TERRACE HILL GROUP PLC

ANNUAL REPORT AND ACCOUNTS 2009

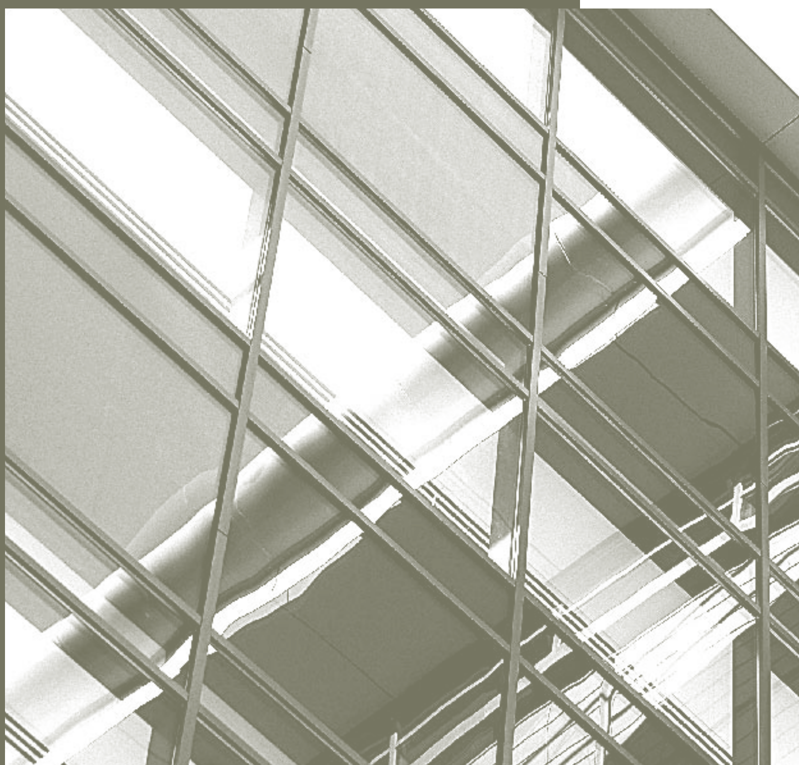
TERRACE HILL

ABOUT
US >

TERRACE HILL GROUP PLC IS A REGIONALLY BASED UK PROPERTY DEVELOPMENT AND INVESTMENT GROUP QUOTED ON AIM. THE GROUP HAS OFFICES IN LONDON, THE NORTH EAST, THE SOUTH WEST AND SCOTLAND, OFFERING NATIONAL PRESENCE WITH LOCAL KNOWLEDGE.

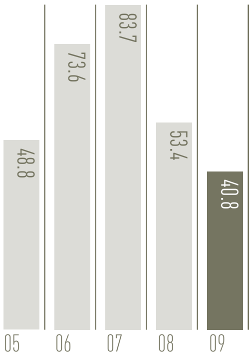
OUR MISSION IS TO MAXIMISE SHAREHOLDER RETURNS THROUGH CONSISTENT GROWTH IN UNDERLYING ASSET VALUE BY USING:

- Development skills
- Vigorous asset management
- Efficient and flexible financing
- A rigorous approach to minimising risk
- An entrepreneurial, professional and experienced team



HIGHLIGHTS >

Triple net asset value (pence per share)



Triple net asset value pence per share
40.8p

Annual rent roll contracted since 31 October 2008
£3.6m

Total assets
£204.2m

Sales completed or contracted since 31 October 2008
£56.1m

Bank facilities re-financed since 31 October 2008
£335.6m

Lettings and sales since 31 October 2008
293,275 sq ft

OUR YEAR AT A GLANCE >

WE CONTINUE TO ADAPT AND REFINE OUR STRATEGY TO REFLECT MARKET CONDITIONS.

OUR BUSINESS STRATEGY:

- Foodstore development
- Pre-let office development
- Residential investment
- Strategic land

For the first time we have produced an online version of our annual report, helping to reduce the amount of paper we use whilst improving accessibility and ease of use.

Even if you are reading this in hard copy, we invite you to visit our website to view the online version and explore the extended content.

Explore this Annual Report at
http://www.terracehill.co.uk/ar09

GOOD NEWS IN DIFFICULT TIMES...

OUR YEAR >

9 January 2009 >

Terrace Hill and Doughty Hanson JV secures planning for new mixed-use scheme in Victoria

London

Detailed planning consent has been granted for a major new office and residential scheme at 1 Howick Place in Victoria, London. The new scheme will comprise: 135,000 sq ft of Grade A offices over eight floors and 23 private residential apartments as well as 10 affordable housing units.

23 March 2009 >

Terrace Hill achieves ratifications of planning consents

Bishop Auckland and Cornwall

The planning consents for the group's retail and leisure scheme at Bishop Auckland and its Sainsbury's foodstore development in Helston, Cornwall, have been ratified by the Secretary of State for Communities and Local Government. As a result, both schemes will now proceed during the course of the next few months.

3 July 2009 >

Terrace Hill secures a 38,500 sq ft pre-let to Middlesbrough Primary Care Trust

Teesside

A pre-let has been secured to the Middlesbrough Primary Care Trust for the 38,500 sq ft Hudson Quay 2 office building at the group's Manhattan Gate development project on Teesside. The tenant will take a 15-year lease at an initial rent of £635,000 per annum.

13 July 2009 >

Terrace Hill secures letting at 129 Wilton Road

London

A letting has been secured to Associated Foreign Exchange Inc (AFEX) for the entire fifth floor of our 129 Wilton Road, London, office development. The global foreign exchange service provider has taken 8,100 sq ft at the building on a 10-year lease, at a total rent of £364,500 per annum, as its new London headquarters.

13 July 2009 >

Terrace Hill secures lettings

Bristol and Eastbourne

17,000 sq ft of lettings have been secured totalling over £155,000 per annum, at Brampton Industrial and Trade Park, Eastbourne, and Canningford House, Bristol. The new tenants include Menzies Distribution Limited, a leading UK distributor of newspapers and magazines and Lyons Davidson, the Bristol based national law practice.

20 July 2009 >

Terrace Hill attracts software firms

Covent Garden and Maidenhead

Two further lettings, totalling approximately 29,000 sq ft have been achieved at its Maidenhead and Covent Garden office schemes, securing a total annualised income of over £775,000. The new tenants are Compuware, the US-based global software firm, and global e-commerce provider, ChannelAdvisor.

27 October 2009 >

Site acquired ahead of potential redevelopment

Manchester

In a new funding and development joint venture with Peveril Securities, Terrace Hill has purchased the Heaton Retail Park in Manchester from Standard Life Investments for £5.7 million. The park, totalling 123,000 sq ft, has an unrestricted Open A1 planning consent and has been acquired with a view to looking at future redevelopment opportunities.

28 October 2009 >

Completion of £26.67 million forward funding agreement

Bishop Auckland

A forward funding agreement has been completed with Aviva Investors Pensions Limited for the development of the 92,333 sq ft foodstore at its retail and leisure scheme at Tindale Crescent, Bishop Auckland, Co. Durham. The property has been pre-let to Sainsbury's on a 25-year lease. The sale reflects a 5.7% net initial yield.

3 December 2009 >

Terrace Hill sells Kean House

Covent Garden

The freehold interest in the group's Covent Garden, London office scheme has been sold to a major UK institution for a total consideration of £16 million representing a net initial yield of 6.4%.

CHAIRMAN'S STATEMENT >

OUR TRIPLE NET ASSET VALUE INCREASED IN THE SECOND HALF OF THE YEAR AND WE HAVE BEEN SUCCESSFUL IN CREATING VALUE THROUGH DEVELOPMENT.

Summary of the chairman's statement >

- In the commercial arena our focus on new business has been on pre-let development, in particular foodstores and offices let to strong covenants.
- All group debt that required re-financing in the period has been agreed and documented.
- I look forward to further TNAV growth and am confident that we can generate strong returns for our shareholders over the medium-term.

I am pleased to report our financial results for the year ended 31 October 2009. The period saw some stability returning to the economy and a renewed confidence in the prime commercial property investment markets. We took advantage of this with the sale of Kean House, a completed office development in Covent Garden, where we achieved an attractive price, and with the institutional forward funding of our Sainsbury's foodstore scheme at Bishop Auckland.

The improved market has resulted in the yields of our commercial property portfolio hardening and values improving in the second half of the year. A similar stabilising of values has also been seen in our residential portfolio.

On the banking side we have also continued to be successful in re-financing our debt and extending due dates for repayment.

Notwithstanding our operational successes our results were affected by the significant falls in the market value of our assets in the first half of the year. Our adjusted diluted NAV (ADNAV, as defined by EPRA) has decreased by 22.7% to 44.6 pence per share (31 October 2008: 58.0 pence per share) and our triple NAV (TNAV, as defined by EPRA) has fallen by 23.5% to 40.8 pence per share (31 October 2008: 53.4 pence per share). The TNAV takes account of any valuation movements above book value of assets held as trading stock as well as contingent tax on prospective gains and other fair value adjustments.

Our dividend policy has been to vary the amount of our dividend in line with the movement in our TNAV. Given the fall in TNAV since 31 October 2008, the board has decided to continue the suspension of dividend payments which was announced with our interim results. We keep this policy under review and wish to resume a progressive dividend policy when market conditions improve.

The group's loss before tax for the year, stated after accounting for changes in the value of our investment properties and reductions in the value of our trading stock, was £26.7 million. Excluding these, we made a profit before tax in the year of £2.6 million, compared with £1.0 million in the year ended 31 October 2008, calculated on the same basis. The business review contains further analyses of our results and a reconciliation of these amounts.

All group and joint venture and associated undertaking debt that required re-financing in the period has been agreed. The banking climate has been challenging and I am pleased with the achievements we have made and that our bank financings are on a sound footing.

We are very focused on our cash flow and have achieved a number of operational efficiencies during the last year, with reductions in head count and salary reductions for senior staff and directors. We continue to exercise tight control over our discretionary expenditure.

Property overview

In the commercial arena our focus on new business has been on pre-let developments, in particular foodstores, where we have concluded three deals during the financial year, and offices let to strong covenants such as the Primary Care Trust pre-letting at Teesside. We have an extensive pipeline of similar developments which should provide highly profitable low-risk returns over a sustained period.

Within our existing commercial portfolio we have managed to conclude a number of lettings despite a difficult occupational market as well as selling Kean House at a price above its April 2009 valuation.

Our residential investment portfolios fell in value by 4% in the first half but recovered by 1.5% at the year end. I am pleased with the consistently high occupancy levels and with rental levels which have remained constant over the period. I now believe that there is scope for value growth. We are now actively considering launching a residential property fund.

During the course of the year we decided to focus our residential development activity on site assembly and planning gain and away from housebuilding in Scotland. As a result of this decision we were able to reduce our central overhead by £0.5 million on an annualised basis and focus investment in our core areas of commercial development and residential investment. The landbank in Scotland now extends to 175 acres with the potential to accommodate over 1,200 units. We continue to work towards obtaining planning consent for development over the remaining un-consented sites. I envisage that these will either be sold or developed in joint venture with other housebuilders.

Outlook

I view the future with considerably more confidence than I did a year ago. In particular, I am pleased our TNAV increased in the second half of the year and we have been successful in creating value through development. I look forward to further TNAV growth and am confident that we can generate strong returns for our shareholders over the medium-term.

Robert F M Adair
Chairman
10 March 2010

BUSINESS REVIEW > OPERATIONS

OUR PRE-LET DEVELOPMENT STRATEGY CAN BE DIVIDED INTO THE TWO DEFINED AREAS OF FOODSTORES AND OFFICES.

Summary of operations >

- During the second half of the year we began to see improving sentiment in the investment markets.
- Our focus on the foodstore sector means that we now have a substantial pipeline of new development opportunities which will mature over the next few years.
- We have seen demand for pre-lets coming from occupiers with strong covenants from a variety of sectors.
- Despite a difficult occupational market we have let and sold further space.

