TERRACE HILL GROUP PLC Annual Report and Accounts 2010

NATIONAL PRESENCE LOCAL KNOWLEDGE

TERRACE HILL

WHAT'S INSIDE?

NATIONAL PRESENCE LOCAL KNOWLEDGE

TERRACE HILL GROUP PLC IS A REGIONALLY BASED UK PROPERTY DEVELOPMENT AND INVESTMENT GROUP QUOTED ON AIM. THE GROUP HAS OFFICES IN LONDON, TEESIDE, MANCHESTER, BRISTOL AND GLASGOW.

HIGHLIGHTS

- Excellent momentum in foodstore development programme continues
- Completion and sale of Sainsbury's supermarket at Bishop Auckland
- Development agreement signed with Kondor for £5.0 million warehouse at Christchurch Business Park
- Additional strong progress since period end:
  - Development agreements signed with Sainsbury's for new stores at Wessington Way, Sunderland and Whitchurch, Shropshire
  - Imminent sale of Sainsbury's site at Heaton Park, Manchester
  - Letting of 8,400 sq ft secured at Teesside Business Park development
  - Construction started at Northern Design Centre in Gateshead
  - Exchanged contracts for the sale of mixed use development at 129 Wilton Road, Victoria, for £53.5 million

EPRA TRIPLE NET ASSET VALUE
PENCE PER SHARE

44.7p +9.5%

(31 October 2009: 40.8 pence per share)

EPRA NET ASSET VALUE
PENCE PER SHARE

48.3p +7.2%

(31 October 2009: 45.1 pence per share)

PROFIT BEFORE TAX FOR ELEVEN MONTH PERIOD

£8.4m

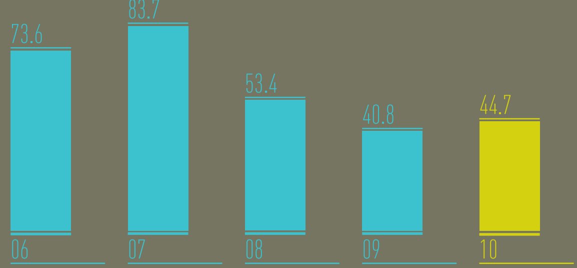
(31 October 2009: £26.7 million loss)

BALANCE SHEET GEARING REDUCED TO

88.4%

(31 October 2009: 102.4% and 30 April 2010: 91.0%)

EPRA TRIPLE NET ASSET VALUE
PENCE PER SHARE



NATIONAL PRESENCE

WE HAVE **GEOGRAPHIC DIVERSIFICATION**, ON-THE-GROUND **NATIONAL PRESENCE, LOCAL ACCESS** TO POTENTIAL DEALS ON A **NATIONAL BASIS** AND THE ABILITY TO DIRECTLY MANAGE OUR PROJECTS WITH **LOCAL EXPERTISE**

FOOD STORE DEVELOPMENT

Terrace Hill has a strong track record in developing out of town retail sites and is now focusing its experience on edge of town foodstore development. Our regional office network is essential in sourcing sites and understanding local needs.

PROGRESS THROUGHOUT THE YEAR

- Completed the development of a new 97,000 sq ft superstore and petrol filling station to Sainsbury's which opened for business in October 2010
- Obtained detailed planning consent at Heaton Park, North Manchester and will sell the retail park to Sainsbury's in December 2010
- Conditionally acquired sites at Whitchurch and Sunderland and have agreed terms with Sainsbury's
- Two new sites close to signing legals
- Growing pipeline of new sites

OFFICE DEVELOPMENT

Our focus is in Central London office development where we have a history of successful development. Our particular skills lie in site identification, maximising the development potential, while driving down construction costs.

PROGRESS THROUGHOUT THE YEAR

- Completed the letting of our development at Wilton Road, Victoria and subsequently sold the building to an overseas buyer for £53.5 million
- Started demolition of our joint venture development at Howick Place, Victoria, which will become 135,000 sq ft of office accommodation and 25,300 sq ft of residential accommodation
- Started construction of the 60,000 sq ft Northern Design Centre at Baltic Business Quarter, Gateshead

RESIDENTIAL INVESTMENT

Our focus on our residential investment portfolio of nearly 2,000 units is on maximising returns for our shareholders. With a weak owner-occupier market, we are experiencing record letting demand for our flats and houses.

PROGRESS THROUGHOUT THE YEAR

- Occupancy rates of 94% are currently being achieved with no major regional variations
- Increased rental income by 4% in the period
- Improved returns through rationalising suppliers contracts

WE HAVE PRODUCED AN ONLINE VERSION OF THIS REPORT

We are aiming 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 www.terracehill.co.uk/ar10

OUR OFFICES

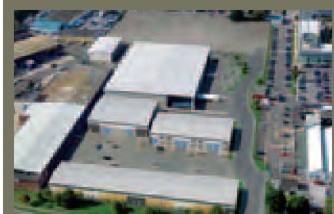
MANCHESTER

NEW REGIONAL OFFICE

Headed by Andy Lavin who has 25 years of experience of the local property market

READ MORE
www.terracehill.co.uk/ar10/ataglance

LATEST NEWS



17 SEPT 2010

Sale and development deal agreed at Christchurch business park

06 OCT 2010

Terrace Hill confirms development agreement with Sainsbury's in Sunderland

27 OCT 2010

Development agreement with Sainsbury's for new supermarket in Whitchurch, Shropshire

4 NOV 2010

Terrace Hill commences construction of Northern Design Centre at its Baltic Business Quarter in Gateshead

VISIT OUR WEBSITE FOR MORE OF THE LATEST NEWS
www.terracehill.co.uk/news

Robert FM Adair

Robert F M Adair
Chairman

SUMMARY OF THE CHAIRMAN'S STATEMENT

- Our EPRA Net Asset Value has increased by 7.2% to 48.3 pence per share
- Our EPRA Triple Net Asset Value (NAV) has increased by 9.5% to 44.7 pence per share
- We have achieved a number of successes in the foodstore sector where we have real and growing experience

I have pleasure in reporting our financial results for the eleven months ended 30 September 2010, during which time we have seen further growth in our EPRA Net Asset Value and some significant advances in our operations.

Our EPRA Net Asset Value has increased by 7.2% to 48.3 pence per share (31 October 2009: 45.1 pence per share) and our EPRA Triple Net Asset Value (NAV) has increased by 9.5% to 44.7 pence per share (31 October 2009: 40.8 pence per share). The EPRA Triple NAV takes account of contingent tax on prospective gains and other fair value adjustments.

The group's profit before tax for the eleven months ended 30 September 2010 was £8.4 million (year to 31 October 2009: loss £26.7 million). The pleasing result reflects a number of trading successes and continued recovery in the value of our assets, following the improvement we saw in the first half of the year. We have decided to maintain the suspension of the payment of dividends but would hope to resume a progressive dividend policy when market conditions improve further.

We continue to manage our borrowings and banking relationships well. Our net gearing has fallen from 102.4% at 31 October 2009 to 88.4% at 30 September 2010 as a result of reduced debt through asset sales and recovering asset values. The banking climate is still challenging with lenders with legacy issues notably less willing to write new business. We have been pleased, however, to see a number of new prospective lenders starting to offer competitive terms on developments. The business review contains further details of our results and financial position.

In the commercial development division our focus on pre-let or pre-sold developments is beginning to show positive returns. We have achieved a number of successes in the foodstore sector where we have seen the completion and sale of the Sainsbury's supermarket at Bishop Auckland, the imminent sale of the Sainsbury's site at Heaton Park in Manchester and the securing of forward commitments with operators at Sunderland and Whitchurch. We have real and growing expertise in this sector and benefit from the market knowledge provided by our regional office network and, as a result, are progressing a lengthy pipeline of similar deals. These, together with the pre-sold office and industrial developments in Gateshead and Christchurch, demonstrate how we are able to develop new properties profitably at low risk.

WE HAVE SHOWN OUR ABILITY TO GENERATE STRONG, LOW RISK RETURNS **BY CONCENTRATING ON OUR CORE EXPERTISE OF PRE-LET DEVELOPMENT**

In central London the office occupational market has continued to strengthen allowing us to fully let and exchange contracts to sell our Wilton Road joint venture development in Victoria. This has given us and our joint venture partners the confidence to start work on Howick Place in Victoria which will provide a mixture of office and residential space totalling 160,300 sq ft on completion in late 2012.

Our residential investment portfolios have risen in value by 5.1% over the period thanks largely to the heavy weighting to properties in London and the South East. It is also pleasing to see record levels of occupancy and rising rents on the back of limited competing supply and strong demand. Values are, however, now coming under more pressure outside London and the South East.

Our proposed residential investment fund with AEGON Asset Management has experienced a slow fundraising campaign against an uncertain economic backdrop, but we hope that we will achieve a successful first closing during the next 12 months.

I am pleased to announce that we have strengthened our board with the appointment of a further independent non-executive director. Julie Green, Managing Director of Lowndes Partners LLP, has many years of corporate finance and property experience having previously worked at Lazard and Jones Lang LaSalle and I look forward to her contribution to our business. I would like to thank my fellow directors, management and staff for their hard work during the last year.

OUTLOOK

Although economic uncertainty continues to affect our markets we have shown our ability to generate strong, low risk returns by concentrating on our core expertise of pre-let development, particularly foodstores and central London offices, and residential asset management. In the coming year I am therefore confident that we will be able to continue to perform well and add value to the business.

Robert F M Adair
Chairman
8 December 2010

Philip Leech
Chief executive

SUMMARY OF OPERATIONS

- Our pipeline of supermarket development opportunities continues to grow with five sites in various stages of assembly or development
- We let the remaining space in our Wilton Road, Victoria office and exchanged contracts to sell the investment
- Construction of the 60,000 sq ft Northern Design Centre has commenced
- A 59,740 sq ft warehouse building has been pre-sold for £5.0 million

COMMERCIAL PROPERTY

We have continued to focus on our core areas of expertise in commercial property development: edge of town retail and offices with a small amount of industrial development in areas of particularly strong demand.

