group has adjusted amounts previously reported in financial statements prepared in accordance with UK GAAP. An explanation of how the transition from UK GAAP to IFRS has affected the group's financial performance and financial position is set out below:

Reconciliation of profit after tax reported under UK GAAP to profit after tax reported under IFRS

	Notes	Year ended 31 October 2006 £'000
Profit after tax for the period under UK GAAP		
As reported:		4,016
IFRS adjustments – group		
Revaluation gains on investment properties	a)	4,343
Revaluation gains on investments	a)	328
Deferred tax on gains on investment properties	b)	(841)
Negative goodwill	d)	(315)
Total IFRS adjustments – group		3,515
IFRS adjustments – associates		
Revaluation gains on investment properties	a)	22,645
Deferred tax on gains on investment properties	b)	(5,978)
Fair value adjustments of financial instruments	c)	83
Total IFRS adjustments – associates		16,750
Total IFRS adjustments		20,265
Profit after tax for the period under IFRS		24,281

30 Transition from UK GAAP to IFRS continued

Reconciliation of equity reported under UK GAAP to equity under IFRS

	Notes	Year ended 31 October 2006 £'000	Year ended 31 October 2005 £'000
Equity under UK GAAP as reported		106,965	77,996
IFRS adjustments – group			
Taxation of gains on investment properties	b)	(1,343)	(502)
Negative goodwill	d)	865	1,178
Total IFRS adjustments – group		(478)	676
IFRS adjustments – associates			
Taxation of gains on investment properties	b)	(5,978)	—
Fair value adjustments of financial instruments	c)	83	—
Total IFRS adjustments – associates		(5,895)	—
Total IFRS adjustments		(6,373)	676
Equity under IFRS		100,592	78,672

The group has taken advantage of the following exemptions available under IFRS 1 when adopting IFRS for the first time:

- Business combinations – the provisions of IFRS 3 Business Combinations have been applied prospectively from 1 November 2005 and the group has chosen not to restate business combinations that took place before the transition date.

The principal reasons for the adjustments shown in the reconciliations between UK GAAP and IFRS are set out below:

a) under UK GAAP gains on revaluation of investments and investment properties are included as a revaluation reserve. Under IFRS these gains are taken to the income statement;

b) under UK GAAP deferred taxation on the revaluation gains of investment properties are disclosed in the notes to the accounts. Under IFRS the tax on these revaluation gains is included on the income statement;

c) under IFRS the fair value of interest rate swaps entered into are accounted for through the income statement; and

d) under UK GAAP negative goodwill is carried in the balance sheet. Under IFRS it is credited to the income statement.

The transition to IFRS has no impact on the cash generation of the business. However, the format of the cash flow statement is different under IAS 7 Cash Flow Statements. IAS 7 only allows three classifications of cash flow, being operating, investing and financing. As a result the cash flow items disclosed under UK GAAP have been reclassified under the most appropriate heading. The IFRS adjustments made to profit before interest and tax in the income statement are reflected within the reconciliation of profit before interest and tax to cash flows from operating activities.

Company Balance Sheet – UK GAAP
at 31 October 2007

	Notes	31 October 2007 £'000	31 October 2006 £'000
Fixed assets			
Investments	4	**32,291**	32,786
Current assets			
Debtors due within one year	5	**30,894**	29,120
Debtors due after more than one year	5	**43,661**	26,176
		74,555	55,296
Cash at bank and in hand		**34**	1,634
		74,589	56,930
Creditors: amounts falling due within one year	6	**(33,429)**	(35,754)
Net current assets		**41,160**	21,176
Net assets		**73,451**	53,962
Capital and reserves			
Called up share capital	9	**4,240**	3,744
Share premium account	10	**43,208**	19,369
Revaluation reserves – other	10	**73**	32
Capital redemption reserve	10	**849**	849
Merger reserve	10	**15,986**	15,986
Profit and loss account	10	**9,095**	13,982
Shareholders' funds		**73,451**	53,962

The financial statements were approved and authorised for issue by the board of directors on 19 February 2008 and were signed on its behalf by:

Philip Leech.