Commercial property strategy

During the second half of the year we began to see improving sentiment in the investment markets which translated fairly quickly into an increase in prices paid for well let properties in good locations. This has not been supported by increased occupier demand in most areas but there is now a feeling that the worst of rental falls may be over in some markets, allowing investors to value assets with more certainty.

This improvement has allowed us to sell some completed schemes more quickly and at better values than we had expected. It has also opened up an equity funding market for pre-let property to good covenants which is aiding our new development programme.

Our pre-let development strategy can be divided into the two defined areas of foodstores and offices.

Foodstores

Demand from the major foodstore operators has continued unabated and we have been successful in concluding three foodstore development transactions during the year:

- In September we completed the sale of our 5.25 acre site to Sainsbury's at Helston in Cornwall having obtained planning consent for a 55,750 sq ft unit.
- During the summer we obtained all the necessary outstanding approvals for our 92,333 sq ft Sainsbury's foodstore at Bishop Auckland in Co. Durham. Subsequently, we entered into a forward funding and sale agreement with Aviva Investors Pensions Limited to develop the scheme. The sale price reflects a net initial yield to the investor of 5.7%.
- At Heaton in North Manchester we acquired, in a joint venture, a retail park adjacent to an existing Sainsbury's store. Both sites will be redeveloped in their entirety by Sainsbury's with the benefit of planning and vacant possession.

Our focus on this sector means that we now have a substantial pipeline of new foodstore development opportunities which will mature over the next few years.

Offices

Although the office occupational market has been weak, there are a number of occupiers who are unable to satisfy their requirements through existing stock. This is particularly true in the regions outside London where we have seen demand for pre-lets coming from occupiers with strong covenants from a variety of sectors.

→ A recent example of this has been our pre-letting of a 38,500 sq ft office building on Teesside to the Middlesbrough Primary Care Trust, where the tenant has contracted to enter into a 15-year lease without breaks.

Our network of regional offices gives us insight into these requirements and we are now working on a pipeline of similar deals across the UK.

Foodstore development >

The big four food retailers dominate the UK's food market and already have substantial coverage across the country. Despite this, they continue to compete for market share and all have requirements for new stores as they seek to fill in gaps in their geographical coverage. In addition, Waitrose has started to expand nationally and there is competition for sites from local players such as Booths and Haldane in the North West.

Terrace Hill has a team with many years' experience in the out of town retail sector and their expertise in site identification and planning, coupled with a deep understanding of the retailers' needs, has led to a successful track record of business with the supermarket operators.

Case study > Bishop Auckland, County Durham

With only Morrisons and Asda represented in the town, we identified an opportunity for a new foodstore in Bishop Auckland. We purchased a strategic brownfield site to accommodate a large supermarket and complementary leisure uses. Subsequent negotiations resulted in a pre-letting to Sainsbury's for a new store of 92,333 sq ft on a 25-year FRI lease. Planning consent was granted in July 2009 which included the construction of a new football ground for Bishop Auckland Football Club.

With the improving sentiment in the institutional investment market, we entered into a forward funding agreement with Aviva Investors Pensions Limited. The store, which is now under construction, will be handed over to Sainsbury's in time for Christmas trading in 2010.

Visit us online for more on foodstore development
http://www.terracehill.co.uk/ar09

BUSINESS REVIEW > OPERATIONS CONTINUED

Pre-let office development >

This early stage of recovery in the property cycle is characterised by the significant risk of occupier failure, lacklustre rental growth and an absence of funding for speculative development. This makes pre-let or pre-sold schemes to high quality occupiers the only viable form of development. Historically the group has carried out 41% of its development on a pre-let basis providing a comfortable balance with speculative schemes. This has been achieved through our reputation and track record of working with occupiers to satisfy specific accommodation requirements.

Despite the current difficult economic climate we continue to find a number of corporate and government backed requirements for bespoke buildings in specific areas. This is particularly true in the regions where, through our national office network, we are working on a number of such opportunities which will provide a profitable and low risk stream of income for some time. A good example of this is highlighted in the case study below.

Case study >
Manhattan Gate, Middlehaven

Middlehaven is a 200 acre regeneration project in the Tees Valley on land owned by the Homes and Communities Agency. Terrace Hill is the developer of the commercial element known as Manhattan Gate. The initial phase was completed in 2007 and is fully let to the Crown Prosecution Service and Hertel UK Limited. A further phase comprising 38,500 sq ft is now underway having been pre-let to Middlesbrough Primary Care Trust for an unbroken 15-year term. This building has been specifically designed to meet the PCT's exacting requirements and reflects our ability to work with occupiers to provide them with solutions to match both their accommodation and financial criteria.

Visit us online for more on office development
http://www.terracehill.co.uk/ar09

The portfolio

Commercial property

Despite a difficult occupational market we have let and sold further space within our portfolio of completed developments and made progress with our early stage developments. In other areas we have advanced and improved planning consents.

→ We sold Kean House, our multi-let office development in Covent Garden, to a UK institution for £16.0 million representing an initial yield of 6.4%.

→ At Quantum 1 in Maidenhead we let 26,000 sq ft to Compuware at £25 per sq ft which, in addition to the earlier letting to Biogen, means that this scheme is now 78% let.

→ AFEX took the entire fifth floor at 129 Wilton Road, Victoria, for a 10-year term at an initial rent of £45.00 per sq ft.

→ Six new lettings were achieved at Brampton Business Park in Eastbourne leaving only a single unit of 3,500 sq ft available. Four units were also sold to investors.

→ At Brabazon Business Park, Filton in North Bristol, Sovereign Housing completed the purchase of 8,000 sq ft for their own occupation and a further 3,000 sq ft was let to Merlin Claims Management.

→ There was increased letting activity at Canningford House in Bristol city centre and this property is now 90% let.

→ At Howick Place in Victoria we have now won consent for a scheme comprising 135,000 sq ft of offices and 33 apartments. It is envisaged that a development start will be made during the course of this year, with particular focus on the date of completion to maximise its impact within the wider economic recovery.

Residential investment

In the second half of the year we have seen average values stabilise across our portfolios. The actual movements in value depend very much on the geographical location of the properties, but small rises in the values of our assets in London and the South East, where we have a 50% weighting, have offset declines elsewhere. In addition, through active management, we have maintained healthy occupational rates at consistently steady rental levels.

We are cautious about the immediate outlook for the value of residential property but, over the medium-term, we foresee a steady return to capital growth and good opportunities for us to trade parts of our portfolios as well as acquire new, attractively priced properties.

Strategic land

Following our decision to suspend new housebuilding in Scotland, we have been concentrating on maximising value from the landbank through the planning process. We have obtained planning for 20 units at our three acre site at Fenwick and for 71 units at our 12 acre site in Carluke. We are expecting to win a new consent at Kilmarnock during the early part of 2010.

The total landbank in Scotland now extends to 175 acres with the potential to accommodate over 1,200 residential units and we envisage that these sites will either be sold or developed in joint venture with other housebuilders.

Residential >

Residential investment has formed an important part of the group's activities for the past ten years. A key strength lies in our ability to identify value in the purchase of large portfolios. Our success in managing our portfolios of residential property is demonstrated by consistently high levels of occupancy and rent. As noted in our last Interim Report, the Terrace Hill Residential PLC portfolio has out performed the IPD Index (Residential Market Lets) for the period ended 31 December 2008 by 7.3% and was in the top quartile performance of the databank.

As the residential market slowly starts to improve we see increased opportunity to generate improved returns from our existing portfolio and the potential to buy new assets at attractive prices.

Case study > Strategic Portfolio Management

2009 produced many challenges for the professional landlord, not least; an increase in new build units becoming available to rent from housebuilders, resulting in increased competition; tenants consolidating into cheaper accommodation and downward pressure on rental levels.

This has been tackled by intensively focusing on assets where occupation levels have dropped below the long-term trend level for the portfolio (91%). Voids have been mitigated through tight management control, aimed at quickly understanding what the issues are, through our network of local letting agents, and responding to the changes in local tenant demand.

As a result of this strategy, and addressing existing tenant needs, the portfolio's occupation levels have now rebounded and are above the long-term portfolio average, currently showing 93% occupancy.

Visit us online for more on residential investment
http://www.terracehill.co.uk/ar09

BUSINESS REVIEW > FINANCE

WITH PROPERTY VALUES NOW RISING AND OUR GROUP BANK FACILITIES ALL RE-FINANCED, WE HAVE A SOLID PLATFORM FROM WHICH TO PROGRESS.

Summary of financial review >

- → The group traded profitably in the second half of the year.
- → Continued success in bank re-financings.
- → Several banks, with whom we have had no previous relationship, approaching us to fund future developments.

Financial results and net asset value

The group's NAV fell by 24.1% in the year to 31 October 2009 to £78.2 million (36.9 pence per share) from £103.0 million (48.6 pence per share) at 31 October 2008 and our adjusted NAV (equivalent to that defined by EPRA) fell by 22.7% to £94.8 million (44.6 pence per share) from £124.2 million (58.0 pence per share) at 31 October 2008.

The fall in our adjusted NAV was caused principally by the reduction in the carrying value of our properties and by the reduction in the market value of those properties held on the balance sheet at the lower of cost and market value. Other factors resulting in movements in the adjusted NAV are set out below:

- → fall of 12.3 pence per share in the value of properties reflected in our balance sheet;
- → fall of 1.7 pence per share in the value above cost of our trading properties; and
- → rise of 0.8 pence per share arising from trading activity.

The group's NAV and adjusted NAV increased by 1% since 30 April 2009, reflecting the hardening of values in the second half of the year and increased trading activity in that period.

The group's TNAV, which takes into account any tax payable on profits arising if all the group's properties were sold at the values used for our adjusted NAV, the write off of goodwill and other fair value adjustments, fell by 23.5% to £86.8 million (40.8 pence per share) from the £114.3 million (53.4 pence per share) at 31 October 2008.

Income statement

Revenue for the year is below that recorded in 2008 due largely to lower commercial development activity as a consequence of the economic situation. Commercial property development transactions in the period include the sale of the property in Helston to Sainsbury's and part of the sale of the Bishop Auckland property to Aviva Investors. The group earned £6.6 million in rental income (2008: £4.8 million), an increase of 37.5%, while development management fees and other income generated £1.3 million (2008: £2.6 million), a decrease of 50.0%. Sales revenue of £4.4 million on the sale of houses is also included in revenue.

The year has been characterised by a radical shift in the rate of change in the valuation of our properties, reflecting movement in the underlying property market. This is particularly evident in a comparison of the movements in our property values, wherever held, for the first half year with the same for the second half year. The income statement, as required by accounting standards, includes movements in the carrying value of our investment and trading properties, whether held directly or in joint venture and associated undertakings. The table at the foot of this page sets out the amounts included in the income statement, split between what was reflected in the first and second halves of the year.

Administrative expenses for the year were £5.2 million (2008: £6.5 million). Included within administrative expenses is a credit of £0.7 million in respect of the group's share-based payment scheme (2008: £1.0 million credit). Ignoring this, underlying administrative expenses have reduced by £1.6 million. As noted in the Interim Report, we continue to seek ways of reducing costs while not affecting the operational effectiveness of the business. Executive directors and senior staff agreed to a reduction in their base salaries of 10%. In addition, no bonuses were paid and headcount has reduced by 12 (21%) since 31 October 2008.

Net finance costs amounted to £1.2 million (2008: £5.0 million) and reflect the cost of our group debt. The figure for 2009 includes the reversal of £2.1 million in respect of a development funding agreement which was charged to the income statement in 2008. Ignoring these adjustments, net finance costs increased by £0.4 million (14%) during the period, reflecting the higher average net debt figures and funding costs during the year.