In edge of town retail, market demand from foodstore occupiers remains strong and our pipeline of supermarket development opportunities continues to grow with five sites in various stages of assembly or development. This form of development is both relatively low risk and profitable as the properties are always pre-let or pre-sold to occupiers with very strong covenants. We also have particular operational strengths in this market with development site finding abilities through our network of regional offices and strong relationships with the supermarket retailers.

The occupational side of the office market is, in contrast, much weaker with the exception of Central London where take up of available space has been strong leading to the prospect of lack of supply and rising rents. With the exception, therefore, of our speculative JV office and residential development at Howick Place in Victoria, all our office development plans are centred around pre-lets and we have a number of active discussions with prospective tenants about pre-let office developments in the regions.

The operational highlights since the half year ended 30 April 2010 are as follows:

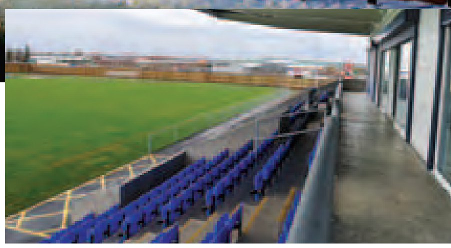
FOODSTORES

- **Bishop Auckland** – the 97,000 sq ft pre-let supermarket development was completed and opened for trading in October 2010. Some additional floor area and a petrol filling station were added to the development during construction and the whole investment was funded and pre-sold to Aviva Investors Pensions Limited. Two adjacent sites have been pre-sold, subject to planning, to KFC and Marston's.
- **Heaton Park, Manchester** – following the grant of detailed planning consent for a new 135,000 sq ft Sainsbury's store in March 2010, timing for vacant possession of the site by the existing tenants is agreed and completion of the sale to Sainsbury's is due this month.
- **Wessington Way, Sunderland** – we completed a conditional contract to acquire a six acre site for a foodstore development earlier this year and have now entered into a pre-letting agreement with Sainsbury's, conditional on planning, to develop a 98,000 sq ft supermarket and petrol filling station. A planning application was submitted in late November 2010.
- **London Road, Whitchurch, Shropshire** – following the completion of a conditional contract to acquire this site earlier this year we have secured a forward commitment with Sainsbury's for a foodstore. A detailed planning application will be made later this month.
- We have a number of other foodstore development opportunities across the country at various stages of progression including a large site at Teesside where terms have been agreed with an operator to pre-let a 125,000 sq ft foodstore.

MARKET KNOWLEDGE

OUR NETWORK OF REGIONAL OFFICES GIVES US **STRONG LOCAL KNOWLEDGE** WHICH ENHANCES OUR ABILITY TO IDENTIFY PROFITABLE OPPORTUNITIES

1.



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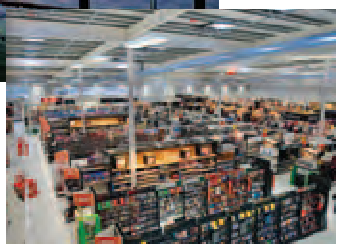


3.

1. Completed store
2. Bishop Auckland AFC football pitch and stadium
3. Inside Sainsbury's store

BISHOP AUCKLAND

As reported in our annual report last year, we constructed a 97,000 sq ft supermarket and petrol filling station for Sainsbury's during the year on a former industrial site and coal tip. The supermarket opened for trading in late October 2010. As part of our obligations to the local council we also constructed a new football pitch and stadium for Bishop Auckland Association Football Club. Separate to this, we have also exchanged contracts for the sale of two parcels of land to Marston's and KFC and have 1½ acres of remaining land which we will most likely sell to other food or leisure operators.

DEVELOPMENT SKILLS

WE HAVE OUR OWN **IN-HOUSE TEAMS OF LOCAL PROJECT MANAGERS** WHICH GIVE US DAY-TO-DAY CONTROL OF ALL ASPECTS OF EACH DEVELOPMENT

WILTON ROAD

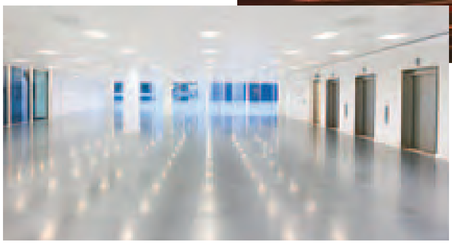
129 Wilton Road was previously the London headquarters of the Godfrey Davis car hire business and consisted of 5,500m^2 of offices.

We purchased the freehold of the building in 2004 with vacant possession. At the time of purchase the building benefited from a planning consent for 6,000m^2 of offices, 3,800m^2 of residential in 12 flats and 785m^2 of retail space. We saw the opportunity to increase the density on the site and improve the configuration. Following a detailed process and working within a similar building envelope we obtained a revised planning consent for 6,900m^2 of office, 5,000m^2 of residential (increased to 38 flats) and 800m^2 of retail space. This equated to a 20% increase in the available space. As the first commercial scheme to be required to achieve a CO_2 reduction of 10% we eliminated the use of traditional air conditioning chillers and introduced ground source heat pumps. Through carefully applying our "value assembly" approach we were able to achieve a market beating build cost without compromising quality.

We built the building over the period March 2006 to February 2008 and achieved full letting of the office and retail space by August 2010. Contracts were exchanged to sell the investment in late 2010.

3.

1.



2.

1. Set back 7th and 8th floors
2. Typical floor layout
3. Completed building and Wilton Road frontage

OFFICES AND INDUSTRIAL

→ **Wilton Road, Victoria** – since the half year results, the remaining office space in this joint venture development has been let and contracts have been exchanged to sell the investment to Cordea Savills European Commercial Fund for £53.5 million. Completion of the sale will take place before the end of this month.

→ **Howick Place, Victoria** – the construction has commenced of our joint venture mixed use office and residential scheme in the heart of Victoria. The development will comprise 135,000 sq ft of offices and 25,300 sq ft of residential when it completes in late 2012. Office rents are predicted to rise by 22% by the time of completion of the scheme. The joint venture is with Doughty Hanson and has the benefit of development finance with no recourse to the group.

→ **Baltic Business Quarter, Gateshead** – construction of the 60,000 sq ft Northern Design Centre has commenced on our 50 acre business park on the south bank of the Tyne. The building is being funded and will be owned and operated by Gateshead Council and One North East. In addition, we have let the top floor of Baltimore House, our office development situated between our earlier developments for the Open University and Gateshead College.

→ **Teesside Business Park** – Steria Limited, an outsourcing IT company, has leased 8,400 sq ft of offices in part of the campus owned by the Terrace Hill Development Partnership, bringing the amount let to 38.5% in this three unit scheme. This complements our earlier lettings on Teesside to Middlesbrough Primary Care Trust and the Crown Prosecution Service.

→ **Christchurch Business Park** – a 59,740 sq ft warehouse building has been pre-sold for £5.0 million to Kondor Limited, a leading mobile phone accessory distributor. Construction is underway with completion expected in March 2011 and detailed negotiations are underway with other occupiers about taking industrial space at the Park.

→ **Site sales** – during this period we profitably disposed of our 4.4 acre site at Welwyn Garden City and the majority of our site at Farnborough.

RESIDENTIAL INVESTMENT

The heavy 49.4% weighting of our residential investment portfolio to London and the South East has boosted performance with an overall rise in values since 31 October 2009 of 5.1%. Furthermore, there is increasingly strong demand in the letting market and we have seen occupancy rates across our portfolio rise by 3% to 94% in the same period and we are now experiencing rapid rental growth in London where shortages of suitable rental accommodation is most acute.

Our proposed residential investment fund with AEGON Asset Management, reflecting trends across the sector, has experienced a slow fundraising campaign against an uncertain economic backdrop, but we hope that we will achieve a successful first closing during the next twelve months.

Jon Austen
Group finance director

SUMMARY OF FINANCIAL REVIEW

- The group's EPRA net assets at 30 September 2010 were £102.6 million, an increase of 7.2%
- Net debt has reduced to £90.7 million at 30 September 2010 from £98.1 million at 31 October 2009
- We continue to exercise tight control over our overheads and look at ways of operating our business at maximum efficiency

FINANCIAL RESULTS AND NET ASSET VALUE

The group's NAV increased by 7.6% in the eleven month period ended 30 September 2010 to £84.1 million (39.7 pence per share) from £78.2 million (36.9 pence per share) at 31 October 2009 and our EPRA NAV increased by 7.2% to £102.6 million (48.3 pence per share) from £95.8 million (45.1 pence per share) at 31 October 2009.

The increase in our EPRA NAV before deduction of administrative expenses and interest was caused principally by the following:

- 2.6 pence per share arising from recognised profit at our Bishop Auckland development;
- 2.2 pence per share as a consequence of increases in the value of assets held on the balance sheet; and
- 3.5 pence per share arising from positive contributions from our joint ventures and associates.

The group's EPRA Triple NAV, which takes into account any tax payable on profits arising if all the group's properties were sold at the values used for the EPRA NAV, the write off of goodwill and any other fair value adjustments, increased by 9.5% to £95.1 million (44.7 pence per share) from £86.8 million (40.8 pence per share) at 31 October 2009.

STATEMENT OF COMPREHENSIVE INCOME

Revenue for the eleven month period ended 30 September 2010 includes rental income of £4.3 million (2009: £6.6 million), recognition of revenue under the construction contract at Bishop Auckland of £17.7 million (2009: £7.1 million), site sales at Welwyn Garden City and Farnborough totalling £4.2 million, project management fees of £0.6 million (2009: £1.3 million) and the sale of eight completed residential units.

The Consolidated statement of comprehensive income also includes movements in the valuation of our properties. Included in cost of sales is the reversal of £3.7 million of write-downs to the carrying value of our development properties (2009: write-down £22.0 million). Further positive valuation movements of £1.0 million relating to our investment properties (2009: write-down £2.1 million) and positive movements of £6.6 million reflecting our share of the valuation uplifts in our joint ventures and associated undertakings (2009: write-down £5.2 million) are included in the Consolidated statement of comprehensive income.