P A J Leech
Director

T G Walsh
Director

The notes on pages 59 to 62 form part of these financial statements.

Notes to the Company 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 investment properties and listed and unlisted investments.

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 was calculated by discounting the share price at the date of award by the anticipated dividend yield of 2% over the vesting period and the resulting fair value is amortised through the profit and loss account over the vesting period. The charge is reversed if it is likely that any non-market based criteria will not be met.

Investment in subsidiary companies

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 market value with any associated uplift taken to the investment revaluation reserve.

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 invoice values less provisions for doubtful debts. A provision for debtors is estimated where there is objective evidence that the company will not be able to collect all amounts due according to the agreed terms of the debtors concerned.

Cash at bank and in hand

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

Creditors

Creditors are recognised at invoiced amounts.

2 Profit/(loss) attributable to members of the parent company

The company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The group profit for the year includes a loss after tax and before dividends paid of £2,626,000 (2006: loss £1,627,000) which is dealt with in the financial statements of the parent company.

3 Staff costs

The company has no employees other than directors. Directors' remuneration is disclosed in Note 6 to the group accounts. Details of share awards outstanding are shown in Note 25 to the group accounts.

Notes to the Company Financial Statements

4 Investments

Company	Subsidiary undertakings £'000	Other investments £'000	Total £'000
Cost or valuation:			
At 1 November 2006	33,104	285	33,389
Additions	—	1	1
Disposals	—	(50)	(50)
Surplus on revaluation	—	40	40
At 31 October 2007	**33,104**	**276**	**33,380**
Whereof:			
Cost	33,104	—	33,104
Valuation	—	276	276
	33,104	276	33,380
Provision for diminution in value:			
At 1 November 2006	401	202	603
Provided during the period	535	1	536
Released during the period	—	(50)	(50)
At 31 October 2007	**936**	**153**	**1,089**
Net book value:			
At 31 October 2007	**32,168**	**123**	**32,291**
At 31 October 2006	32,703	83	32,786

On a historical cost basis other investments other than loans would have been included at a net book value of £50,000 (2006: £51,000).

A list of group subsidiaries is shown in Note 14 of the group financial statements.

5 Debtors

	2007 £'000	2006 £'000
Trade debtors	**20**	17
Prepayments and accrued income	**204**	212
Amount due from subsidiaries	**73,772**	54,773
Other debtors	**559**	294
	74,555	55,296

All amounts fall due for payment within one year except for amounts due from subsidiaries of £43,661,000 (2006: £26,176,000).

6 Creditors

	2007 £'000	2006 £'000
Amounts due within one year:		
Trade creditors	**44**	3
Accruals and deferred income	**346**	176
Other creditors	**347**	576
Amounts due to subsidiaries	**32,692**	34,999
	33,429	35,754

7 Related party transactions

The company has taken advantage of the exemption allowed by FRS 8, Related Party Transactions, to disclose any transactions with entities that are included in the consolidated financial statements of Terrace Hill Group PLC.

8 Deferred tax

	2007 £'000	2006 £'000
At 1 November 2006	(128)	—
(Credited) to profit and loss account	(418)	(128)
At 31 October 2007	(546)	(128)
Other timing differences	(546)	(128)
	(546)	(128)

This balance is included in other debtors in Note 5.

9 Called up share capital

	2007 £'000	2006 £'000
Authorised:		
500,000,000 (2006: 250,000,000) ordinary shares of 2 pence each	10,000	5,000
200,000 cumulative 8% redeemable preference shares of £1 each	200	200
3,300,000 convertible shares of 20 pence each	660	660
	10,860	5,860

	£'000	£'000
Allotted, called up, and fully paid:		
211,971,299 (2006: 187,218,824) ordinary shares of 2 pence each	4,240	3,744

On the 24 May 2007, 24,752,475 new ordinary shares of 2 pence each were issued at a price of 101 pence per share. Share issue costs were £666,000, and these have been taken to the share premium reserve.