Adjusted profit

	Year ended 31 October 2009 £m	Year ended 31 October 2008 £m
Reported loss before tax	**(26.7)**	(31.6)
Write downs in respect of trading properties	**22.0**	12.6
Revaluation of investment properties	**2.1**	3.8
Write downs in respect of development and investment properties held in joint venture and associated undertakings	**5.2**	16.2
Adjusted profit before tax	**2.6**	1.0

Movements in the carrying value of our investment and trading properties included in the income statement

	Six months ended 30 April 2009 £m	Six months ended 31 October 2009 £m	**Year ended 31 October 2009 £m**
Trading properties[1]	(19.5)	(2.5)	**(22.0)**
Investment properties[2]	(3.4)	1.3	**(2.1)**
Development and investment properties held in joint venture and associated undertakings[3]	(6.8)	1.6	**(5.2)**
Total	(29.7)	0.4	**(29.3)**

Notes:
1 included in direct costs;
2 included in loss on revaluation of investment properties; and
3 included in share of joint venture and associated undertakings post tax loss.

BUSINESS REVIEW > FINANCE CONTINUED

Summary of debt position

	October 2009	October 2008
Net debt	**£98.1m**	£85.8m
Net gearing	**103.4%**	69.1%
Net debt including share of joint venture and associated undertaking debt	**£235.3m**	£231.1m
Total net gearing	**248.2%**	186.1%
Loan to value	**59.4%**	45.7%
Loan to value including share of joint venture and associated undertaking debt	**73.1%**	63.3%

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

Debt expiry profile

	On-balance sheet £m	Off-balance sheet* £m
Bank loans and overdraft repayable in one year	11.7	117.6
Bank loans repayable after more than one year	91.7	19.6
Total	103.4	137.2

* group share

Summary of average loan to value ratios of group property

	October 2009 %	October 2008 %
Commercial property	**63.9**	53.6
Residential property	**72.4**	71.4
Strategic land	**46.6**	34.3
All property	**59.4**	45.7

Calculation of ADNAV and TNAV (unaudited)

	31 October 2009			31 October 2008		
	£'000	Number of shares 000s	Pence per share	£'000	Number of shares 000s	Pence per share
Audited net asset value	**78,156**	**211,971**	**36.9**	103,047	211,971	48.6
Revaluation of property held as current assets	**16,633**			20,324		
Shares to be issued under the LTIP	**12**	**595**		41	2,038	
Deferred taxation in respect of investment properties	**—**			781		
Adjusted diluted net asset value	**94,801**	**212,566**	**44.6**	124,193	214,009	58.0
Decrease %			**(22.7)%**			(39.8)%
Estimated taxation on revaluation of current assets, unrealised gains and availability of tax losses	**(4,657)**			(6,472)		
Goodwill	**(3,336)**			(3,456)		
Triple net asset value	**86,808**	**212,566**	**40.8**	114,265	214,009	53.4
Decrease %			**(23.5)%**			(36.2)%

A consequence of all these facts is that the group traded profitably in the second half of the year.

Our investment in joint venture and associated undertakings incurred a loss in the year of £5.6 million (2008: £12.4 million). Of the £5.6 million, £5.2 million reflects our share of the downward movement in property valuations which occurred during the period.

Balance sheet

The group's total assets at 31 October 2009 were £204.2 million, a decrease of 12.1% on the amount reported at 31 October 2008 of £232.4 million. Net assets, after accounting for minority interests, were £78.2 million at 31 October 2009, a reduction of 24.1% compared to the equivalent figure in 2008 (£103.0 million).

Financial resources and capital management

The group's financial resources are principally its cash balances, bank loans and overdrafts.

The group continues to fund itself with retained cash and bank derived debt capital. This debt falls into two categories, loans secured on wholly owned assets and debt secured on assets owned by joint ventures and associated undertakings.

All group and joint venture and associated undertaking debt that required re-financing in the period has been agreed.

The loans which have been re-financed during the year are characterised by higher interest rate margins, but with an overall funding cost remaining broadly similar due to reductions in both LIBOR and swap rates. Where these bank loans are in joint ventures they are arranged on an asset-by-asset basis, discrete from each other and with limited recourse to the group. Where necessary, and where there is a common lender, some of the group loan facilities have been cross collateralised in order to increase security to that lender and facilitate re-financings.

In addition to these re-financings, new development debt of £4.7 million was also negotiated during the year, reinforcing our view that development debt capital for the right pre-let opportunities is more readily available now than this time last year. This has been further evidenced by several banks, with whom we have had no previous relationship, approaching us to fund future developments.

At 31 October 2009, 39.3% of group debt and 38.3% of debt in joint venture and associated undertakings was subject to interest rate hedging. Last year these figures were 16.8% and 74.8% respectively. The reason for the large change in joint venture and associated undertaking debt is that hedging expired during the year on a £208.1 million loan. The interest rate risk associated with this expiry has been actively managed and we have benefited from prevailing low LIBOR rates.

There are no loans in place measuring on an aggregated basis loan to value ratios. A number of loans have loan to value covenants based on the value of the assets secured against them and, where required, these have been amended or removed entirely. Again, we believe this is further evidence of our relationship banks' continued desire to support the group.

Cash is monitored using a 24-month rolling forecast and the group, together with its joint venture and associated undertakings, have no unfunded commitments. The group undertakes regular stress tests to determine the effects on our cash forecast of falls in value and potential capital calls on debt. The group believes it has adequate resources to continue trading for the foreseeable future.

Dividends

The final 2008 dividend of 0.54 pence per share was paid to shareholders on 7 April 2009. Since then the group has decided to conserve its cash and has therefore not paid an interim dividend in respect of the current year and will not recommend a final dividend. The board hopes to resume its progressive dividend policy as soon as market conditions allow.

Philip Leech
Chief executive
10 March 2010

Jon Austen
Group finance director

RISK MANAGEMENT >

THE GROUP PLACES GREAT EMPHASIS ON ITS ABILITY TO MANAGE RISK EFFECTIVELY AND ITS COMPETENCE IN THIS AREA LIES AT THE HEART OF ITS OPERATIONS.

The principal risks and uncertainties facing the business and the processes in place to mitigate and manage those risks are described below:

Risk	Mitigation
Strategy	
Implementation of a strategy that is inconsistent with the market environment, skill set and experience of the business	The board meets quarterly to review progress against objectives. The chairman and executive directors interact closely and constantly consider the current and planned future strategy of the group, making use of their experience and market research. In addition, the board values the contribution and experience of its non-executive directors.
Market	
A deterioration in the commercial and residential markets in which we operate will adversely affect our results and balance sheet	Prior to committing to a development the group conducts detailed appraisals which evaluate the expected returns in the light of likely risks. These appraisals are constantly monitored during development and used to assess the impact of changes in the market conditions and other variables. The group currently has very few development obligations, which has been a measured response to the current market conditions. In our residential portfolios we work to ensure that voids are minimised and rental income maximised.
Development	
Failure to obtain or delays in gaining planning consents	The group has great experience in obtaining planning consents for its development schemes and has strong relationships with planning authorities and consultants.
Construction cost inflation	The group's in-house dedicated project management team manages all our developments. We transfer pricing risk to our contractors wherever possible.
Letting risk	Appropriate allowances for voids and incentives are made in our development appraisals. The group has substantial experience and resources responsible for letting, which is supported by a network of specialised letting agents.
Investment	
Reduction in values through increased voids, lower rental levels and deterioration in the fabric of the buildings	We pay close attention to property management, regularly meeting and monitoring the performance of our managing agents with our dedicated team of investment specialists. We carry out pre-planned maintenance programmes paying close attention to the costs of such programmes.
Financial	
Liquidity risk	Cash flow and funding needs are constantly assessed to ensure sufficient resources are in place.
Interest rate risk	The group reviews the split of fixed and floating rate debt and takes action where appropriate to minimise the impact of rising interest rates.
Re-financing risk	The group ensures that credit facilities are negotiated with minimal prepayment penalties to allow the group to re-finance when credit market conditions are strong.
Breach of borrowing covenants	Financial ratios and performance against covenants are regularly reported to the board.
Personnel	
Attracting and retaining the appropriate quality of people to achieve the group's aims	The group ensures that compensation programmes are sufficiently competitive to reward staff appropriately. The relative small number of staff means that communication is strong and that all personnel are integral to the success of the business.

THE GROUP IS COMMITTED TO MAINTAINING HIGH ETHICAL STANDARDS OF CORPORATE SOCIAL RESPONSIBILITY IN ALL AREAS OF OUR BUSINESS, WHETHER THIS BE EMPLOYEES, PROPERTY OPERATIONS, THOSE WHO COME INTO CONTACT WITH US OR THE ENVIRONMENT AROUND US.

We are dedicated to ensuring that these core values are always central to the culture at Terrace Hill and we aim to conduct our business with honesty, integrity and openness.

We believe that as a progressive company we have a responsibility for making a difference and that every action we carry out must be commercially sound. Only by fully embracing corporate social responsibility can we work towards a business environment that is conscientious and sustainable.

Central to our business is the aim to provide timely, regular and reliable information to all our stakeholders and conduct our operations to the highest standards, specifically relating to social responsibility as follows:

EMPLOYEES

We strive to create a safe and healthy working environment for the well-being of all our employees and create a trusting and respectful environment, where all staff are encouraged to feel responsible for the reputation and performance of the company.

The vital contribution of employees to the future success of the business is recognised by the board and as such emphasis is based on providing information, technology and a working environment that will enable employees to improve their performance and make an active contribution to the achievements of the company's business objectives.

The group is committed to equality of opportunity and dignity at work for all.

OPERATIONS

The group's policy is to minimise the risk of any adverse effect on the environment associated with its development activity, with particular consideration of such key areas as energy use, pollution, transport, land use, ecology, renewable resources, health and well-being.

Our project management teams promote sustainable development, considering social and environmental issues through the design and construction process. This due diligence helps to ensure that all of our developments are designed efficiently, improving upon standard statutory requirements and for tangible measures, such as carbon reduction, we aim to surpass targets by a significant proportion.

We continually push our designers to employ the latest and most effective sustainable technologies in our schemes including, where applicable, energy efficient VRF air conditioning systems, combined heat and power, sedum roofs, rain water harvesting, energy saving lift technology, recycled timber, low emission solar glazing and our pioneering use of ground source heat pump technology, which was first utilised at our 129 Wilton Road scheme in London.

We also aim to ensure that our contractors meet with their legislative and regulatory requirements and that codes of best practice are met and exceeded.

THE ENVIRONMENT

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.

Waste and consumable materials are recycled wherever possible or disposed of in a manner suitable to reduce any impact on the environment. We strive to promote good environmental business practices wherever possible using technology for information and data collection and transfer to reduce the need for paper.

Sustainable transport methods are also encouraged with strong promotion of the cycle to work scheme which has successfully resulted in 50% of employees in our London office using bicycles to commute to work.

The nature of the work that Terrace Hill is involved in means that the group has a valuable opportunity to minimise the impact of buildings on the environment and help create a legacy of sustainability which will benefit the environment in which we all live and work.

We are delighted that two thirds of our shareholders have agreed to access company documents online. This helps us to reduce the amount of paper we use as a business and lessen our carbon footprint.

OUR PEOPLE >

OUR PEOPLE ARE OUR MOST IMPORTANT ASSET. WE ARE CONTINUALLY GRATEFUL FOR THEIR HARD WORK AND COMMITMENT TO TERRACE HILL.

Board of Directors >

Robert F M Adair MA ACA CTA FGS (53)
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 MRICS (46)
Chief executive

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

Jon Austen BSC FCA (53)
Group finance director

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

Our people >

Will Wyatt (41)
Non-executive director

A director of Caledonia Investments plc, Will is also a non-executive director of Avanti Communications Group, a specialist media and satellite company, Cobepa, a Belgian-based investment company, Melrose Resources plc, a listed oil and gas company and TGE Marine AG, a specialist marine gas engineering business.