Administrative expenses for the period ended 30 September 2010 amounted to £4.7 million (2009: £5.2 million). We continue to exercise tight control over our overheads and look at ways of operating our business at maximum efficiency.

OUR INVESTMENT IN JOINT VENTURES AND ASSOCIATED UNDERTAKINGS **GENERATED A CONTRIBUTION** IN THE PERIOD ENDED 30 SEPTEMBER 2010 **OF £7.6 MILLION**

Net finance costs for the period ended 30 September 2010 were £1.8 million (2009: £1.2 million). Included in the 2010 figure is £0.6 million of swap break costs relating to the loan on Kean House which was repaid on its disposal and a credit of £0.8 million of fair value adjustments on our financial instruments. After accounting for these, our normalised net interest charge for the period was £2.0 million compared with a similar normalised figure for 2009 of £2.9 million. The reduction of £0.9 million is largely explained by the reduction in our net debt following the repayment of our loan on Kean House in November 2009.

Our investment in joint ventures and associated undertakings generated a contribution in the period ended 30 September 2010 of £7.6 million (2009: loss £5.6 million) of which £6.6 million related to positive movements in the value of the underlying properties (2009: £5.2 million write down). This result is substantially attributed to our investment in Terrace Hill Residential PLC of which our share is 49% and which has benefited from lower borrowing costs during the period and growth in rental income.

BALANCE SHEET

The group's net assets at 30 September 2010 were £84.1 million, an increase of 7.6% on the amount reported at 31 October 2009 of £78.4 million. The group's gearing has improved and net debt as a percentage of adjusted net assets was 88.4% as at 30 September 2010 compared to 102.4% at 31 October 2009. The amount of net debt has also reduced to £90.7 million at 30 September 2010 from £98.1 million at 31 October 2009.

FINANCIAL RESOURCES AND CAPITAL MANAGEMENT

As mentioned above, our net debt at 30 September 2010 was £90.7 million. The main reasons for the changes since 31 October 2009 are as follows:

- → property sales (£15.8 million reduction);
- → expenditure at our Hudson Quay development (£5.9 million increase);
- → expenditure at our development sites (£0.3 million increase); and
- → rental income less administrative expenses and net finance costs (£3.7 million increase).

The group continues to use bank debt secured on individual projects, together with its own resources, to finance its projects. This ensures to the maximum degree possible that each project is ring-fenced. A consequence of this is that the group has a relatively large number of discrete bank facilities outstanding at any moment in time, some of which are relatively short-term.

GIVEN THE SHORT MATURITY PROFILE OF THE GROUP'S DEBT AND THE CURRENT BENIGN INTEREST RATE ENVIRONMENT, **THE GROUP HAS DECIDED TO TAKE ADVANTAGE OF THE LOW CURRENT INTEREST RATES**

SUMMARY OF DEBT POSITION

	30 September 2010	31 October 2009
Net debt	**£90.7m**	£98.1m
Net gearing	**88.4%**	102.4%
Net debt including share of joint venture and associated undertaking debt	**£228.2m**	£235.3m
Total net gearing	**220.7%**	245.7%
Loan to value	**58.6%**	59.4%
Loan to value including share of joint venture and associated undertaking debt	**70.9%**	73.1%

The net gearing and loan to value percentages shown above are in relation to our adjusted EPRA 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	**56.1**	19.5
Bank loans repayable after more than one year	**36.3**	116.3
Total	**92.4**	135.8

* Group share.

SUMMARY OF LOAN TO VALUE RATIOS OF GROUP PROPERTY

	30 September 2010	31 October 2009
Commercial property	**55.6%**	56.7%
Residential property	**72.5%**	72.4%
Total	**58.6%**	59.4%

FINANCIAL RESOURCES AND CAPITAL MANAGEMENT CONTINUED

The group prefers this, as it gives it flexibility, but it can mean that we are exposed to changing banking markets and sentiment. In the period since 31 October 2009, and including amounts reported as re-financed in March and June this year, the group has re-financed £27.3 million of group debt and £268.0 million of joint venture and associated undertaking debt. Given the backdrop of banks with stressed balance sheets and security having fallen in value, negotiations on re-financings have been robust. The group currently has £56.1 million of short-term debt, mostly in two loans, of which £11.8 million relates to our property at Wilton Road and which will be repaid on the sale of the property in December 2010, and £33.7 million which matures in September 2011. We expect that this loan will be partially repaid through sales with the balance being re-financed.

The average maturity of group debt is now 14 months with a weighted average margin of 2.8%. The average maturity of joint ventures and associated undertaking debt is now 21 months with a weighted average margin of 2.6%.

The group actively monitors its interest rate exposure. At 30 September 2010, 23.5% of group debt was subject to hedging arrangements with an average interest rate of 3.3%. The hedging arrangements are fixed rate swaps, which expired in October 2010. Given the short maturity profile of the group's debt and the current benign interest rate environment, the group has decided to take advantage of the low current interest rates. 37.6% of joint ventures and associated undertaking debt is hedged with an average interest rate of 3.0%.

The group has no loans in place which measure loan to value ratios on an aggregated basis. A number of loans have loan to value covenants based on the value of the assets secured against them and in certain instances those covenants have been modified or the loans have been partially repaid to ensure they remain within the covenanted levels. The amounts involved have not been material.

The group monitors its cash resources and future cash flows closely through its comprehensive rolling 24 months cash forecasts. The group regularly reviews the underlying assumptions supporting the cash forecast and believes it has sufficient resources to execute its strategy for the foreseeable future.

Philip Leech
Chief executive
8 December 2010

Jon Austen
Group finance director

CALCULATION OF EPRA NAV AND EPRA TRIPLE NAV (UNAUDITED)

	30 September 2010			31 October 2009		
	£'000	Number of shares 000s	Pence per share	£'000	Number of shares 000s	Pence per share
AUDITED NET ASSET VALUE	**84,103**	**211,971**	**39.7**	78,156	211,971	36.9
INCREASE/(DECREASE)%			**7.6%**			(24.2%)
Revaluation of property held as current assets	**18,313**			16,633		
Fair value of financial instruments	**177**			962		
Shares to be issued under the LTIP	**12**	**595**		12	595	
EPRA NAV	**102,605**	**212,566**	**48.3**	95,763	212,566	45.1
INCREASE/(DECREASE)%			**7.2%**			(22.4%)
Fair value of financial instruments	**(177)**				(962)	
Estimated taxation on revaluation of current assets	**(4,005)**				(4,657)	
Goodwill	**(3,336)**				(3,336)	
EPRA TRIPLE NAV	**95,087**	**212,566**	**44.7**	86,808	212,566	40.8
INCREASE/(DECREASE)%			**9.5%**			(23.5%)

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 resource 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 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 critical to the success of the business.

OUR PROPERTIES ARE **DIVERSIFIED BY SECTOR AND GEOGRAPHY,** FOCUSING ON AREAS WHERE WE PERCEIVE THE POTENTIAL FOR EXCEPTIONAL RETURNS

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.

VISIT US ONLINE FOR MORE DETAILS ON OUR PROPERTIES.

OUR PROPERTIES ARE DIVIDED INTO THE FOLLOWING AREAS:

1. Foodstores
2. Office
3. Industrial
4. Residential investment

www.terracehill.co.uk/ar10

CORPORATE SOCIAL RESPONSIBILITY

SUMMARY OF KEY POINTS

Only by fully embracing corporate social responsibility can we work towards a business environment that is conscientious and sustainable.

- Create a safe and healthy working environment for the well-being of all our employees
- The vital contribution of employees to the future success of the business is recognised by the board
- Ensure that all of our developments are designed efficiently, improving upon standard statutory requirements
- Delighted that two thirds of our shareholders have agreed to access company documents online

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.

FULLY EMBRACING CSR

THE GROUP IS **COMMITTED TO MAINTAINING HIGH ETHICAL STANDARDS** OF CORPORATE SOCIAL RESPONSIBILITY IN ALL AREAS OF OUR BUSINESS

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.


1.


2.

1. Salisbury Place, London
2. Hudson Quay, Teeside

FROM LEFT TO RIGHT

Robert F M Adair MA ACA CTA FGS (54)
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 (47)
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 (54)
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.

Will Wyatt (42)
Non-executive director

Will is CEO of Caledonia Investments plc, a FTSE 250 Investment Company and is also a non-executive director of Avanti Communications Group, a specialist media and satellite company, Cobepa, a Belgian-based investment company, Melrose Resources plc, Bristow Group Inc, a US listed international helicopter operator supporting the oil and gas industry, REI PLC, a Birmingham based listed property business and Chairman of the Advisory Board of TGE Holdings GmbH, a specialist gas engineering business.

Bob Dyson MSc FRICS (62)

Non-executive director (independent)

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

Nick Gaskell ACA (61)

Non-executive director

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

Julie Green BSc MBA (51)

Non-executive director (independent)

Julie is a founder and managing partner of Lowndes Partners, LLP, and is responsible for corporate finance advice and public/private capital market activity in Europe, the Middle East and Asia. Julie has been active in corporate finance for over 20 years and worked previously at Jones Lang LaSalle and Lazard.

Secretary

M A Kelly LLB NP

Principal place of business

1 Portland Place
London W1B 1PN

Independent auditors

BDO LLP
55 Baker Street
London W1U 7EU

Nominated adviser and broker

Oriel Securities Limited
125 Wood Street
London EC2V 7AN

Registrars

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

Registered number

SC149799

DIRECTORS' REPORT

The directors submit their report and the group financial statements for the period ended 30 September 2010.

RESULTS AND DIVIDENDS

The group profit for the period, after taxation and non controlling interests, amounted to £5,559,000. The directors do not recommend the payment of a final dividend.

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS

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

The Chairman's statement, Business review and Risk management on pages 4 to 13 include a review of the development, risks and uncertainties of the business of the company and its subsidiaries during the period.