10 Reserves

	Share premium £'000	Revaluation reserve – other £'000	Capital redemption reserve £'000	Merger reserve £'000	Profit and loss account £'000
At 1 November 2005	19,369	23	849	15,986	17,936
(Loss) for the year	—	—	—	—	(1,627)
Interim ordinary dividends – 2006	—	—	—	—	(1,310)
Final ordinary dividends – 2005	—	—	—	—	(1,311)
Surplus on revaluation of unlisted investments	—	9	—	—	—
Share-based payment	—	—	—	—	294
At 31 October 2006	19,369	32	849	15,986	13,982
(Loss) for the year	—	—	—	—	(2,626)
Interim ordinary dividends – 2007	—	—	—	—	(1,696)
Final ordinary dividends – 2006	—	—	—	—	(2,059)
Share-based payment	—	—	—	—	1,494
Surplus on revaluation of unlisted investments	—	41	—	—	—
Issue of ordinary share capital:					
– gross proceeds	24,505	—	—	—	—
– issue costs	(666)	—	—	—	—
At 31 October 2007	43,208	73	849	15,986	9,095

Notes to the Company Financial Statements

11 Reconciliation of movement in shareholders' funds

	2007 £'000	2006 £'000
Loss for the financial year	(2,626)	(1,627)
New ordinary share capital subscribed	24,335	—
Equity dividends paid	(3,755)	(2,621)
Surplus on revaluation of unlisted investments	41	9
Share-based payments	1,494	294
Net increase/(reduction) to shareholders' funds	19,489	(3,945)
Opening shareholders' funds	53,962	57,907
Closing shareholders' funds	73,451	53,962

12 Guarantees and financial commitments

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

	Land and buildings 2007 £'000	Land and buildings 2006 £'000
Operating leases which expire:		
In less than one year	—	—
In two to five years	—	—
After five years	1,245	1,245
	1,245	1,245

Summary Five-Year Financial History

		IFRS		UK GAAP		
		2007	2006	2005	2004	2003
Revenue	£'000	**69,849**	80,493	26,850	27,492	34,958
Profit before tax	£'000	**18,138**	25,832	4,237	4,084	5,018
Tax	£'000	**(3,577)**	(1,551)	(763)	3	(917)
Profit after tax	£'000	**14,561**	24,281	3,474	4,087	4,101
Dividends per share	pence	**1.90**	1.40	1.00	0.45	0.26
Basic earnings per share	pence	**7.33**	12.97	1.86	2.24	2.66
Diluted earnings per share	pence	**7.90**	12.78	1.86	2.24	2.66
Triple net assets per share	pence	**83.72**	73.63	48.84	39.99	31.26
Ordinary shares in issue	number	**211,971,299**	187,218,824	187,218,824	185,823,377	153,975,407
Ordinary shares – mid market at 31 October	pence	**71.75**	80.00	41.75	32.50	25.50

The financial information shown above for the years 2006 and 2007 was prepared under IFRS. The information for prior years was prepared under UK GAAP. Consequently, certain data may not be directly comparable from one year to another.

Shareholder Information

Financial calender

Annual General Meeting	3 April 2008
Half-year results	July 2008
Full-year results	February 2009

Shareholder analysis as at 31 October 2007

Size of holding	Number	Number of shares	%
1 – 1000	149	74,956	0.04
1,001 – 10,000	771	3,866,635	1.83
10,001 – 100,000	590	16,244,880	7.66
100,001 – 1,000,000	52	16,585,533	7.82
1,000,001 and over	14	175,199,295	82.65
	1,576	211,971,299	100.00

London Stock Exchange

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

2007 share price (pence per ordinary share)

Start of year	80.00
End of year	71.75

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