Kelvin Hudson MA ACA (48)
Non-executive director

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

Robert Dyson MSc FRICS (61)
Non-executive director

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

OUR PORTFOLIO >

OUR PORTFOLIO IS DIVERSIFIED BY SECTOR AND GEOGRAPHY, FOCUSING ON AREAS WHERE WE PERCEIVE THE POTENTIAL FOR EXCEPTIONAL RETURNS.

This year we have taken our portfolio online.
Visit us online for more details on our portfolio.

http://www.terracehill.co.uk/ar09

Our portfolio is divided into the following areas >

- Office
- Retail
- Industrial
- Commercial investment
- Residential investment
- Strategic landbank

Visit us online

We are very committed to communicating with all stakeholders. Our website contains a full investor centre with up to the minute news, interactive reports and downloads.

News >

All of the latest press releases on our projects and activities can be found in our news centre along with an archive of historical releases.

Projects >

We have a comprehensive database of all our current projects including links to individual development websites and up to date images and project data for each scheme.

Investor centre >

A wealth of information can be found in our Investor Centre including a live feed of share price and regulatory items, current and historical reports and accounts available to download and many other articles of shareholder interest.

FINANCIAL CONTENTS >

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

SHAREHOLDER INFORMATION

DIRECTORS' REPORT >

The directors submit their report and the group financial statements for the year ended 31 October 2009.

Results and dividends

The group loss for the period, after taxation and minority interests, amounted to £23,545,000. The directors do not recommend the payment of a final dividend.

Principal activities and review of business

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

The Chairman's statement, Business review and Risk management on pages 4 to 14 include a review of the development, risks and uncertainties of the business of the company and its subsidiaries during the period.

Directors and their interests

The beneficial interests of the directors who held office at 31 October 2009 in the ordinary share capital of the company were as follows:

	At 31 October 2009 Ordinary shares	At 31 October 2008 Ordinary shares
R F M Adair	**129,791,239**	129,591,239
P A J Leech	**1,614,447**	1,594,447
J M Austen	**150,000**	50,000
K M Hudson	**200,000**	200,000
W P Wyatt	**—**	—
R W Dyson	**623,000**	623,000

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

	Year ended 31 October 2009	Year ended 31 October 2008
R F M Adair	**—**	495,495
P A J Leech	**—**	495,495
J M Austen	**—**	594,059

The maximum number of awards granted to directors are:

	At 31 October 2009	At 31 October 2008
R F M Adair	**495,495**	1,342,754
P A J Leech	**495,495**	1,342,754
J M Austen	**594,059**	594,059

No director had any interest in the shares of any of the subsidiary companies. Details of shares held by the group's Employee Benefit Trust are shown in note 25.

Details of directors' material interests in contracts are shown in note 27.

Financial instruments

Details of the use of financial instruments by the company and its subsidiary undertakings are shown in note 21.

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 19 days (2008: 18 days) purchases outstanding in trade creditors.

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

Substantial shareholding
At 26 February 2010, Caledonia Investments PLC held 17,600,000 ordinary shares of 2.0 pence, equivalent to 8.3% of the issued share capital of the company. The company is not aware of any other holding (other than the Chairman's holding noted on page 20) in excess of 3.0% of the issued share capital of the company.

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

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

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

On behalf of the board

Nicola Kelly

M A Kelly
Company Secretary
10 March 2010

INDEPENDENT AUDITORS' REPORT >

TO THE SHAREHOLDERS OF TERRACE HILL GROUP PLC

We have audited the financial statements of Terrace Hill Group Plc for the year ended 31 October 2009 which comprise the consolidated income statement, the consolidated statement of changes in equity, the consolidated and company balances sheets, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

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

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 October 2009 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

BDO LLP

Geraint Jones (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
55 Baker Street
London
W1U 7EU
United Kingdom
10 March 2010

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

CONSOLIDATED INCOME STATEMENT >

FOR THE YEAR ENDED 31 OCTOBER 2009

	Notes	**Year ended 31 October 2009 £'000**	Year ended 31 October 2008 £'000
Revenue	2	**29,065**	63,366
Direct costs		**(41,584)**	(67,134)
Gross loss		**(12,519)**	(3,768)
Administrative expenses		**(5,174)**	(6,499)
Loss on disposal of investment properties		**—**	(20)
Loss on revaluation of investment properties		**(2,141)**	(3,846)
Operating loss		**(19,834)**	(14,133)
Finance income	4	**1,202**	467
Finance costs	4	**(2,423)**	(5,488)
Share of joint venture and associated undertakings post tax loss		**(5,625)**	(12,448)
Loss before tax		**(26,680)**	(31,602)
Tax	8	**3,135**	4,327
Loss from continuing operations		**(23,545)**	(27,275)
Attributable to:			
Equity holders of the parent		**(23,517)**	(27,253)
Minority interest		**(28)**	(22)
		(23,545)	(27,275)
Basic earnings per share	10	**(11.15)p**	(12.90)p
Diluted earnings per share	10	**(11.15)p**	(12.90)p

The notes on pages 28 to 49 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY >

FOR THE YEAR ENDED 31 OCTOBER 2009

	Share capital £'000	Share premium £'000	Own shares £'000	Capital redemption reserve £'000	Merger reserve £'000	Unrealised gains and losses £'000	Retained earnings £'000	Total £'000	Minority interest £'000	Total £'000
Balance at 31 October 2007	4,240	43,208	—	849	8,386	—	80,196	136,879	306	137,185
Loss for the year	—	—	—	—	—	—	(27,253)	(27,253)	(22)	(27,275)
Unrealised losses on available-for-sale investments	—	—	—	—	—	(498)	—	(498)	—	(498)
Total recognised income and expense for the year	—	—	—	—	—	(498)	(27,253)	(27,751)	(22)	(27,773)
Acquisition of minority interest	—	—	—	—	—	—	—	—	(26)	(26)
Own shares	—	—	(609)	—	—	—	—	(609)	—	(609)
Share-based payment	—	—	—	—	—	—	(997)	(997)	—	(997)
Merger reserve release	—	—	—	—	(1,298)	—	1,298	—	—	—
Interim ordinary dividends	—	—	—	—	—	—	(1,684)	(1,684)	—	(1,684)
Final ordinary dividends	—	—	—	—	—	—	(2,791)	(2,791)	—	(2,791)
Balance at 31 October 2008	4,240	43,208	(609)	849	7,088	(498)	48,769	103,047	258	103,305
Loss for the year	—	—	—	—	—	—	(23,517)	(23,517)	(28)	(23,545)
Loss on investments transferred to income statement on disposal	—	—	—	—	—	498	—	498	—	498
Total recognised income and expense for the year	—	—	—	—	—	498	(23,517)	(23,019)	(28)	(23,047)
Share-based payment	—	—	—	—	—	—	(718)	(718)	—	(718)
Final ordinary dividends	—	—	—	—	—	—	(1,154)	(1,154)	—	(1,154)
Balance at 31 October 2009	**4,240**	**43,208**	**(609)**	**849**	**7,088**	**—**	**23,380**	**78,156**	**230**	**78,386**

CONSOLIDATED BALANCE SHEET >

AT 31 OCTOBER 2009

	Notes	**31 October 2009 £'000**	31 October 2008 £'000
Non-current assets			
Investment properties	13	**46,758**	49,160
Property, plant and equipment	12	**350**	590
Investments in equity accounted associates and joint ventures	14	**2,846**	7,145
Available-for-sale investments	14	**—**	442
Other investments	14	**147**	109
Intangible assets	11	**3,336**	3,456
Deferred tax assets	20	**7,439**	4,327
		60,876	65,229
Current assets			
Development properties	15	**101,719**	120,488
Trade and other receivables	16	**36,331**	28,612
Cash and cash equivalents		**5,290**	18,022
		143,340	167,122
Total assets		**204,216**	232,351
Non-current liabilities			
Bank loans	19	**(91,678)**	(40,890)
Other payables	18	**(3,370)**	(3,370)
Deferred tax liabilities	20	**(73)**	(782)
		(95,121)	(45,042)
Current liabilities			
Trade and other payables	17	**(17,862)**	(20,878)
Current tax liabilities		**(1,176)**	(153)
Bank overdrafts and loans	19	**(11,671)**	(62,973)
		(30,709)	(84,004)
Total liabilities		**(125,830)**	(129,046)
Net assets		**78,386**	103,305
Equity			
Called up share capital	22	**4,240**	4,240
Share premium account	23	**43,208**	43,208
Own shares	23	**(609)**	(609)
Capital redemption reserve	23	**849**	849
Merger reserve	23	**7,088**	7,088
Unrealised losses	23	**—**	(498)
Retained earnings	23	**23,380**	48,769
Equity attributable to equity holders of the parent		**78,156**	103,047
Minority interests		**230**	258
Total equity		**78,386**	103,305

The financial statements on pages 24 to 49 were approved and authorised for issue by the board of directors on 10 March 2010 and were signed on its behalf by:

P A J Leech
Director

J M Austen
Director

CONSOLIDATED CASH FLOW STATEMENT >

FOR THE YEAR ENDED 31 OCTOBER 2009

	Year ended 31 October 2009 £'000	Year ended 31 October 2008 £'000
Cash flows from operating activities		
Loss before taxation	**(26,680)**	(31,602)
Adjustments for:		
Finance income	**(1,202)**	(467)
Finance costs	**2,423**	5,488
Share of joint venture and associated undertakings post tax loss	**5,625**	12,448
Depreciation and impairment charge	**22,813**	20,777
Loss on revaluation of investment properties	**2,141**	3,846
Loss on disposal of investment properties	**—**	20
Loss on sale of tangible financial assets	**26**	—
Share-based payment credit	**(718)**	(997)
Cash flows from operating activities before change in working capital	**4,428**	9,513
Increase in property inventories	**(2,054)**	(3,634)
(Increase)/decrease in trade and other receivables	**(11,101)**	6,419
Decrease in trade and other payables	**(2,389)**	(22,295)
Cash absorbed by operations	**(11,116)**	(9,997)
Income from investments	**1**	7
Finance costs	**(1,669)**	(4,087)
Finance income	**577**	1,615
Tax refund/(paid)	**338**	(1,500)
Net cash flows from operating activities	**(11,869)**	(13,962)
Investing activities		
Purchase of investment property	**(4)**	—
Sale of investment property and tangible fixed assets	**289**	1,137
Purchase of investments	**—**	(4,011)
Sale of investments	**448**	1,982
Purchase of property, plant and equipment	**(16)**	(236)
Net cash flows from investing activities	**717**	(1,128)
Financing activities		
Borrowings drawn down	**35,084**	39,813
Borrowings repaid	**(28,982)**	(34,516)
Purchase of own shares	**—**	(609)
Equity dividends paid	**(1,154)**	(4,475)
Net cash flows from financing activities	**4,948**	213
Net decrease in cash and cash equivalents	**(6,204)**	(14,877)
Cash and cash equivalents at 1 November 2008	**11,494**	26,371
Cash and cash equivalents at 31 October 2009	**5,290**	11,494

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS >

FOR THE YEAR ENDED 31 OCTOBER 2009

1 Accounting policies

Basis of preparation

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

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

The company has elected to prepare its company financial statements, on pages 50 to 54, in accordance with UK GAAP.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

NEW STANDARDS AND INTERPRETATIONS NOT APPLIED

IASB and IFRIC have issued the following standards and interpretations relevant to the group. These standards and interpretations are mandatory for accounting periods beginning on or after the date of these financial statements and will become effective for future reporting periods:

International Accounting Standards (IFRSs/IAS)		Effective date
IFRS 2	Amendment to IFRS 2 – Vesting Conditions and Cancellations	1 January 2009
IFRS 3	Business Combinations (revised January 2008)	1 July 2009
IFRS 8	Operating Segments	1 January 2009
	Improvements to IFRSs (2009) (2010)	1 January 2009
IAS 1	Presentation of Financial Statements: A Revised Approach	1 January 2009
IAS 23	Borrowing Costs (revised March 2007)	1 January 2009
IAS 27	Consolidated and Separate Financial Statements (revised January 2008)	1 July 2009

International Financial Reporting Interpretations Committee (IFRIC)		Effective date
IFRIC 15	Agreements for the Construction of Real Estate	1 January 2009
IFRIC 17	Distribution of Non-cash Assets to Owners	1 January 2009

The directors currently anticipate that the adoption of certain of these standards and interpretations will have a material impact on the group's financial statements in the period of initial application primarily in terms of presentation and disclosure. The significant changes are:

IAS 1 will introduce a single "statement of comprehensive income" incorporating both realised profits and losses currently reported in the income statement and unrealised profits and losses currently reported in the statement of changes in equity. The revised statement of changes in equity will only in future report transactions with shareholders, for example capital raised and dividends. The standard is a presentational standard and adoption will not affect reported results.