DIRECTORS AND THEIR INTERESTS

The beneficial interests of the directors who held office at 30 September 2010 in the ordinary share capital of the company were as follows:

	At 30 September 2010 Ordinary shares	At 31 October 2009 Ordinary shares
R F M Adair	**129,991,239**	129,791,239
P A J Leech	**1,639,447**	1,614,447
J M Austen	**180,000**	150,000
W P Wyatt	**—**	—
R W Dyson	**623,000**	623,000
A N Gaskell	**—**	—

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

	Period ended 30 September 2010	Year ended 31 October 2009
R F M Adair	**1,833,333**	—
P A J Leech	**1,833,333**	—
J M Austen	**1,553,333**	—

The number of awards granted to directors are:

	At 30 September 2010	At 31 October 2009
R F M Adair	**2,328,828**	495,495
P A J Leech	**2,328,828**	495,495
J M Austen	**2,147,392**	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 24.

Details of directors' material interests in contracts are shown in note 26.

FINANCIAL INSTRUMENTS

Details of the use of financial instruments by the company and its subsidiary undertakings are shown in note 20.

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 15 days (2009: 19 days) of purchases outstanding in trade creditors.

DIRECTORS' LIABILITIES

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

SUBSTANTIAL SHAREHOLDING

At 7 December 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

M A Kelly
Company Secretary
8 December 2010

CORPORATE GOVERNANCE

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

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

THE BOARD AND ITS COMMITTEES

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

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

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

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

REMUNERATION COMMITTEE

The principal function of this committee is to determine the policy on executive directors' remuneration. The committee consists of RW Dyson (independent non-executive director) as chairman and AJ Green (independent non-executive director). WP Wyatt sat on this committee until the appointment of AJ Green. It is the aim of the committee to attract, retain and motivate high calibre individuals with a competitive remuneration package.

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

AUDIT COMMITTEE

This committee consists of RW Dyson as chairman and AJ Green. AN Gaskell sat on this committee until the appointment of AJ Green. The principal function of this committee is to monitor the integrity of the group's financial statements, review any formal announcements relating to the group's financial performance, review the appointment and relationship with the external auditors and review the system of internal financial controls operating within the business. The external auditors and executive directors may be invited to attend the meetings.

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

Director	Board meetings	Audit Committee	Remuneration Committee
Total number of meetings since 31 October 2009 to date	6	3	1
R F M Adair	6		
P A J Leech	6		
J M Austen	6		
R W Dyson	6	3	1
A N Gaskell[1]	3	3	
A J Green[2]	—	—	—
K M Hudson[3]	2		
W P Wyatt	6		1

1 Three board meetings held after appointment.
2 Appointed on 7 December 2010.
3 Attended two out of the three board meetings held until resignation.

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

COMPOSITION AND ROLE OF THE REMUNERATION COMMITTEE

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

FRAMEWORK AND POLICY ON EXECUTIVE DIRECTORS' REMUNERATION

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

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

BASIC SALARY

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

INCENTIVE ARRANGEMENTS

ANNUAL DISCRETIONARY BONUSES

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

LONG TERM INCENTIVE AWARDS

The group operates a nominal cost option scheme for qualifying staff, including executive directors. Options are granted over the company's shares that are capable of vesting on the third anniversary of issue dependent on certain performance conditions having been met. The vesting period runs for seven years from the date the options first vest. The maximum total market value of shares over which options may be granted to any participating employee in any financial year is 100% of his salary or such higher percentage of salary deemed appropriate by the committee in exceptional circumstances. The maximum number of options that can be outstanding at any one time is a number equivalent to 10% of the ordinary share capital in issue at that time. During the period ended 30 September 2010, options over 12,912,963 shares were awarded to participating staff, of which 5,219,999 were awarded to executive directors. The performance conditions attached to these awards are as follows (relating to the three year period ending 30 September 2012):

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

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

In addition, on 30 September 2010, options over 594,059 shares vested in respect of J M Austen which had been awarded on the commencement of his employment with the group.

OTHER BENEFITS

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

SERVICE CONTRACTS AND NOTICE PERIODS

All executive directors are employed on rolling contracts subject to between six and twelve months' notice from either the executive or the group, given at any time. The service contracts of the current executive directors are available for inspection by any person at the company's registered office during normal office hours and at the AGM from 9:00 am on the day of the Meeting until the conclusion of the Meeting.

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

NON-EXECUTIVE DIRECTORS

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

In the event of termination of their appointment they are not entitled to any compensation. The terms and conditions of appointment of non-executive directors are available for inspection by any person at the company's registered office during normal office hours and at the AGM from 9:00 am on the day of the Meeting until the conclusion of the Meeting.

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

DIRECTORS' EMOLUMENTS

The remuneration of each director, excluding long-term incentive awards, during the eleven months ended 30 September 2010 is detailed in the table below:

	Salary £'000	Benefits £'000	Bonus £'000	Total for eleven months ended 30 September 2010 £'000	Total for year ended 31 October 2009 £'000	Pension contribution for eleven months ended 30 September 2010 £'000	Pension contribution for year ended 31 October 2009 £'000
EXECUTIVE							
R F M Adair	**222**	**28**	**—**	**250**	259	**29**	26
P A J Leech	**251**	**15**	**—**	**266**	294	**29**	26
J M Austen	**196**	**3**	**150**	**349**	229	**34**	33
NON-EXECUTIVE							
R W Dyson	**5**	**—**	**—**	**5**	5	**—**	—
A N Gaskell	**4**	**—**	**—**	**4**	—	**—**	—
K M Hudson	**3**	**—**	**—**	**3**	5	**—**	—
W P Wyatt	**5**	**—**	**—**	**5**	5	**—**	—
Total	**686**	**46**	**150**	**882**	797	**92**	85

The bonus paid to J M Austen was part of his contractual terms on his appointment.

DIRECTORS' INTEREST IN PERFORMANCE SHARE AWARDS

Full details of outstanding performance share awards in the company held by executive directors at 30 September 2010 are shown below:

	Number of awards	Date of grant	Grant price	Exercise period
R F M Adair	495,495	30 April 2008	55.5p	1 October 2010 – 30 April 2018
R F M Adair	1,833,333	19 April 2010	20.25p	1 October 2012 – 19 April 2020
P A J Leech	495,495	30 April 2008	55.5p	1 October 2010 – 30 April 2018
P A J Leech	1,833,333	19 April 2010	20.25p	1 October 2012 – 19 April 2020
J M Austen	594,059	1 September 2008	25.0p	1 September 2010 – 31 August 2017
J M Austen	1,553,333	19 April 2010	20.25p	1 October 2012 – 19 April 2020

FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF TERRACE HILL GROUP PLC

We have audited the financial statements of Terrace Hill Group plc for the period ended 30 September 2010 which comprise the Consolidated statement of comprehensive income, the Consolidated statement of changes in equity, the Consolidated and company balance sheets, the Consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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 30 September 2010 and of the group's profit for the period then ended;

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

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

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

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

Russell Field (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
55 Baker Street
London
W1U 7EU
United Kingdom
8 December 2010

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 30 SEPTEMBER 2010

	Notes	Period ended 30 September 2010 £'000	Year ended 31 October 2009 £'000
Revenue	2	**30,747**	29,065
Direct costs		**(24,437)**	(41,584)
Gross profit/(loss)		**6,310**	(12,519)
Administrative expenses		**(4,745)**	(5,174)
Profit on disposal of investment properties		**47**	—
Profit/(loss) on revaluation of investment properties		**1,008**	(2,141)
OPERATING PROFIT/(LOSS)		**2,620**	(19,834)
Finance income	4	**1,281**	1,202
Finance costs	4	**(3,105)**	(2,423)
Share of joint venture and associated undertakings post tax profit/(loss)		**7,581**	(5,625)
PROFIT/(LOSS) BEFORE TAX		**8,377**	(26,680)
Tax	7	**(2,818)**	3,135
PROFIT/(LOSS) FROM CONTINUING OPERATIONS		**5,559**	(23,545)
OTHER COMPREHENSIVE INCOME			
Available for sale losses transferred to profit or loss		**—**	498
TOTAL COMPREHENSIVE INCOME		**5,559**	(23,047)
PROFIT/(LOSS) ATTRIBUTABLE TO:			
Equity holders of the parent		**5,563**	(23,517)
Non controlling interest		**(4)**	(28)
		5,559	(23,545)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the parent		**5,563**	(23,019)
Non controlling interest		**(4)**	(28)
		5,559	(23,047)
BASIC EARNINGS PER SHARE	9	**2.64p**	(11.15)p
DILUTED EARNINGS PER SHARE	9	**2.64p**	(11.15)p

The notes on pages 32 to 54 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 SEPTEMBER 2010

	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	Non-controlling interest £'000	Total £'000
BALANCE AT 31 OCTOBER 2008	4,240	43,208	(609)	849	7,088	(498)	48,769	103,047	258	103,305
Total comprehensive 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
Total comprehensive income and expense for the period	—	—	—	—	—	—	5,563	5,563	(4)	5,559
Share-based payment	—	—	—	—	—	—	384	384	—	384
Distribution to non controlling interest	—	—	—	—	—	—	—	—	(226)	(226)
BALANCE AT 30 SEPTEMBER 2010	**4,240**	**43,208**	**(609)**	**849**	**7,088**	**—**	**29,327**	**84,103**	**—**	**84,103**

CONSOLIDATED BALANCE SHEET
AT 30 SEPTEMBER 2010

	Notes	30 September 2010 £'000	31 October 2009 £'000
NON-CURRENT ASSETS			
Investment properties	12	**31,373**	46,758
Property, plant and equipment	11	**235**	350
Investments in equity accounted associates and joint ventures	13	**9,081**	2,846
Other investments	13	**182**	147
Intangible assets	10	**3,336**	3,336
Deferred tax assets	19	**5,789**	7,439
		49,996	60,876
CURRENT ASSETS			
Development properties	14	**104,902**	101,719
Trade and other receivables	15	**40,521**	36,331
Cash and cash equivalents		**1,759**	5,290
		147,182	143,340
TOTAL ASSETS		**197,178**	204,216
NON-CURRENT LIABILITIES			
Bank loans	18	**(36,286)**	(91,678)
Other payables	17	**(3,000)**	(3,370)
Deferred tax liabilities	19	**—**	(73)
		(39,286)	(95,121)
CURRENT LIABILITIES			
Trade and other payables	16	**(14,640)**	(17,862)
Current tax liabilities		**(3,012)**	(1,176)
Bank overdrafts and loans	18	**(56,137)**	(11,671)
		(73,789)	(30,709)
TOTAL LIABILITIES		**(113,075)**	(125,830)
NET ASSETS		**84,103**	78,386
EQUITY			
Called up share capital	21	**4,240**	4,240
Share premium account	22	**43,208**	43,208
Own shares	22	**(609)**	(609)
Capital redemption reserve	22	**849**	849
Merger reserve	22	**7,088**	7,088
Retained earnings	22	**29,327**	23,380
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**84,103**	78,156
NON CONTROLLING INTERESTS		**—**	230
TOTAL EQUITY		**84,103**	78,386

The financial statements on pages 28 to 54 were approved and authorised for issue by the board of directors on 8 December 2010 and were signed on its behalf by:

Philip Leech.