IFRS 8 introduces a management approach that will require segment disclosure based on the components of the group that management monitors in making decisions about operating matters. No significant differences in the identification of segments is envisaged as a result of the implementation of IFRS 8.

The impact of the other standards and interpretations are not considered to be significant either because their impact is not likely to be material or that the group already adopts the accounting policy proposed in the new or revised standard or interpretation.

Basis of consolidation

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

Business combinations

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

1 Accounting policies continued

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

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.

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.

Leases

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

Lease incentives

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

Property, plant and equipment

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

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

Office equipment	20% – 25% straight-line
Motor vehicles	25% reducing balance
Furniture and fittings	20% – 25% straight-line
Leasehold improvements	length of lease

Development property

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

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

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 VAT. The following criteria must be met before revenue is recognised:

SALE OF PROPERTY

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

Revenue from housebuilding operations is recognised on completion of sale.

DEVELOPMENT INCOME

Development income arises from the project management of the construction of property on behalf of third parties and is recognised on the basis of the stage of completion of the project, the future costs and expected value of the completed projects.

1 Accounting policies continued

Revenue recognition continued

RENTAL INCOME

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

FEES AND OTHER INCOME

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

Taxation

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

Deferred tax is provided on all temporary differences, except:

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

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

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

Employee benefit trust

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

Any shares held by the EBT are excluded for the purposes of calculating earnings per share.

Retirement benefits

Contributions to defined contribution pension schemes are charged to the Consolidated 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.

1 Accounting policies continued

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 re-measured to fair value based on market prices, estimated future cash flows and forward rates as appropriate. Any change in the fair value of such derivatives is recognised immediately in the Consolidated income statement as a finance cost or finance income.

Cash and cash equivalents

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

Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently at amortised cost or their recoverable amount. 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.

Available-for-sale investments

Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise principally the group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in a separate component of equity. Where there is a significant or prolonged decline in the fair value of an available-for-sale asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any previously charged to equity, is recognised in the Consolidated income statement. Purchases and sales of available-for-sale financial assets are recognised on settlement date with any changes in fair value between trade date and settlement date being recognised in equity. On sale, the amount held in equity associated with that asset is removed from equity and recognised in the Consolidated income statement.

Trade and other payables

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

Borrowings

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

Borrowing costs

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

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

All other borrowing costs are recognised in the Consolidated 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 and investment, residential property investment and strategic land. The group does not operate outside the UK.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED >
FOR THE YEAR ENDED 31 OCTOBER 2009

1 Accounting policies continued

Critical accounting estimates and judgements

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

GOING CONCERN

The directors are required to make an assessment of the group's ability to continue to trade as a going concern. Due to the difficult market conditions prevailing, this assessment has been subject to more uncertainties than are usual. The directors have given this matter due consideration and have concluded that it is appropriate to prepare the group financial statements on a going concern basis. The two main considerations were as follows:

Cash flow – the group maintains a rolling 24 month cash forecast that takes account of all known inflows and outflows. The cash flow is regularly stress tested to ensure that the group can withstand reasonable changes in circumstances that could adversely affect its cash flow. The key potential changes that the group has considered include: possible falls in value of the portfolio which could result in margin calls or increased funding costs if future loan to value covenants were breached; and possible reductions in anticipated cash flows from re-financing properties after planning permission has been obtained. Having considered the headroom in the group's forecasts and its previous success in extending finance terms when required, the group believes that it has sufficient resources to continue trading for the foreseeable future.

Bank facilities – the group maintains a regular dialogue with its lenders and keeps them informed of how the group is trading. Since 31 October 2008, £88.5 million of group debt and £247.1 million of joint venture and associated undertaking debt has been re-financed. The group has a further £47.2 million of debt and overdraft facilities due to be re-financed in 2010, of which £11.7 million is due to be re-financed by 31 October 2010. In the normal course of business, developments will be completed and disposed of and so the actual requirement to renew financing is expected to be at a lower level than this. None of the facilities have reached their due dates for renewal but the group has opened discussions with each lender to gauge their appetite for their renewal. In all cases the lenders concerned have been supportive and have indicated their desire to renew the facilities subject to mutually acceptable terms being agreed.

INVESTMENT PROPERTY AND INVENTORY

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

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

Impairment of goodwill

The group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value-in-use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate where the cash flows exceed one year in order to calculate the present value of the cash flows. Actual outcomes may vary. More information, including carrying values, is shown in note 11.

Share-based payments

The fair value of share awards is estimated by using valuation models. The amount of the charge or credit to the Consolidated income statement reflects management's estimate of the likelihood of the performance criteria being achieved and levels of staff turnover during the vesting period. More details, including carrying values, are disclosed in note 25.

Taxation

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

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

2 Revenue

	Total 2009 £'000	Total 2008 £'000
Sales of development properties	**21,195**	55,982
Rents receivable	**6,612**	4,777
Fees and other income	**1,258**	2,607
	29,065	63,366

Sales of development properties includes £7,088,000 (2008: £Nil) of revenue recognised on the project management of the construction of a property on behalf of a third party.

3 Segmental information

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

	Residential 2009 £'000	Commercial 2009 £'000	Strategic land 2009 £'000	Unallocated items 2009 £'000	Total 2009 £'000	Residential 2008 £'000	Commercial 2008 £'000	Strategic land 2008 £'000	Unallocated items 2008 £'000	Total 2008 £'000
Income statement										
Revenue	**1,663**	**23,020**	**4,382**	**—**	**29,065**	1,451	58,925	2,990	—	63,366
Direct costs	**(615)**	**(33,137)**	**(7,832)**	**—**	**(41,584)**	(584)	(57,554)	(8,996)	—	(67,134)
Gross profit/(loss)	**1,048**	**(10,117)**	**(3,450)**	**—**	**(12,519)**	867	1,371	(6,006)	—	(3,768)
Administrative expenses	**—**	**—**	**—**	**(5,174)**	**(5,174)**	—	—	—	(6,499)	(6,499)
Loss on disposal of investment properties	**—**	**—**	**—**	**—**	**—**	(20)	—	—	—	(20)
Loss on revaluation of investment properties	**(446)**	**(1,695)**	**—**	**—**	**(2,141)**	(2,182)	(1,664)	—	—	(3,846)
Operating profit/(loss)	**602**	**(11,812)**	**(3,450)**	**(5,174)**	**(19,834)**	(1,335)	(293)	(6,006)	(6,499)	(14,133)
Net finance costs	**(1,180)**	**(118)**	**48**	**29**	**(1,221)**	(1,580)	(3,576)	115	20	(5,021)
Share of results of joint venture before tax	**—**	**—**	**(72)**	**—**	**(72)**	—	—	(138)	—	(138)
Share of results of associated undertakings before tax	**(5,137)**	**(416)**	**—**	**—**	**(5,553)**	(16,200)	451	—	—	(15,749)
Associated undertakings tax	**—**	**—**	**—**	**—**	**—**	3,439	—	—	—	3,439
Loss before tax	**(5,715)**	**(12,346)**	**(3,474)**	**(5,145)**	**(26,680)**	(15,676)	(3,418)	(6,029)	(6,479)	(31,602)
Balance sheet										
Investment properties	**28,187**	**18,571**	**—**	**—**	**46,758**	28,633	20,262	265	—	49,160
Property, plant and equipment	**—**	**6**	**23**	**321**	**350**	—	34	67	489	590
Investments – associates and joint ventures	**147**	**2,001**	**698**	**—**	**2,846**	3,938	2,437	770	—	7,145
Other investments	**3**	**45**	**—**	**99**	**147**	3	449	—	99	551
Goodwill	**860**	**2,476**	**—**	**—**	**3,336**	975	2,481	—	—	3,456
Deferred tax assets	**—**	**—**	**—**	**7,439**	**7,439**	—	—	—	4,327	4,327
	29,197	**23,099**	**721**	**7,859**	**60,876**	33,549	25,663	1,102	4,915	65,229
Development properties	**—**	**76,824**	**24,895**	**—**	**101,719**	—	92,372	28,116	—	120,488
Trade and other receivables	**13,833**	**19,109**	**2,768**	**621**	**36,331**	14,554	11,278	1,903	877	28,612
Cash	**49**	**4,755**	**486**	**—**	**5,290**	102	17,024	896	—	18,022
	13,882	**100,688**	**28,149**	**621**	**143,340**	14,656	120,674	30,915	877	167,122
Borrowings	**(20,401)**	**(70,864)**	**(12,084)**	**—**	**(103,349)**	(20,444)	(72,878)	(10,541)	—	(103,863)
Trade and other payables	**(575)**	**(18,784)**	**(1,391)**	**(482)**	**(21,232)**	(515)	(18,331)	(4,282)	(1,120)	(24,248)
Current tax	**—**	**—**	**—**	**(1,176)**	**(1,176)**	—	—	—	(153)	(153)
Deferred tax liabilities	**—**	**—**	**—**	**(73)**	**(73)**	—	—	—	(782)	(782)
	(20,976)	**(89,648)**	**(13,475)**	**(1,731)**	**(125,830)**	(20,959)	(91,209)	(14,823)	(2,055)	(129,046)
Net assets	**22,103**	**34,139**	**15,395**	**6,749**	**78,386**	27,246	55,128	17,194	3,737	103,305

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED >

FOR THE YEAR ENDED 31 OCTOBER 2009

4 Finance costs and finance income

	2009 £'000	2008 £'000
Interest payable on borrowings	**6,233**	7,558
Interest (credited)/payable under a development funding agreement	**(2,050)**	2,050
Interest capitalised	**(1,760)**	(4,120)
Finance costs	**2,423**	5,488
Interest receivable from cash deposits and other financial assets	**1,202**	467
Finance income	**1,202**	467

Interest is capitalised at the same rate as the group is charged on the respective borrowings. Fair value adjustments to financial liabilities totalled £962,000 (2008: £Nil) comprising losses on interest rate swaps.

5 Administrative expenses

	2009 £'000	2008 £'000
Depreciation of property, plant and equipment	**206**	204
Loss on disposal of property, plant and equipment	**26**	—
Operating lease charges – rent of properties	**1,332**	1,311
Impairment of goodwill	**120**	133
Share-based payment remuneration	**(718)**	(997)
Fees paid to BDO LLP in respect of:		
– audit of the group's annual accounts	**175**	175
– audit of the group's associates	**16**	16
– other services	**30**	29

6 Directors' emoluments

	2009 £'000	2008 £'000
Emoluments	**781**	1,023
Amounts paid to third parties in respect of directors' services	**16**	15
Defined contribution pension cost	**85**	68

Pension contributions to defined contribution schemes were made during the year in respect of three directors (2008: three). There is a £110,000 credit in respect of the share-based payments scheme (2008: £376,000 credit) as explained in note 25.

Emoluments of highest paid director

	2009 £'000	2008 £'000
Total emoluments (excluding pension contributions)	**293**	490
Defined contribution pension cost	**26**	26
	319	516

There is a £92,000 credit in respect of the share-based payments scheme (2008: £157,000 credit) as explained in note 25.