P A J Leech
Director

J M Austen
Director

CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD ENDED 30 SEPTEMBER 2010

	Period ended 30 September 2010 £'000	Year ended 31 October 2009 £'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) before taxation	8,377	(26,680)
Adjustments for:		
Finance income	(1,281)	(1,202)
Finance costs	3,105	2,423
Share of joint venture and associated undertakings post tax (profit)/loss	(7,581)	5,625
Depreciation and impairment charge	3,844	22,813
(Profit)/loss on revaluation of investment properties	(1,008)	2,141
Profit on disposal of investment properties	(47)	—
Loss on sale of tangible financial assets	12	26
Share-based payment payment/(credit)	384	(718)
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGE IN WORKING CAPITAL	5,805	4,428
Increase in property inventories	(6,635)	(2,054)
Increase in trade and other receivables	(2,330)	(11,101)
Decrease in trade and other payables	(3,491)	(2,389)
CASH ABSORBED BY OPERATIONS	(6,651)	(11,116)
Income from investments	—	1
Finance costs	(3,222)	(1,669)
Finance income	465	577
Tax received	594	338
NET CASH FLOWS FROM OPERATING ACTIVITIES	(8,814)	(11,869)
INVESTING ACTIVITIES		
Purchase of investment property	(50)	(4)
Sale of investment property and tangible fixed assets	16,459	289
Sale of investments	28	448
Purchase of property, plant and equipment	(35)	(16)
NET CASH FLOWS FROM INVESTING ACTIVITIES	16,402	717
FINANCING ACTIVITIES		
Borrowings drawn down	6,342	35,084
Borrowings repaid	(17,581)	(28,982)
Equity dividends paid	—	(1,154)
NET CASH FLOWS FROM FINANCING ACTIVITIES	(11,239)	4,948
Net decrease in cash and cash equivalents	(3,651)	(6,204)
Cash and cash equivalents at 1 November 2009	5,290	11,494
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER 2010	1,639	5,290

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 55 to 59, in accordance with UK GAAP.

CHANGES IN ACCOUNTING POLICIES

The group adopted the following new and amended IFRS and IFRIC interpretations in the period.

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
IFRS 2	Amendment to IFRS 2 – Vesting Conditions and Cancellations	1 January 2009
IFRS 7	Amendment to IFRS 7 – Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments	1 January 2009
IFRS 8	Operating Segments	1 January 2009
IFRIC 15	Agreements for the Construction of Real Estate	1 January 2009
IFRIC 17	Distributions of Non-cash Assets to Owners	1 November 2009

IAS 1 (revised 2007) – Presentation of Financial Statements: The revised standard has proposed a number of terminology changes (including revised titles for the primary statements and minority interest) and has resulted in the following change in presentation and disclosure: other recognised gains and losses previously recognised in the statement of changes in equity are now included in the consolidated statement of comprehensive income as part of the total comprehensive income for the period. The effect on the reported results of the previous period is to decrease the loss by £0.5 million. It has no effect on reported net asset values.

NEW STANDARDS AND INTERPRETATIONS NOT APPLIED

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

IAS 28 Investments in Associates

IAS 32 Financial Instruments – Presentation – Classification of Rights Issues

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
Improvements to IFRSs (2009) (2010)

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

1 ACCOUNTING POLICIES CONTINUED

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 statement of comprehensive income. The goodwill is reviewed for impairment at each reporting date. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the Consolidated statement of comprehensive income.

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 statement of comprehensive income 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 statement of comprehensive income, except that losses in excess of the group's investment in the associate are not recognised unless there is an obligation to make good those losses.

INVESTMENT PROPERTIES

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

LEASES

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

LEASE INCENTIVES

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

DEVELOPMENT PROPERTY

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

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

1 ACCOUNTING POLICIES CONTINUED

REVENUE RECOGNITION

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

SALE OF PROPERTY

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

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

DEVELOPMENT INCOME

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

RENTAL INCOME

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

FEES AND OTHER INCOME

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

TAXATION

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

Deferred tax is provided on all temporary differences, except:

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

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

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

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

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

SHARE-BASED PAYMENTS

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

1 ACCOUNTING POLICIES CONTINUED

EMPLOYEE BENEFIT TRUST

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

RETIREMENT BENEFITS

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

DIVIDENDS

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

IMPAIRMENT

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.

DERIVATIVE FINANCIAL INSTRUMENTS

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

CASH AND CASH EQUIVALENTS

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

TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at fair value and subsequently at amortised cost or their recoverable amount. Provision is made when there is evidence that the group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

TRADE AND OTHER PAYABLES

Trade and other payables are 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 statement of comprehensive income over the term of the associated borrowings.

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

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements under 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 overleaf:

1 ACCOUNTING POLICIES CONTINUED

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS CONTINUED

GOING CONCERN

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

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

Bank facilities – the group maintains a regular dialogue with its lenders and keeps them informed of how the group is trading. Since 31 October 2009, £27.5 million of group debt and £268.0 million of joint venture and associated undertaking debt has been re-financed. The group has a further £56.1 million of debt and overdraft facilities to be re-financed by 30 September 2011. 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. 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.

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.

INVESTMENT PROPERTY AND INVENTORY

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

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

TAXATION

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

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

IMPAIRMENT OF GOODWILL

The group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value-in-use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate where the cash flows exceed one year in order to calculate the present value of the cash flows. Actual outcomes may vary. More information, including carrying values, is shown in note 10.

2 REVENUE

	Total 2010 £'000	Total 2009 £'000
Sales of development properties	**25,595**	21,195
Rents receivable	**4,392**	6,612
Project management fees and other income	**760**	1,258
	30,747	29,065

Sales of development properties includes £17,777,000 (2009: £7,088,000) of revenue recognised on a construction contract for one investor.

3 SEGMENTAL INFORMATION

The group has adopted IFRS 8, Operating Segments with effect from 1 November 2009. IFRS 8 requires operating segments to be identified on the basis of internal financial reports about components of the group that are regularly reviewed by the chief operating decision maker (which in the group's case is its executive board comprising the three executive directors) in order to allocate resources to the segments and to assess their performance. The internal financial reports received by the group's executive board contain financial information at a group level as a whole and there are no reconciling items between the results contained in these reports and the amounts reported in the financial statements.

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

	Residential 2010 £'000	Commercial 2010 £'000	Unallocated items 2010 £'000	Total 2010 £'000	Residential 2009 £'000	Commercial 2009 £'000	Unallocated items 2009 £'000	Total 2009 £'000
STATEMENT OF COMPREHENSIVE INCOME								
Revenue	1,261	29,486	—	30,747	1,663	27,402	—	29,065
Direct costs	(405)	(24,032)	—	(24,437)	(615)	(40,969)	—	(41,584)
Gross profit/(loss)	856	5,454	—	6,310	1,048	(13,567)	—	(12,519)
Administrative expenses	—	—	(4,745)	(4,745)	—	—	(5,174)	(5,174)
Profit on disposal of investment properties	—	47	—	47	—	—	—	—
(Loss)/profit on revaluation of investment properties	(19)	1,027	—	1,008	(446)	(1,695)	—	(2,141)
Operating profit/(loss)	837	6,528	(4,745)	2,620	602	(15,262)	(5,174)	(19,834)
Net finance costs	(533)	(1,218)	(73)	(1,824)	(1,180)	(70)	29	(1,221)
Share of results of joint venture before tax	—	(43)	—	(43)	—	(72)	—	(72)
Share of results of associated undertakings before tax	7,624	—	—	7,624	(5,137)	(416)	—	(5,553)
PROFIT/(LOSS) BEFORE TAX	7,928	5,267	(4,818)	8,377	(5,715)	(15,820)	(5,145)	(26,680)

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

	Residential 2010 £'000	Commercial 2010 £'000	Unallocated items 2010 £'000	Total 2010 £'000	Residential 2009 £'000	Commercial 2009 £'000	Unallocated items 2009 £'000	Total 2009 £'000
BALANCE SHEET								
Investment properties	28,103	3,270	—	31,373	28,187	18,571	—	46,758
Property, plant and equipment	—	25	210	235	—	29	321	350
Investments – associates and joint ventures	6,425	2,656	—	9,081	147	2,699	—	2,846
Other investments	3	49	130	182	3	45	99	147
Intangible assets	2,476	860	—	3,336	860	2,476	—	3,336
Deferred tax assets	—	—	5,789	5,789	—	—	7,439	7,439
	37,007	6,860	6,129	49,996	29,197	23,820	7,859	60,876
Development properties	—	104,902	—	104,902	—	101,719	—	101,719
Trade and other receivables	15,356	25,165	—	40,521	13,833	21,877	621	36,331
Cash	41	1,718	—	1,759	49	5,241	—	5,290
	15,397	131,785	—	147,182	13,882	128,837	621	143,340
Borrowings	(20,375)	(72,048)	—	(92,423)	(20,401)	(82,948)	—	(103,349)
Trade and other payables	(514)	(17,126)	—	(17,640)	(575)	(20,175)	(482)	(21,232)
Current tax	—	—	(3,012)	(3,012)	—	—	(1,176)	(1,176)
Deferred tax liabilities	—	—	—	—	—	—	(73)	(73)
	(20,889)	(89,174)	(3,012)	(113,075)	(20,976)	(103,123)	(1,731)	(125,830)
NET ASSETS	31,515	49,471	3,117	84,103	22,103	49,534	6,749	78,386

4 FINANCE COSTS AND FINANCE INCOME

	2010 £'000	2009 £'000
Interest payable on borrowings	**4,793**	6,233
Interest (credited) under a development funding agreement	**—**	(2,050)
Interest capitalised	**(1,688)**	(1,760)
FINANCE COSTS	**3,105**	2,423
Interest receivable from cash deposits and other financial assets	**1,281**	1,202
FINANCE INCOME	**1,281**	1,202

Interest is capitalised at the same rate as the group is charged on the respective borrowings. Fair value adjustments to financial liabilities totalled £785,000 gains (2009: £962,000 losses) on interest rate swaps.

5 ADMINISTRATIVE EXPENSES

Is arrived at after charging/(crediting):

	2010 £'000	2009 £'000
Depreciation of property, plant and equipment	**143**	206
Loss on disposal of property, plant and equipment	**12**	26
Operating lease charges – rent of properties	**1,228**	1,332
Impairment of goodwill	**—**	120
Share-based payment remuneration	**384**	(718)
Fees paid to BDO LLP in respect of:		
– audit of the group's annual accounts	**180**	175
– audit of the group's associates	**19**	16
– other services	**30**	30

6 EMPLOYMENT COSTS

(A) TOTAL STAFF COSTS

	2010 £'000	2009 £'000
Wages and salaries	**3,703**	4,490
Employer's national insurance contributions and similar taxes	**461**	520
Defined contribution pension cost	**264**	365
Share-based payment/(credit)	**384**	(718)
	4,812	4,657

(B) DIRECTORS' EMOLUMENTS

	2010 £'000	2009 £'000
Emoluments	**865**	781
Amounts paid to third parties in respect of directors' services	**17**	16
Defined contribution pension cost	**92**	85

Pension contributions to defined contribution schemes were made during the year in respect of three directors (2009: three). There is a charge of £201,000 (2009: £110,000 credit) in respect of the share-based payments scheme.

6 EMPLOYMENT COSTS CONTINUED
(B) DIRECTORS' EMOLUMENTS CONTINUED
EMOLUMENTS OF HIGHEST PAID DIRECTOR

	2010 £'000	2009 £'000
Total emoluments (excluding pension contributions)	**346**	293
Defined contribution pension cost	**34**	26
	380	319

There is a charge of £114,000 (2009: £92,000 credit) in respect of the share-based payments scheme.

The average monthly number of employees during the period was:

	2010	2009
Property and administration	**37**	46

7 TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES
(A) ANALYSIS OF CHARGE/(CREDIT) IN THE PERIOD

	2010 £'000	2009 £'000
CURRENT TAX		
UK corporation tax on profit/(loss) for the period	**63**	53
Adjustment in respect of prior periods	**1,177**	633
Total current tax	**1,240**	686
DEFERRED TAX		
Origination and reversal of temporary differences	**1,578**	(3,821)
Total deferred tax charge/(credit)	**1,578**	(3,821)
TOTAL TAX CHARGE/(CREDIT)	**2,818**	(3,135)

(B) FACTORS AFFECTING THE TAX CREDIT FOR THE PERIOD
The tax assessed for the period is higher than the standard rate of corporation tax in the UK of 28% (2009: 28%). The differences are explained below:

	2010 £'000	2009 £'000
Profit/(loss) before tax	**8,377**	(26,680)
Less joint ventures and associates	**(7,581)**	5,625
Profit/(loss) attributable to the group before tax	**796**	(21,055)
Profit/(loss) multiplied by the average rate of UK corporation tax of 28% (2009: 28%)	**223**	(5,895)
Disallowables	**1,252**	2,049
Other temporary differences	**166**	78
	1,641	(3,768)
Adjustments in respect of prior periods	**1,177**	633
TOTAL TAX CHARGE/(CREDIT)	**2,818**	(3,135)

(C) ASSOCIATES AND JOINT VENTURES
The group's share of tax on the associates and joint ventures is £Nil (2009: £Nil).

8 DIVIDENDS

	2010 £'000	2009 £'000
ORDINARY SHARES		
Final dividend of 0.0 pence (2009: final dividend for 2008 of 0.54 pence) per share for the year ended 31 October 2009	—	1,139
	—	1,139

9 EARNINGS PER ORDINARY SHARE

The calculation of basic earnings per ordinary share is based on a profit of £5,563,000 (2009 loss: £23,517,000) and on 210,951,299 (2009: 210,951,299) ordinary shares, being the weighted average number of shares in issue during the period.

The calculation of diluted earnings per ordinary share for 2010 is based on earnings of £5,563,000 and on 210,952,880 ordinary shares being the weighted average number of shares in issue during the period adjusted to allow for the issue of ordinary shares in connection with a share award.

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

Share awards to employees are only included in the calculation of the diluted earnings per share where these awards are not subject to vesting conditions.

The number of awards in issue is disclosed in note 24.

10 INTANGIBLE FIXED ASSETS – GOODWILL

	£'000
COST	
At 1 November 2008	5,997
At 1 November 2009	5,997
AT 30 SEPTEMBER 2010	**5,997**
IMPAIRMENT	
At 1 November 2008	(2,541)
For the year	(120)
At 1 November 2009	(2,661)
For the period	—
AT 30 SEPTEMBER 2010	**(2,661)**
AT 30 SEPTEMBER 2010	**3,336**
At 31 October 2009	3,336

IMPAIRMENT TESTS FOR GOODWILL

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

	2010 £'000	2009 £'000
Commercial properties	**2,365**	2,365
Investment properties	**971**	971
	3,336	3,336

The value of goodwill allocated to the investment activity is directly related to a number of residential units held. As these units are disposed of 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 twelve 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 30 September 2010 there was no impairment. The carrying value of the group's goodwill is reassessed at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

11 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements £'000	Motor vehicles £'000	Office equipment £'000	Furniture and fittings £'000	Total £'000
COST					
At 1 November 2008	159	370	113	261	903
Additions	—	—	4	32	36
Disposals	—	(78)	(5)	(64)	(147)
At 1 November 2009	159	292	112	229	792
Additions	—	—	12	23	35
Disposals	—	(19)	(4)	(36)	(59)
AT 30 SEPTEMBER 2010	**159**	**273**	**120**	**216**	**768**
DEPRECIATION					
At 1 November 2008	23	120	55	115	313
Charge for period	16	89	24	77	206
Disposals	—	(47)	(5)	(25)	(77)
At 1 November 2009	39	162	74	167	442
Charge for period	15	60	23	45	143
Disposals	—	(12)	(4)	(36)	(52)
AT 30 SEPTEMBER 2010	**54**	**210**	**93**	**176**	**533**
NET BOOK VALUE					
AT 30 SEPTEMBER 2010	**105**	**63**	**27**	**40**	**235**
At 31 October 2009	120	130	38	62	350

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

12 INVESTMENT PROPERTIES

	£'000
VALUATION	
At 1 November 2008	49,160
Additions	4
Disposals	(265)
Loss on revaluation	(2,141)
At 1 November 2009	46,758
Additions	443
Disposals	(16,810)
Gain on revaluation	982
AT 30 SEPTEMBER 2010	**31,373**

The investment properties situated in Scotland owned by the group have been valued as at 30 September 2010 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 30 September 2010 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 30 September 2010 by qualified valuers from Allsop 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.

13 INVESTMENTS

ASSOCIATES AND JOINT VENTURES

	Associates £'000	Joint venture £'000	Total £'000
COST OR VALUATION			
At 1 November 2008	6,375	770	7,145
Disposals	(6)	—	(6)
Transfer to other investments	(14)	—	(14)
Share of results	(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 1 November 2009	2,148	698	2,846
Share of results	7,624	(43)	7,581
Share of results for period applied against long-term receivables forming part of net investment	(1,346)	—	(1,346)
AT 30 SEPTEMBER 2010	**8,426**	**655**	**9,081**

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.

SUMMARISED INFORMATION 2010

	Terrace Hill Development Partnership £'000	Devcap 2 Partnership £'000	Castlegate House Partnership £'000	Terrace Hill Residential PLC £'000	Two Orchards Limited £'000	Total £'000
Revenue	**3,702**	**2,101**	**557**	**11,819**	**—**	**18,179**
(Loss)/profit after taxation	**(496)**	**1,114**	**(2,782)**	**15,561**	**(5,089)**	**8,308**
Total assets	**38,073**	**43,713**	**6,811**	**254,825**	**60,853**	**404,275**
Bank debt	**(21,409)**	**(40,553)**	**(8,302)**	**(206,741)**	**(78,884)**	**(355,889)**
Other liabilities	**(8,222)**	**(4,554)**	**(2,723)**	**(34,970)**	**(5,888)**	**(56,357)**
Total liabilities	**(29,631)**	**(45,107)**	**(11,025)**	**(241,711)**	**(84,772)**	**(412,246)**
Net assets/(liabilities)	**8,442**	**(1,394)**	**(4,214)**	**13,114**	**(23,919)**	**(7,971)**
Opening carrying amount of interest under equity method	**2,000**	**—**	**—**	**147**	**1**	**2,148**
Share of results for period	**—**	**—**	**—**	**7,624**	**—**	**7,624**
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**	**—**	**—**	**6,425**	**1**	**8,426**
Capital commitments	**—**	**—**	**—**	**—**	**—**	**—**

13 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

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

	2010 Achadonn Limited £'000	2009 Achadonn Limited £'000
Revenue	**81**	157
Loss	**(87)**	(143)
Total assets	**14,591**	14,337
Bank debt	**(8,110)**	(8,110)
Other liabilities	**(5,171)**	(4,831)
Total liabilities	**(13,281)**	(12,941)
Net assets	**1,310**	1,396
Share of results for the period	**43**	(72)
Share of net assets	**655**	698