7 Staff costs

	2009 £'000	2008 £'000
Wages and salaries	**4,490**	5,901
Employer's national insurance contributions and similar taxes	**520**	600
Defined contribution pension cost	**365**	310
Share-based payment credit	**(718)**	(997)
	4,657	5,814

The average monthly number of employees during the year was:

	2009	2008
Property and administration	**46**	60

8 Tax on loss on ordinary activities

(a) Analysis of charge in year

	2009 £'000	2008 £'000
Current tax		
UK corporation tax on loss for the year	**53**	376
Adjustment in respect of prior periods	**633**	44
Total current tax	**686**	420
Deferred tax		
Origination and reversal of temporary differences	**(3,821)**	(4,747)
Total deferred tax credit	**(3,821)**	(4,747)
Total tax credit	**(3,135)**	(4,327)

(b) Factors affecting the tax credit for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 28% (2008: 28%). The differences are explained below:

	2009 £'000	2008 £'000
Loss before tax	**(26,680)**	(31,602)
Less joint ventures and associates	**5,625**	12,448
Loss attributable to the group before tax	**(21,055)**	(19,154)
Loss multiplied by the average rate of UK corporation tax of 28% (2008: 28.83%)	**(5,895)**	(5,522)
Disallowables	**2,049**	376
Other temporary differences	**78**	(397)
Utilisation of losses	**—**	1,172
	(3,768)	(4,371)
Adjustments in respect of prior periods	**633**	44
Total tax credit	**(3,135)**	(4,327)

(c) Associates and joint ventures

The group's share of tax on the associates is £Nil (2008: £3,439,000 credit). No tax charge arises on the results of the joint ventures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED >

FOR THE YEAR ENDED 31 OCTOBER 2009

9 Dividends

	2009 £'000	2008 £'000
Ordinary shares		
Final dividend of 0.54 pence (2008: final dividend for 2007 of 1.3 pence) per share for the year ended 31 October 2008	**1,139**	2,756
Interim dividend paid of 0.0 pence (2008: interim dividend for 2008 of 0.8 pence) per share for the year ended 31 October 2009	**—**	1,684
	1,139	4,440
Final dividend after the year of 0.0 pence (2008: 0.54 pence) per share	**—**	1,139

10 Earnings per ordinary share

The calculation of basic earnings per ordinary share is based on a loss of £23,517,000 (2008 loss: £27,253,000) and on 210,951,299 (2008: 211,187,902) ordinary shares, being the weighted average number of shares in issue during the period.

The calculation of diluted earnings per ordinary share for 2009 and 2008 is the same as the calculation of the basic earnings per ordinary share.

Share awards to employees have not been included as their exercise is contingent on vesting conditions being met. The number of awards in issue is disclosed in note 25.

11 Intangible fixed assets – goodwill

	£'000
Cost	
At 1 November 2007	5,997
At 1 November 2008	5,997
At 31 October 2009	**5,997**
Impairment	
At 1 November 2007	(2,408)
For the year	(133)
At 1 November 2008	(2,541)
For the year	(120)
At 31 October 2009	**(2,661)**
At 31 October 2009	**3,336**
At 31 October 2008	3,456

Impairment tests for goodwill

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

	2009 £'000	2008 £'000
Commercial properties	**2,365**	2,481
Investment properties	**971**	975
	3,336	3,456

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 cash flows in excess of the carrying value of the goodwill. The cash flow period considered is 12 months, therefore discounting does not apply and is based on forecast asset sales. 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.

It is the opinion of the directors that at 31 October 2009 there was no impairment other than that shown in the note. 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.

12 Property, plant and equipment

	Leasehold improvements £'000	Motor vehicles £'000	Office equipment £'000	Furniture and fittings £'000	Total £'000
Cost					
At 1 November 2007	151	296	86	189	722
Additions	8	109	32	86	235
Disposals	—	(35)	(5)	(14)	(54)
At 1 November 2008	159	370	113	261	903
Additions	—	—	4	32	36
Disposals	—	(78)	(5)	(64)	(147)
At 31 October 2009	**159**	**292**	**112**	**229**	**792**
Depreciation					
At 1 November 2007	9	43	15	61	128
Charge for period	14	84	45	61	204
Disposals	—	(7)	(5)	(7)	(19)
At 1 November 2008	23	120	55	115	313
Charge for period	16	89	24	77	206
Disposals	—	(47)	(5)	(25)	(77)
At 31 October 2009	**39**	**162**	**74**	**167**	**442**
Net book value					
At 31 October 2009	**120**	**130**	**38**	**62**	**350**
At 31 October 2008	136	250	58	146	590

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

13 Investment properties

	£'000
Valuation	
At 1 November 2007	53,887
Transfer from inventory	220
Disposals	(1,101)
Loss on revaluation	(3,846)
At 1 November 2008	49,160
Additions	4
Disposals	(265)
Loss on revaluation	(2,141)
At 31 October 2009	**46,758**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED >

FOR THE YEAR ENDED 31 OCTOBER 2009

13 Investment properties continued

The investment properties situated in Scotland owned by the group have been valued as at 31 October 2009 by qualified valuers from Allied Surveyors, an independent firm of Chartered Surveyors, on the basis of open market value. The valuations were carried out in accordance with guidance issued by the Royal Institution of Chartered Surveyors.

The commercial investment properties situated in England owned by the group have been valued as at 31 October 2009 by qualified valuers from CB Richard Ellis, an independent firm of Chartered Surveyors, on the basis of open market value. The valuations were carried out in accordance with guidance issued by the Royal Institution of Chartered Surveyors.

Residential investment properties situated in England owned by the group have been valued as at 31 October 2009 by suitably qualified valuers from Allsops LLP, an independent firm of chartered surveyors, on the basis of open market value. The valuations were carried out in accordance with guidance issued by the Royal Institution of Chartered Surveyors.

14 Investments

Associates and joint ventures

	Associates £'000	Joint venture £'000	Total £'000
Cost or valuation			
At 1 November 2007	18,766	(147)	18,619
Investment write off	(81)	—	(81)
Share of results	(12,310)	(138)	(12,448)
Unrealised profit	—	1,055	1,055
At 1 November 2008	6,375	770	7,145
Disposals	(6)	—	(6)
Transfer to other investments	(14)	—	(14)
Share of results	(5,553)	(72)	(5,625)
Share of results for period applied against long-term receivables forming part of net investment	1,346	—	1,346
At 31 October 2009	**2,148**	**698**	**2,846**

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 2 Partnership	26%	Property development
Terrace Hill Development Partnership	20%	Property development
Two Orchards Limited	20%	Property development

Terrace Hill Residential PLC is incorporated in Scotland.

14 Investments continued

Summarised information 2009

	Terrace Hill Development Partnership £'000	Devcap 2 Partnership £'000	Castlegate House Partnership £'000	Terrace Hill Residential PLC £'000	Howick Place £'000	Two Orchards Limited £'000	Total £'000
Revenue	5,304	1,824	605	12,515	—	—	20,248
(Loss)/profit after taxation	(1,023)	(8,765)	83	(10,484)	—	(18,840)	(39,029)
Total assets	39,981	40,127	9,480	236,888	—	59,982	386,458
Bank debt	(25,009)	(40,291)	(8,568)	(206,363)	—	(73,652)	(353,883)
Other liabilities	(6,034)	(2,344)	(2,344)	(32,972)	—	(5,160)	(48,854)
Total liabilities	(31,043)	(42,635)	(10,912)	(239,335)	—	(78,812)	(402,737)
Net assets/(liabilities)	8,938	(2,508)	(1,432)	(2,447)	—	(18,830)	(16,279)
Opening carrying amount of interest under equity method	2,416	—	—	3,938	20	1	6,375
Disposals	—	—	—	—	(6)	—	(6)
Transfer to other investments	—	—	—	—	(14)	—	(14)
Share of results for period	(416)	—	—	(5,137)	—	—	(5,553)
Share of results for period applied against long-term receivables forming part of net investment	—	—	—	1,346	—	—	1,346
Closing carrying amount of interest under equity method	2,000	—	—	147	—	1	2,148
Capital commitments	—	—	—	—	—	630	630

Summarised information 2008

	Terrace Hill Development Partnership £'000	Devcap 2 Partnership £'000	Castlegate House Partnership £'000	Terrace Hill Residential PLC £'000	Howick Place £'000	Two Orchards Limited £'000	Total £'000
Revenue	7,012	308	610	12,265	1,502	—	21,697
(Loss)/profit after taxation	(2,119)	(1,793)	92	(26,043)	(1,708)	—	(31,571)
Total assets	56,285	46,367	9,398	247,724	72,278	59,805	491,857
Bank debt	(27,604)	(38,962)	(8,558)	(207,502)	(50,523)	(52,273)	(385,422)
Other liabilities	(16,602)	(9,190)	(2,355)	(32,184)	(25,530)	(7,531)	(93,392)
Total liabilities	(44,206)	(48,152)	(10,913)	(239,686)	(76,053)	(59,804)	(478,814)
Net assets/(liabilities)	12,079	(1,785)	(1,515)	8,038	(3,775)	1	13,043
Share of results for period	—	—	451	(12,761)	—	—	(12,310)
Share of net assets	2,416	—	—	3,938	20	1	6,375
Capital commitments	2,424	—	—	—	—	13,485	15,909

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED >
FOR THE YEAR ENDED 31 OCTOBER 2009

14 Investments continued

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

Achadonn Limited	50%	Property development

	2009 Achadonn Limited £'000	2008 Achadonn Limited £'000
Revenue	**157**	2,803
(Loss)/profit	**(143)**	1,834
Total assets	**14,337**	14,332
Bank debt	**(8,110)**	(9,436)
Other liabilities	**(4,831)**	(3,356)
Total liabilities	**(12,941)**	(12,792)
Net assets	**1,396**	1,540
Share of results for the period	**(72)**	917
Share of net assets	**698**	770

Available-for-sale investments and other investments

	Available-for-sale investments £'000	Other investments £'000	Total £'000
Valuation			
At 1 November 2007	—	147	147
Additions	3,987	1	3,988
Disposals	(3,047)	(15)	(3,062)
Decrease in fair value	(498)	(24)	(522)
At 1 November 2008	442	109	551
Transfer from associates	—	14	14
Disposals	(442)	—	(442)
Change in fair value	—	24	24
At 31 October 2009	**—**	**147**	**147**

	2009 £'000	2008 £'000
UK unlisted investments at fair value	**59**	45
UK listed investments at fair value	**88**	506
	147	551

14 Investments continued

At 31 October 2009 the principal subsidiaries, held directly or indirectly by the company were as follows:

Incorporated in the United Kingdom	Proportion of voting rights and ordinary shares held	Nature of business
Belgrave Residential Assets Limited	100%	Property investment
Belgrave Residential Investments Limited	100%	Property investment
Britannic Global Income Trust PLC	100%	Investment holding company
Clansman Homes Limited	100%	Property development
Grosvenor Land Holdings Limited	100%	Investment holding company and property investment
Middlehaven Properties Limited	100%	Property development
Middlehaven Properties 2 Limited	100%	Property development
Mount York Estates Limited	100%	Investment holding company and property development
NC (Res) Limited	100%	Investment holding company and property investment
Neill Clerk Energy US Limited	100%	Property investment
Paisley Pattern Homes Limited	100%	Property investment
Terrace Hill (Management) Limited formerly Park Circus (Management) Limited	100%	Management and administration
PCG Investments Limited	100%	Investment holding company and property development
PCG Residential PLC	100%	Property investment
Platts Eyot Limited	100%	Property investment
Port Hampton Limited	100%	Property investment and moorings hire
Spath Holme Limited	100%	Property investment
South Eastern Recovery II Limited	100%	Property investment
Terrace Hill Limited	100%	Investment holding company and property development
Terrace Hill (Aeropark) Limited	100%	Property development
Terrace Hill (Armadale No.2) Limited	100%	Property development
Terrace Hill (Ashington) Limited	100%	Property development
Terrace Hill (Awdry) Holdings Limited	100%	Investment holding company
Terrace Hill (Awdry) Limited	100%	Property investment
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
Terrace Hill (Bishop Auckland) Limited	100%	Property development
Terrace Hill (Bracknell) Limited	100%	Investment holding company
Terrace Hill (Central Scotland) Limited	100%	Property development
Terrace Hill (Christchurch) Limited	100%	Property development
Terrace Hill (Croydon) Limited	100%	Property development
Terrace Hill Developments Limited	100%	Property development
Terrace Hill (Helston) Limited	100%	Property development
Terrace Hill (Homes) Limited	100%	Property development
Terrace Hill (Howick Place) Investments Limited	100%	Investment holding company
Terrace Hill (Kilmarnock) Limited	100%	Property development
Terrace Hill (Middlehaven) Limited	100%	Investment holding company and property development
Terrace Hill (Middlesbrough) Limited	100%	Property development
Terrace Hill North East Limited	100%	Investment holding company and property development
Terrace Hill (Patna) Limited	100%	Property development
Terrace Hill Projects Limited	100%	Project coordination and management services
Terrace Hill Properties Limited	100%	Property investment
Terrace Hill (Redcliff Street) Limited	100%	Property development
Terrace Hill (Resolution) Limited	100%	Property development
Terrace Hill (Shotts) Limited	100%	Property development
Terrace Hill (Southampton) Limited	100%	Property development
Terrace Hill (Victoria Street) Limited	100%	Property development
Terrace Hill (Welwyn Garden City) Limited	100%	Property development
Terrace Hill (Wilton Road) Holdings Limited	100%	Investment holding company and property development
Terrace Hill (Wilton Road) No 1 Limited	100%	Property development
Westview Investments Limited	100%	Investment holding company and property investment

15 Development properties

	2009 £'000	2008 £'000
At 1 November 2008	**120,488**	126,950
Additions	**17,116**	43,301
Disposals	**(13,852)**	(36,978)
Transfers to investment properties	**—**	(220)
Amounts written off the value of development properties	**(22,032)**	(12,565)
At 31 October 2009	**101,719**	120,488
Included in these figures is capitalised interest of	**9,536**	8,269

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

16 Trade and other receivables

	2009 £'000	2008 £'000
Trade receivables	**801**	1,257
Other receivables	**9,608**	5,404
Trade and other receivables	**10,409**	6,661
Amounts recoverable under construction contracts	**8,000**	—
Prepayments and accrued income	**2,289**	2,247
Share of associates loss (see note 14)	**(1,346)**	—
Amounts due from associates and joint ventures	**25,867**	27,480
Provision for amounts due from associates and joint ventures	**(8,888)**	(7,776)
	36,331	28,612

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

The ageing of trade and other receivables was as follows:

	2009 £'000	2008 £'000
Up to 30 days	**305**	1,676
31 to 60 days	**175**	846
61 to 90 days	**6**	107
Over 90 days	**231**	451
Total	**717**	3,080
Amounts not yet due	**9,692**	3,581
Closing balance	**10,409**	6,661

No amounts were overdue at the year end.

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

	2009 £'000	2008 £'000
At 1 November 2008	**7,776**	—
Amounts written off in year	**—**	—
Increase in allowance on amounts due from associates	**2,458**	7,776
Closing balance	**10,234**	7,776

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

17 Trade and other payables

	2009 £'000	2008 £'000
Trade payables	**1,958**	2,452
Other taxation and social security costs	**702**	650
Accruals and deferred income	**10,088**	8,168
Derivative liabilities	**962**	—
Other payables	**4,152**	9,608
	17,862	20,878

18 Other payables (non-current)

	2009 £'000	2008 £'000
Other payables	**3,370**	3,370

19 Bank overdrafts and loans

	2009 £'000	2008 £'000
Bank loans	**103,744**	97,680
Bank overdrafts	**—**	6,528
	103,744	104,208
Unamortised loan issue costs	**(395)**	(345)
	103,349	103,863
Amounts due:		
Within one year	**11,671**	62,973
After more than one year	**91,678**	40,890
	103,349	103,863

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 to the Consolidated income statement are as follows:

	2009 £'000	2008 £'000
Investment property revaluations	**(275)**	(1,515)
Trade losses	**(4,335)**	(3,084)
Share-based payments	**201**	279
Short-term timing differences	**588**	(427)
	(3,821)	(4,747)

20 Deferred tax continued

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

	2009 £'000	2008 £'000
Deferred tax provision		
Investment property revaluations	—	(782)
Other timing differences	(73)	—
	(73)	(782)
Deferred tax asset		
Share option scheme	20	221
Investment property revaluations	—	434
Trade losses	7,419	3,084
Other timing differences	—	588
	7,439	4,327

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

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. Further information on the group's financial resources and capital management is given in the Financial review on pages 10 to 13.

The group has various other financial instruments such as trade receivables and trade payables that arise directly from its operations, 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 LIBOR and the bank base rate. The group is cognisant at all times of movements in interest rates and will, as appropriate, enter into interest rate swaps to maintain a balance between borrowings that are subject to floating and fixed rates.

Credit risk

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

Liquidity risk

The group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank balances and loans. Cash flow and funding needs are regularly monitored. Further information is given in note 1.

Categories of financial assets and financial liabilities

	2009 £'000	2008 £'000
Current financial assets		
Available-for-sale investments	—	442
Other investments	147	109
Trade and other receivables	10,409	3,792
Amounts due from associates and joint ventures	15,633	22,555
Cash and cash equivalents	5,290	18,022
	31,479	44,920

21 Financial instruments continued

Financial liabilities measured at amortised cost

	2009 £'000	2008 £'000
Current financial liabilities		
Trade and other payables	**14,889**	20,228
Loans and borrowings	**11,673**	63,099
Total current financial liabilities	**26,562**	83,327
Non-current financial liabilities		
Other payables	**3,370**	3,370
Loans and borrowings	**92,071**	41,109
Total non-current financial liabilities	**95,441**	44,479
Total financial liabilities	**122,003**	127,806

The maximum exposure to credit risk in financial assets is £31,479,000 (2008: £44,920,000). The maximum amount due from any single party is £14,948,000 (2008: £14,595,000) included in amounts due from associates and joint ventures. For further information see note 27.

Financial liabilities measured at fair value amount to £962,000 (2008: £Nil) in respect of financial derivatives.

Interest rate risk profile of financial assets and liabilities

The interest rate profile of financial assets and liabilities of the group at 31 October 2009 was as follows:

	Total £'000	Floating rate financial assets £'000	Fixed rate financial assets £'000	Financial assets on which no interest is earned £'000
Sterling	**31,479**	**5,290**	**3,480**	**22,709**

	Total £'000	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Financial liabilities on which no interest is charged £'000
Sterling	**122,003**	**103,744**	**—**	**18,259**

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

Included in floating rate financial liabilities is £40,660,000 (2008: £17,517,000) subject to interest rate swaps.

The interest rate profile of financial assets and liabilities of the group at 31 October 2008 was as follows:

	Total £'000	Floating rate financial assets £'000	Fixed rate financial assets £'000	Financial assets on which no interest is earned £'000
Sterling	44,920	18,022	3,480	23,418

	Total £'000	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Financial liabilities on which no interest is charged £'000
Sterling	127,806	104,208	—	23,598

The floating rate financial assets comprise:

→ cash on deposit.

The floating rate financial liabilities comprise:

→ Sterling denominated bank loans that bear interest based on LIBOR and bank base rates; and

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED >

FOR THE YEAR ENDED 31 OCTOBER 2009

21 Financial instruments continued

Borrowings

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

	2009 £'000	2008 £'000
On demand or within one year	**11,673**	63,099
In more than one year but less than two	**75,546**	8,924
In more than two years but less than five	**16,525**	32,185
	103,744	104,208

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 properties together with guarantees from certain subsidiary undertakings with a limited guarantee from the parent company and in one case a floating charge from the parent company.

Borrowing facilities

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

	2009 £'000	2008 £'000
Expiring in one year or less	**2,514**	5,375
Expiring in more than one year but not more than two	**8,825**	12,756
Expiring in more than two years but not more than five	**977**	8,187
	12,316	26,318

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.

Market rate sensitivity analysis

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

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

	0.5% decrease in interest rates £'000	0.5% increase in interest rates £'000
Impact on interest payable – gain/(loss)	472	(472)
Impact on interest receivable – (loss)/gain	(58)	79
Total impact on pre-tax loss and equity	414	393

22 Called up share capital

	2009 £'000	2008 £'000
Authorised:		
500,000,000 (2008: 500,000,000) ordinary shares of 2 pence each	**10,000**	10,000
200,000 cumulative 8% redeemable preference shares of £1 each	**200**	200
44,859 convertible shares of 20 pence each	**9**	9
32,551,410 deferred shares of 2 pence each	**651**	651
	10,860	10,860
Allotted, called up, and fully paid:		
211,971,299 (2008: 211,971,299) ordinary shares of 2 pence each	**4,240**	4,240

23 Reserves

	Share premium £'000	Own shares £'000	Capital redemption reserve £'000	Merger reserve £'000	Unrealised gains and losses £'000	Retained earnings £'000
At 1 November 2007	43,208	—	849	8,386	—	80,196
Loss for the year	—	—	—	—	—	(27,253)
Unrealised loss on available-for-sale investments	—	—	—	—	(498)	—
Own shares	—	(609)	—	—	—	—
Share-based payment	—	—	—	—	—	(997)
Merger reserve release	—	—	—	(1,298)	—	1,298
Interim ordinary dividends	—	—	—	—	—	(1,684)
Final ordinary dividends	—	—	—	—	—	(2,791)
At 1 November 2008	43,208	(609)	849	7,088	(498)	48,769
Loss for the year	—	—	—	—	—	(23,517)
Loss on investments transferred to income statement on disposal	—	—	—	—	498	—
Total recognised income and expense for the year	—	—	—	—	498	(23,517)
Share-based payment	—	—	—	—	—	(718)
Final ordinary dividends	—	—	—	—	—	(1,154)
Balance at 31 October 2009	**43,208**	**(609)**	**849**	**7,088**	**—**	**23,380**

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

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

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

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

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

Unrealised gains and losses – represents unrealised loss on available-for-sale investments.

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

24 Contingent liabilities and capital commitments

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

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

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

The directors are of the opinion that neither of these contingencies will crystallise, since the principal activity of the subsidiary concerned is the letting of the properties for rental income and it is not anticipated that the properties will be disposed of within the timeframe of (a) above. In the event of crystallisation of (a) and/or (b), the subsidiary concerned will be obligated to pay an amount calculated with reference to the properties disposed of/not let out. The maximum sum repayable is £337,000 (2008: £381,000).

Capital commitments relating to development sites are as follows:

	2009 £'000	2008 £'000
Contracted but not provided for	**3,349**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED >

FOR THE YEAR ENDED 31 OCTOBER 2009

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.

	2009 Value of award at date of grant	2009 Share price for grant	2009 Number of share awards granted	2008 Value of award at date of grant	2008 Share price for grant	2008 Number of share awards granted
Awards outstanding at the start of the year			**11,343,375**			7,332,885
30 April 2008	–	–	–	52.30p	55.50p	3,509,899
28 October 2008	–	–	–	22.55p	25.25p	594,059
Awards granted in the year			–			4,103,958
Awards lapsed in the year			**(7,792,568)**			(93,468)
Awards outstanding at the end of the year			**3,550,807**			11,343,375

The fair value of shares awarded is calculated by discounting the share price at the date of the award by the anticipated dividend yield over the vesting period. This value is charged to the income statement over the vesting period. A credit arises to the income statement in the current year due to a revised estimate of the amount of award likely to vest. None of the share awards granted had vested at the year end. The credit to the income statement was £718,000 (2008: credit £997,000).

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

On 31 October 2009 the Trust held 1,020,000 (2008: 1,020,000) ordinary 2 pence shares in Terrace Hill Group PLC at a cost of £609,000. On that date awards over 3,550,807 (2008: 11,343,375) 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 2009 £'000	Land and buildings 2008 £'000
In one year or less	**1,374**	1,373
Between two and five years	**5,351**	5,490
In five years or more	**7,951**	6,982
	14,676	13,845

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 2009 £'000	Land and buildings 2008 £'000
In one year or less	**3,784**	1,997
Between two and five years	**14,589**	7,746
In five years or more	**11,964**	8,346
	30,337	18,089

27 Related party transactions

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

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

	2009 £'000	2008 £'000
Terrace Hill Development Partnership	**88**	44
Castlegate House Partnership	**18**	18
Terrace Hill Residential PLC	**300**	311
Devcap 2 Partnership	**26**	220
Howick Place Office S.a.r.l.	**276**	507
Two Orchards Limited	**423**	727
Achadonn Limited	**40**	40

Included in interest receivable for the period are amounts charged to the following partnerships and associates:

	2009 £'000	2008 £'000
Devcap 2 Partnership	**4**	—
Howick Place Office S.a.r.l.	**278**	279
Achadonn Limited	**53**	89

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

	2009 £'000	2008 £'000
Castlegate House Partnership	**678**	678
Terrace Hill Residential PLC	**14,948**	14,595
Devcap 2 Partnership	**3,210**	2,098
Two Orchards Limited	**5,000**	5,000
Achadonn Limited	**2,031**	1,628

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

The group acquired a property from Achadonn Limited during the previous period for £2,750,000.

The relationship with the partnerships is disclosed in note 14.

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 £20.0 million. Skye and R F M Adair also advanced to Terrace Hill Residential PLC £15.8 million (2008: £14.9 million) by way of shareholder loans to assist in the funding of the acquisition and the ongoing working capital requirements of the associate.

28 Controlling party

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

COMPANY BALANCE SHEET UK GAAP >

AT 31 OCTOBER 2009

	Notes	31 October 2009 £'000	31 October 2008 £'000
Fixed assets			
Investments	4	**22,360**	25,235
Current assets			
Debtors due within one year	5	**97,177**	129,222
Cash at bank and in hand		**87**	3,759
		97,264	132,981
Creditors: amounts falling due within one year	6	**(38,418)**	(88,649)
Net current assets		**58,846**	44,332
Total assets less current liabilities		**81,206**	69,567
Capital and reserves			
Called up share capital	9	**4,240**	4,240
Share premium account	10	**43,208**	43,208
Share scheme reserves	10	**73**	791
Own shares	10	**(609)**	(609)
Investment revaluation reserve	10	**50**	53
Capital redemption reserve	10	**849**	849
Merger reserve	10	**14,688**	14,688
Profit and loss account	10	**18,707**	6,347
Shareholders' funds		**81,206**	69,567

The financial statements on pages 50 to 54 were approved by the board and authorised for issue on 10 March 2010 and were signed on its behalf by:

P A J Leech
Director

J M Austen
Director

The notes on pages 51 to 54 form part of these financial statements.

1 Accounting policies

Accounting convention

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

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

Rental income

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

Share-based payments

The cost of granting share awards under the performance share plan and the other share-based remuneration to directors and other employees is recognised through the profit and loss account. The value of shares awarded is calculated by discounting the share price at the date of the award by the anticipated dividend yield over the vesting period and the resulting fair value is amortised through the profit and loss account. The charge is reversed if it is likely that any non-market based criteria will not be met.

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

Investments

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

Dividends

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

Deferred tax

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

- the recognition of deferred tax assets is limited to the extent that the company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

Financial instruments

DEBTORS

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

CASH AT BANK AND IN HAND

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

CREDITORS

Creditors are recognised at invoiced amounts.

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

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements. The group loss for the year includes a profit after tax of £13,499,000 (2008: £386,000) which is dealt with in the financial statements of the parent company.

3 Directors remuneration

Directors' remuneration is disclosed in note 6 to the consolidated financial statements. Details of share-based payments and awards outstanding are shown in note 25 to the consolidated financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED >

FOR THE YEAR ENDED 31 OCTOBER 2009

4 Investments

Company	Subsidiary undertakings £'000	Other investments £'000	Total £'000
Cost or valuation:			
At 1 November 2008	33,895	257	34,152
Additions	—	1	1
Amounts written off investments	(8,709)	(5)	(8,714)
Capital contribution on share scheme options to employees of subsidiaries	(718)	—	(718)
Deficit on revaluation	—	(3)	(3)
At 31 October 2009	**24,468**	**250**	**24,718**
Cost	24,468	—	24,468
Valuation	—	250	250
	24,468	**250**	**24,718**
Provision for diminution in value:			
At 1 November 2008	8,760	157	8,917
Released during the period	(6,552)	(7)	(6,559)
At 31 October 2009	**2,208**	**150**	**2,358**
Net book value:			
At 31 October 2009	**22,260**	**100**	**22,360**
At 31 October 2008	25,135	100	25,235

On a historical cost basis other investments would have been included at a net book value of £48,000 (2008: £47,000).

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

5 Debtors

	2009 £'000	2008 £'000
Amounts due within one year:		
Trade debtors	**105**	29
Prepayments and accrued income	**217**	208
Amounts due from subsidiaries	**96,574**	128,700
Other debtors	**281**	285
	97,177	129,222

6 Creditors

	2009 £'000	2008 £'000
Amounts due within one year:		
Trade creditors	**84**	85
Accruals and deferred income	**537**	503
Amounts due to subsidiaries	**37,601**	87,689
Other creditors	**196**	372
	38,418	88,649

7 Related party transactions

The company has taken advantage of the exemption allowed by FRS 8 Related Party Transactions, not to disclose any transactions with entities that are included in the consolidated financial statements of Terrace Hill Group PLC and are 100% owned.

8 Deferred tax

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

	2009 £'000	2008 £'000
At 1 November 2008:	(221)	(546)
Charged to the profit and loss account	201	197
Other timing differences	—	128
At 31 October 2009	(20)	(221)

9 Called up share capital

	2009 £'000	2008 £'000
Authorised:		
500,000,000 (2008: 500,000,000) ordinary shares of 2 pence each	10,000	10,000
200,000 cumulative 8% redeemable preference shares of £1 each	200	200
44,859 convertible shares of 20 pence each	9	9
32,551,410 deferred shares of 2 pence each	651	651
	10,860	10,860
Allotted, called up, and fully paid:		
211,971,299 (2008: 211,971,299) ordinary shares of 2 pence each	4,240	4,240

10 Reserves

	Share scheme reserve £'000	Share premium £'000	Revaluation reserve other £'000	Own shares £'000	Capital redemption reserve £'000	Merger reserve £'000	Profit and loss account £'000
At 1 November 2007	1,788	43,208	73	—	849	15,986	9,095
Profit for the year	—	—	—	—	—	—	386
Capital contribution	(997)	—	—	—	—	—	—
Interim ordinary dividends	—	—	—	—	—	—	(1,684)
Final ordinary dividends	—	—	—	—	—	—	(2,748)
Own shares	—	—	—	(609)	—	—	—
Merger reserve release	—	—	—	—	—	(1,298)	1,298
Deficit on revaluation of unlisted investments	—	—	(20)	—	—	—	—
At 1 November 2008	791	43,208	53	(609)	849	14,688	6,347
Profit for the year	—	—	—	—	—	—	13,499
Capital contribution	(718)	—	—	—	—	—	—
Final ordinary dividends	—	—	—	—	—	—	(1,139)
Deficit on revaluation of unlisted investments	—	—	(3)	—	—	—	—
At 31 October 2009	73	43,208	50	(609)	849	14,688	18,707

Details of own shares held by the Employee Benefit Trust are shown in note 25 to the consolidated financial statements.

11 Reconciliation of movement in shareholders' funds

	2009 £'000	2008 £'000
Profit for the financial year	**13,499**	386
Equity dividends paid	**(1,139)**	(4,432)
Own shares	**—**	(609)
Deficit on revaluation of unlisted investments	**(3)**	(20)
Capital contribution	**(718)**	(997)
Net increase/(reduction) to shareholders' funds	**11,639**	(5,672)
Opening shareholders' funds	**69,567**	75,239
Closing shareholders' funds	**81,206**	69,567

12 Guarantees and financial commitments

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

	Land and buildings 2009 £'000	Land and buildings 2008 £'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

The company 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.

SUMMARY FIVE-YEAR FINANCIAL HISTORY >

		IFRS				UK GAAP
		2009	2008	2007	2006	2005
Revenue	£'000	**29,065**	63,366	68,849	80,493	26,850
(Loss)/profit before tax	£'000	**(26,680)**	(31,602)	18,138	25,832	4,237
Tax	£'000	**3,135**	4,327	(3,577)	(1,551)	(763)
(Loss)/profit after tax	£'000	**(23,545)**	(27,275)	14,561	24,281	3,474
Dividends per share	pence	**0.0**	1.34	1.90	1.40	1.00
Basic earnings per share	pence	**(11.15)**	(12.90)	7.33	12.97	1.86
Diluted earnings per share	pence	**(11.15)**	(12.90)	7.09	12.78	1.86
Triple net assets	pence	**40.84**	53.39	83.72	73.63	48.84
Ordinary shares in issue	number	**211,971,299**	211,971,299	211,971,299	187,218,824	187,218,824
Ordinary shares – mid market at 31 October	pence	**17.00**	24.00	71.50	80.00	41.75

The financial information shown above for the years 2006 to 2009 was prepared under IFRS. The information for 2005 was prepared under UK GAAP. Consequently, certain data may not be directly comparable from one year to another.

Dividends per share comprise the interim dividend paid in the year plus the final dividend in respect of the year paid after the year end.

SHAREHOLDER INFORMATION >

Financial calendar

Annual General Meeting	20 April 2010
Half year results	July 2010
Full year results	February 2011

Shareholder analysis as at 31 October 2009

Size of holding	Number	Number of shares	%
1 – 1000	133	61,591	0.03
1,001 – 10,000	718	3,649,920	1.72
10,001 – 100,000	573	15,897,461	7.50
100,001 – 1,000,000	46	12,993,571	6.13
1,000,001 and over	17	179,368,756	84.62
	1,487	211,971,299	100.00

London Stock Exchange

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

2009 share price (pence per ordinary share)

1 November 2008	24.00
31 October 2009	17.00

Website

www.terracehill.co.uk

DIRECTORS AND ADVISERS >

Directors
R F M Adair MA ACA CTA FGS (Chairman)
P A J Leech MRICS (Chief Executive)
J M Austen BSc FCA (Group Finance Director)
K M Hudson MA ACA (Non-Executive)
W P Wyatt (Non-Executive)
R W Dyson MSc FRICS (Non-Executive)

Secretary
M A Kelly LLB NP

Registered office
144 West George Street
Glasgow G2 2HG

Registered number
SC149799

Principal place of business
1 Portland Place
London W1B 1PN

Independent auditors
BDO LLP
55 Baker Street
London W1U 7EU

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

Nominated adviser
Oriel Securities Limited
125 Wood Street
London EC2V 7AN

Nominated broker
Oriel Securities Limited
125 Wood Street
London EC2V 7AN

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www.design-portfolio.co.uk

Visit us online at
www.terracehill.co.uk
info@terracehill.co.uk

HEAD OFFICE
LONDON
1 Portland Place
London W1B 1PN
T: +44 (0)20 7631 1666
F: +44 (0)20 7631 1126

BRISTOL
16 Queen Square
Bristol BS1 4NT
T: +44 (0)117 9800 300
F: +44 (0)117 9800 309

GLASGOW
144 West George Street
Glasgow G2 2HG
T: +44 (0)141 332 2014
F: +44 (0)141 332 2015

TEESSIDE
Westminster
St Mark's Court, Teesdale
Stockton on Tees TS17 6QP
T: +44 (0)1642 243 444
F: +44 (0)1642 243 500

TERRACE HILL