13 INVESTMENTS CONTINUED

AVAILABLE-FOR-SALE INVESTMENTS AND OTHER INVESTMENTS

	Available-for-sale investments £'000	Other investments £'000	Total £'000
VALUATION			
At 1 November 2008	442	109	551
Transfer from associates	—	14	14
Disposals	(442)	—	(442)
Change in fair value	—	24	24
At 1 November 2009	—	147	147
Disposals	—	(24)	(24)
Change in fair value	—	59	59
AT 30 SEPTEMBER 2010	**—**	**182**	**182**

	2010 £'000	2009 £'000
UK unlisted investments at fair value	**30**	59
UK listed investments at fair value	**152**	88
	182	147

At 30 September 2010 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	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 (Awdry) Holdings Limited	100%	Investment holding company

13 INVESTMENTS CONTINUED

Incorporated in the United Kingdom	Proportion of voting rights and ordinary shares held	Nature of business
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 (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 (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 (Property Developments) No 1 Limited formerly 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

14 DEVELOPMENT PROPERTIES

	2010 £'000	2009 £'000
At 1 November 2009	**101,719**	120,488
Additions	**6,170**	17,116
Disposals	**(6,742)**	(13,852)
Amounts written back/(off) the value of development properties	**3,755**	(22,033)
AT 30 SEPTEMBER 2010	**104,902**	101,719
Included in these figures is capitalised interest of	**10,450**	9,536

The reversal in the write down of development properties arises from assessments of the net realisable value of the development properties. No amounts are held in development properties in respect of construction contracts and retentions on such contracts is £Nil.

15 TRADE AND OTHER RECEIVABLES

	2010 £'000	2009 £'000
Trade receivables	**5,229**	801
Other receivables	**8,984**	9,608
Trade and other receivables	**14,213**	10,409
Amounts recoverable under construction contracts	**4,872**	8,000
Prepayments and accrued income	**4,235**	2,289
Share of associates loss (see note 13)	**—**	(1,346)
Amounts due from associates and joint ventures	**27,896**	25,867
Provision for amounts due from associates and joint ventures	**(10,695)**	(8,888)
	40,521	36,331

Included in other receivables and prepayments and accrued income is a balance due from Howick Place JV S.a.r.l. of £4.5 million (2009: £4.3 million) that has a final maturity date of 31 December 2014.

The ageing of trade and other receivables was as follows:

	2010 £'000	2009 £'000
Up to 30 days	**4,169**	305
31 to 60 days	**67**	175
61 to 90 days	**4**	6
Over 90 days	**155**	231
Total	**4,395**	717
Amounts not yet due	**9,818**	9,692
Closing balance	**14,213**	10,409

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 period was as follows:

	2010 £'000	2009 £'000
At 1 November 2009	**10,234**	7,776
Amounts written (back)/off in period	**(1,346)**	—
Increase in allowance on amounts due from associates	**1,807**	2,458
Closing balance	**10,695**	10,234

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

16 TRADE AND OTHER PAYABLES

	2010 £'000	2009 £'000
Trade payables	**1,189**	1,958
Other taxation and social security costs	**427**	702
Accruals and deferred income	**11,609**	10,088
Derivative liabilities	**177**	962
Other payables	**1,238**	4,152
	14,640	**17,862**

17 OTHER PAYABLES (NON-CURRENT)

	2010 £'000	2009 £'000
Other payables	**3,000**	3,370

18 BANK OVERDRAFTS AND LOANS

	2010 £'000	2009 £'000
Bank loans	**92,504**	103,744
Bank overdrafts	**120**	—
	92,624	103,744
Unamortised loan issue costs	**(201)**	(395)
	92,423	103,349
Amounts due:		
Within one year	**56,137**	11,671
After more than one year	**36,286**	91,678
	92,423	103,349

An analysis of interest rates and information on fair value and security is given in note 20.

19 DEFERRED TAX

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

	2010 £'000	2009 £'000
Investment property revaluations	**—**	(275)
Trade losses	**1,588**	(4,335)
Share-based payments	**(83)**	201
Short-term timing differences	**73**	588
	1,578	(3,821)

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

	2010 £'000	2009 £'000
DEFERRED TAX PROVISION		
Other timing differences	**—**	(73)
	—	(73)
DEFERRED TAX ASSET		
Share option scheme	**104**	20
Trade losses	**5,685**	7,419
	5,789	7,439

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.

20 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

	2010 £'000	2009 £'000
CURRENT FINANCIAL ASSETS		
Other investments	**182**	147
Trade and other receivables	**14,213**	10,409
Amounts due from associates and joint ventures	**17,201**	15,633
Cash and cash equivalents	**1,639**	5,290
	33,235	31,479

Financial assets measured at fair value amount to £182,000 (2009: £147,000).

FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

	2010 £'000	2009 £'000
CURRENT FINANCIAL LIABILITIES		
Trade and other payables	**14,036**	14,889
Loans and borrowings	**56,145**	11,673
TOTAL CURRENT FINANCIAL LIABILITIES	**70,181**	26,562
NON-CURRENT FINANCIAL LIABILITIES		
Other payables	**3,000**	3,370
Loans and borrowings	**36,359**	92,071
TOTAL NON-CURRENT FINANCIAL LIABILITIES	**39,359**	95,441
TOTAL FINANCIAL LIABILITIES	**109,540**	122,003

20 FINANCIAL INSTRUMENTS CONTINUED

CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES CONTINUED

FINANCIAL LIABILITIES MEASURED AT AMORTISED COST CONTINUED

The maximum exposure to credit risk in financial assets is £33,053,000 (2009: £31,332,000). The maximum amount due from any single party is £14,948,000 (2009: £14,948,000) included in amounts due from associates and joint ventures. For further information see note 26.

Financial liabilities measured at fair value amount to £177,000 (2009: £962,000) in respect of financial derivatives.

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

INTEREST RATE RISK PROFILE OF FINANCIAL ASSETS AND LIABILITIES

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

	Total £'000	Floating rate financial assets £'000	Fixed rate financial assets £'000	Financial assets on which no interest is earned £'000
Sterling	**33,235**	**1,639**	**3,480**	**28,116**

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

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 £20,795,000 (2009: £40,660,000) subject to interest rate swaps.

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

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.

20 FINANCIAL INSTRUMENTS CONTINUED

BORROWINGS

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

	2010 £'000	2009 £'000
On demand or within one year	**56,265**	11,673
In more than one year but less than two	**26,256**	75,546
In more than two years but less than five	**10,103**	16,525
	92,624	103,744

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

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

BORROWING FACILITIES

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

	2010 £'000	2009 £'000
Expiring in one year or less	**3,176**	2,514
Expiring in more than one year but not more than two	**1,102**	8,825
Expiring in more than two years but not more than five	**—**	977
	4,278	12,316

GUARANTEES

Refer to note 23 for details.

MARKET RATE SENSITIVITY ANALYSIS

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

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

	0.5% decrease in interest rates £'000	0.5% increase in interest rates £'000
Impact on interest payable – gain/(loss)	259	(259)
Impact on interest receivable – (loss)/gain	(20)	20
Total impact on pre-tax loss and equity	239	239

21 CALLED UP SHARE CAPITAL

	2010 £'000	2009 £'000
AUTHORISED:		
500,000,000 (2009: 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 (2009: 211,971,299) ordinary shares of 2 pence each	**4,240**	4,240

22 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 2008	43,208	(609)	849	7,088	(498)	48,769
Total comprehensive income and expense for the year	—	—	—	—	498	(23,517)
Share-based payment	—	—	—	—	—	(718)
Final ordinary dividends	—	—	—	—	—	(1,154)
At 1 November 2009	43,208	(609)	849	7,088	—	23,380
Total comprehensive income and expense for the period	—	—	—	—	—	5,563
Share-based payment	—	—	—	—	—	384
BALANCE AT 30 SEPTEMBER 2010	**43,208**	**(609)**	**849**	**7,088**	**—**	**29,327**

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 statement of comprehensive income.

23 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 £301,000 (2009: £337,000).

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.

The group has provided an interest shortfall guarantee of £3.0 million to a bank as part of its investment in Two Orchards Limited, an associated company. The bank loan to this company has expired and the borrowers are negotiating with the lender the terms of a revised loan. The directors believe that the interest shortfall guarantee will not be called in full and a provision of £1.0 million has been included in accruals and deferred income.

Capital commitments relating to development sites are as follows:

	2010 £'000	2009 £'000
Contracted but not provided for	**2,135**	3,349

24 SHARE-BASED PAYMENTS

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

Options are granted over the company's shares that are capable of vesting on the third anniversary of issue dependent on certain performance conditions having been met. During the period ended 30 September 2010, options over 12,912,963 shares were awarded to participating staff. The performance conditions attached to these awards are as follows (relating to the three year period ending 30 September 2012):

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

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

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

	2010			2009		
	Value of award at date of grant	**Share price for grant**	**Number of share awards granted**	Value of award at date of grant	Share price for grant	Number of share awards granted
Awards outstanding at the start of the period			**3,550,807**			11,343,375
19 April 2010	**12.46p–19.26p**	**20.25p**	**12,912,963**	–	–	–
Awards granted in the period			**12,912,963**			–
Awards lapsed in the period			**—**			(7,792,568)
AWARDS OUTSTANDING AT THE END OF THE PERIOD			**16,463,770**			3,550,807

Of the 3,550,807 awards outstanding at 31 October 2009, 594,059 have vested in the period and the balance has lapsed since 31 October 2010.

The fair value of shares awarded is calculated by using a stochastic pricing model involving six variables – share price, exercise price, expected term, expected dividend yield, expected volatility and risk free interest rate. This value is charged to the Statement of comprehensive income over the vesting period. The charge to the Statement of comprehensive income was £384,000 (2009: credit £718,000).

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

On 30 September 2010 the Trust held 1,020,000 (2009: 1,020,000) ordinary 2 pence shares in Terrace Hill Group PLC at a cost of £609,000. On that date awards over 16,463,770 (2009: 3,550,807) ordinary 2 pence shares in Terrace Hill Group PLC had been made under the share-based payment plan.

25 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 2010 £'000	Land and buildings 2009 £'000
In one year or less	**1,338**	1,374
Between two and five years	**5,341**	5,351
In five years or more	**6,736**	7,951
	13,415	14,676

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 2010 £'000	Land and buildings 2009 £'000
In one year or less	**3,927**	3,784
Between two and five years	**11,358**	14,589
In five years or more	**13,418**	11,964
	28,703	30,337

26 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:

	2010 £'000	2009 £'000
Terrace Hill Development Partnership	**—**	88
Castlegate House Partnership	**17**	18
Terrace Hill Residential PLC	**74**	300
Devcap 2 Partnership	**25**	26
Howick Place Office S.a.r.l.	**—**	276
Two Orchards Limited	**4**	423
Achadonn Limited	**37**	40
Included in interest receivable for the period are amounts charged to the following partnerships and associates:		
Devcap 2 Partnership	**11**	4
Howick Place Office S.a.r.l.	**255**	278
Achadonn Limited	**47**	53

26 RELATED PARTY TRANSACTIONS CONTINUED

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

	2010 £'000	2009 £'000
Castlegate House Partnership	**678**	678
Terrace Hill Residential PLC	**14,948**	14,948
Devcap 2 Partnership	**5,017**	3,210
Two Orchards Limited	**5,000**	5,000
Achadonn Limited	**2,253**	2,031

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

The relationship with the partnerships is disclosed in note 13.

TERRACE HILL RESIDENTIAL PLC

As stated in note 13 the group has accounted for its 49% share of Terrace Hill Residential PLC as an associate company. Of the other 51% shareholding in that company, 49% is held by the Skye Investments group and 2% by R F M Adair. Skye Investments Limited is a company ultimately owned by family trusts for the benefit of R F M Adair and family. As part of the security arrangements for the financing of a residential investment property portfolio by Terrace Hill Residential PLC, Skye has given a guarantee for £20.0 million. Skye and R F M Adair also advanced to Terrace Hill Residential PLC £15.8 million (2009: £15.8 million) by way of shareholder loans to assist in the funding of the acquisition and the ongoing working capital requirements of the associate.

27 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 30 SEPTEMBER 2010

	Notes	30 September 2010 £'000	31 October 2009 £'000
FIXED ASSETS			
Investments	4	**22,268**	22,360
CURRENT ASSETS			
Debtors due within one year	5	**76,869**	97,177
Cash at bank and in hand		**43**	87
		76,912	97,264
CREDITORS: amounts falling due within one year	6	**(28,761)**	(38,418)
NET CURRENT ASSETS		**48,151**	58,846
TOTAL ASSETS LESS CURRENT LIABILITIES		**70,419**	81,206
CAPITAL AND RESERVES			
Called up share capital	9	**4,240**	4,240
Share premium account	10	**43,208**	43,208
Share scheme reserves	10	**457**	73
Own shares	10	**(609)**	(609)
Investment revaluation reserve	10	**96**	50
Capital redemption reserve	10	**849**	849
Merger reserve	10	**14,688**	14,688
Profit and loss account	10	**7,490**	18,707
SHAREHOLDERS' FUNDS		**70,419**	81,206

The financial statements on pages 55 to 59 were approved by the board and authorised for issue on 8 December 2010 and were signed on its behalf by:

P A J Leech
Director

J M Austen
Director

The notes on pages 56 to 59 form part of these financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2010

1 ACCOUNTING POLICIES

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

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

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

SHARE-BASED PAYMENTS
The cost of granting share awards under the performance share plan and the other share-based remuneration to directors and other employees is recognised through the profit and loss account. The value of shares awarded is calculated by 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 profit for the year includes a loss after tax of £11,217,000 (2009: £13,499,000 profit) which is dealt with in the financial statements of the parent company.

3 DIRECTORS' REMUNERATION

Directors' remuneration is disclosed in the Remuneration report. Details of share-based payments and awards outstanding are shown in note 24 to the consolidated financial statements.

4 INVESTMENTS

Company	Subsidiary undertakings £'000	Other investments £'000	Total £'000
COST OR VALUATION:			
At 1 November 2009	24,468	250	24,718
Additions	2,500	—	2,500
Disposals	—	(16)	(16)
Amounts written off	—	(150)	(150)
Capital contribution on share scheme options to employees of subsidiaries	384	—	384
Gain on revaluation	—	46	46
AT 30 SEPTEMBER 2010	**27,352**	**130**	**27,482**
Cost	27,352	—	27,352
Valuation	—	130	130
	27,352	**130**	**27,482**
AMOUNTS WRITTEN OFF:			
At 1 November 2009	2,208	150	2,358
Written off during the period	3,006	—	3,006
Released during the period	—	(150)	(150)
AT 30 SEPTEMBER 2010	**5,214**	**—**	**5,214**
NET BOOK VALUE:			
AT 30 SEPTEMBER 2010	**22,138**	**130**	**22,268**
At 31 October 2009	22,260	100	22,360

On a historical cost basis other investments would have been included at a net book value of £34,000 (2009: £48,000).

A list of group subsidiaries is shown in note 13 of the consolidated financial statements.

5 DEBTORS

	2010 £'000	2009 £'000
Amounts due within one year:		
Trade debtors	**431**	105
Prepayments and accrued income	**307**	217
Amounts due from subsidiaries	**75,968**	96,574
Other debtors	**163**	281
	76,869	97,177

6 CREDITORS

	2010 £'000	2009 £'000
Amounts due within one year:		
Trade creditors	**577**	84
Accruals and deferred income	**678**	537
Amounts due to subsidiaries	**27,359**	37,601
Other creditors	**147**	196
	28,761	38,418

7 RELATED PARTY TRANSACTIONS

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

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:

	2010 £'000	2009 £'000
At 1 November 2009:	**20**	221
Credited/(charged) to the profit and loss account	**83**	(201)
AT 30 SEPTEMBER 2010	**103**	20

9 CALLED UP SHARE CAPITAL

	2010 £'000	2009 £'000
AUTHORISED:		
500,000,000 (2009: 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 (2009: 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 2008	791	43,208	53	(609)	849	14,688	6,347
Profit for the year	—	—	—	—	—	—	13,499
Share based credit	(718)	—	—	—	—	—	—
Final ordinary dividends	—	—	—	—	—	—	(1,139)
Deficit on revaluation of investments	—	—	(3)	—	—	—	—
At 1 November 2009	73	43,208	50	(609)	849	14,688	18,707
Loss for the period	—	—	—	—	—	—	(11,217)
Share based payment	384	—	—	—	—	—	—
Gain on revaluation of investments	—	—	46	—	—	—	—
AT 30 SEPTEMBER 2010	**457**	**43,208**	**96**	**(609)**	**849**	**14,688**	**7,490**

Details of own shares held by the Employee Benefit Trust are shown in note 24 to the consolidated financial statements.

11 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2010 £'000	2009 £'000
(Loss)/profit for the financial period	**(11,217)**	13,499
Equity dividends paid	**—**	(1,139)
Gain/(deficit) on revaluation of investments	**46**	(3)
Share based payment/(credit)	**384**	(718)
Net increase/(reduction) to shareholders' funds	**(10,787)**	11,639
Opening shareholders' funds	**81,206**	69,567
Closing shareholders' funds	**70,419**	81,206

12 FINANCIAL COMMITMENTS

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

	Land and buildings 2010 £'000	Land and buildings 2009 £'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

13 CONTINGENT LIABILITIES AND GUARANTEES

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.

14 CONTROLLING PARTY

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

SUMMARY FIVE-YEAR FINANCIAL HISTORY

		IFRS				
	Unit	**Eleven months ended 30 September 2010**	Year ended 31 October 2009	Year ended 31 October 2008	Year ended 31 October 2007	Year ended 31 October 2006
Revenue	£'000	**30,747**	29,065	63,366	68,849	80,493
Profit/(loss) before tax	£'000	**8,377**	(26,680)	(31,602)	18,138	25,832
Tax	£'000	**(2,818)**	3,135	4,327	(3,577)	(1,551)
Profit/(loss) after tax	£'000	**5,559**	(23,545)	(27,275)	14,561	24,281
Dividends per share	pence	—	—	1.34	1.90	1.40
Basic earnings per share	pence	**2.64**	(11.15)	(12.90)	7.33	12.97
Diluted earnings per share	pence	**2.64**	(11.15)	(12.90)	7.09	12.78
EPRA triple net assets	pence	**44.73**	40.84	53.39	83.72	73.63
Ordinary shares in issue	number	**211,971,299**	211,971,299	211,971,299	211,971,299	187,218,824
Ordinary shares – mid market at 30 September/31 October	pence	**18.25**	17.00	24.00	71.50	80.00

The financial information shown above for the years 2006 to 2010 was prepared under IFRS. Dividends per share comprise the interim dividend paid in the year plus the final dividend in respect of the year paid after the year end.

FINANCIAL CALENDAR

Annual General Meeting	1 March 2011
Half year results	June 2011
Full year results	December 2011

SHAREHOLDER INFORMATION

SHAREHOLDER ANALYSIS AS AT 30 SEPTEMBER 2010

Size of holding	Number	Number of shares	%
1–1,000	129	59,064	0.03
1,001–10,000	673	3,457,512	1.63
10,001–100,000	560	15,651,727	7.38
100,001–1,000,000	46	14,328,302	6.76
1,000,001 and over	16	178,474,694	84.2
	1,424	211,971,299	100

LONDON STOCK EXCHANGE

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

SHARE PRICE (PENCE PER ORDINARY SHARE)

1 November 2009	17.00
30 September 2010	18.25

WEBSITE

www.terracehill.co.uk

OUR HIGHLY EXPERIENCED TEAMS DRAWING ON DETAILED KNOWLEDGE FROM OUR REGIONAL OFFICES ARE ACCOUNTABLE FOR THE DAY TO DAY CONTROL OF ALL ASPECTS OF EACH DEVELOPMENT

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FSC

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