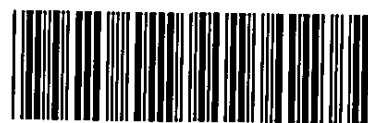


COMPANY REGISTRATION NUMBER SC300621

**TERRACE HILL LETTINGS
FINANCIAL STATEMENTS
30 SEPTEMBER 2013**

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TERRACE HILL LETTINGS
FINANCIAL STATEMENTS
YEAR ENDED 30 SEPTEMBER 2013

CONTENTS	PAGES
Officers and professional advisers	1
Directors' report	2 to 3
Independent auditor's report to the members	4 to 5
Profit and loss account	6
Balance sheet	7
Notes to the financial statements	8 to 12

TERRACE HILL LETTINGS
OFFICERS AND PROFESSIONAL ADVISERS

The board of directors

J M Austen
R F M Adair
A D Pinto

Company secretary

Terrace Hill (Secretaries) Limited

Registered office

24 Great King Street
Edinburgh
EH3 6QN

Auditor

BDO LLP
Statutory Auditor
55 Baker Street
London
W1U 7EU

TERRACE HILL LETTINGS
DIRECTORS' REPORT
YEAR ENDED 30 SEPTEMBER 2013

The directors present their report and the financial statements of the company for the year ended 30 September 2013.

PRINCIPAL ACTIVITIES

The company disposed of its entire investment property portfolio during the year and has ceased to trade. As the directors intend to liquidate the company they have not prepared the financial statements on a going concern basis.

DIRECTORS

The directors who served the company during the year were as follows:

J M Austen
M A Kelly
R F M Adair
A D Pinto
T G Walsh

M A Kelly resigned as a director on 28 June 2013.

T G Walsh resigned as a director on 1 July 2013.

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' 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 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 company and of the profit or loss of the company for that year.

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 applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business. As explained in note 1 to the financial statements, the directors do not believe the going concern basis to be appropriate and, in consequence, these financial statements have not been prepared on that basis.

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 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.

AUDITOR

BDO LLP are deemed to be re-appointed under section 487(2) of the Companies Act 2006.

TERRACE HILL LETTINGS

DIRECTORS' REPORT *(continued)*

YEAR ENDED 30 SEPTEMBER 2013

Each of the persons who is a director at the date of approval of this report confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- each director has taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

SMALL COMPANY PROVISIONS

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption.

Registered office:
24 Great King Street
Edinburgh
EH3 6QN

Signed on behalf of the directors



JM Austen

Director

Approved by the directors on 28 March 2014

TERRACE HILL LETTINGS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TERRACE HILL LETTINGS

YEAR ENDED 30 SEPTEMBER 2013

We have audited the financial statements of Terrace Hill Lettings for the year ended 30 September 2013 which comprise the Profit and Loss Account, Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). As described in note 1, the financial statements have not been prepared on a going concern basis.

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2013 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which explains that the financial statements have not been prepared on a going concern basis.

OPINION ON OTHER MATTER 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.

TERRACE HILL LETTINGS

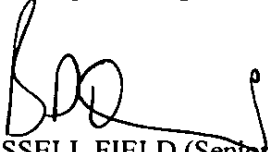
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TERRACE HILL LETTINGS *(continued)*

YEAR ENDED 30 SEPTEMBER 2013

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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; or
- the directors were not entitled to prepare the directors' report in accordance with the small companies regime and from the requirement to prepare a strategic report.



RUSSELL FIELD (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
55 Baker Street
London
W1U 7EU

28 March 2014

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

TERRACE HILL LETTINGS
PROFIT AND LOSS ACCOUNT
YEAR ENDED 30 SEPTEMBER 2013

	Note	2013 £	2012 £
TURNOVER	2	306,390	1,472,415
Cost of sales		<u>109,603</u>	<u>520,324</u>
GROSS PROFIT		196,787	952,091
Administrative expenses		<u>14,954,445</u>	<u>(159,251)</u>
OPERATING (LOSS)/PROFIT	3	(14,757,658)	1,111,342
Profit/(loss) on revaluation of investment property		<u>—</u>	<u>(374,916)</u>
		(14,757,658)	736,426
Interest receivable	5	181	477
Interest payable and similar charges	6	(275,156)	(1,068,150)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(15,032,633)	(331,247)
Tax on loss on ordinary activities	7	—	—
LOSS FOR THE FINANCIAL YEAR		(15,032,633)	(331,247)

All the activities of the company are classed as discontinuing.

The company has no recognised gains or losses other than the results for the year as set out above.

The notes on pages 8 to 12 form part of these financial statements.

TERRACE HILL LETTINGS

BALANCE SHEET

30 SEPTEMBER 2013

	Note	2013 £	2012 £
FIXED ASSETS			
Tangible assets	8	—	11,033,338
CURRENT ASSETS			
Debtors	9	1	309,453
Cash at bank		579	3,775,440
		580	4,084,893
CREDITORS: Amounts falling due within one year	10	—	85,018
NET CURRENT ASSETS		580	3,999,875
TOTAL ASSETS LESS CURRENT LIABILITIES		580	15,033,213
CAPITAL AND RESERVES			
Called-up equity share capital	13	10,000	10,000
Share premium account	14	17,965,635	17,965,635
Profit and loss account	14	(17,975,055)	(2,942,422)
SHAREHOLDER'S FUNDS	15	580	15,033,213

These accounts were approved by the directors and authorised for issue on 28 March 2014, and are signed on their behalf by:



JM Austen

Director

Company Registration Number: SC300621

The notes on pages 8 to 12 form part of these financial statements.

TERRACE HILL LETTINGS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 SEPTEMBER 2013

1. ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared under the historical cost convention, subject to the departures referred to below.

As required by FRS 18.21 and as permitted by SI 2008/420 Schedule 1(10) (2), the directors have prepared the financial statements on the basis that the company is no longer a going concern.

As at 30 September 2013 the directors had disposed of its entire investment portfolio and intend to liquidate the company. Therefore the directors have not prepared the financial statements on a going concern basis. There is no effect on the profit and loss account or the balance sheet by adopting this approach.

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes a consolidated cash flow statement.

Turnover

The turnover shown in the profit and loss account represents rental income which is recognised on a straight line basis over the term of the lease.

Investment properties

Investment properties are accounted for in accordance with SSAP 19, as follows:

(i) investment properties are revalued annually. The surplus or deficit on revaluation is transferred to the revaluation reserve unless a deficit below original cost, or its reversal, on an individual investment property is expected to be permanent, in which case it is recognised in the profit and loss account for the year; and

(ii) no depreciation is provided in respect of leasehold properties where the lease has over 20 years to run.

Although the Companies act would normally require systematic annual depreciation of fixed assets, the directors believe that the policy of not providing depreciation is necessary in order for the accounts to give a true and fair view, since the current value for investment properties, and changes to that current value, are of prime importance rather than a calculation of systematic annual depreciation. Depreciation is only one of the many factors reflected in the annual valuation, and the amount which might otherwise have been included cannot be separately identified or quantified.

Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

TERRACE HILL LETTINGS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 SEPTEMBER 2013

2. TURNOVER

An analysis of turnover is given below:

	2013 £	2012 £
United Kingdom	<u>306,390</u>	<u>1,472,415</u>

3. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after charging/(crediting):

	2013 £	2012 £
Directors' remuneration	—	—
Loss/(Profit) on disposal of fixed assets	<u>355,601</u>	<u>(183,499)</u>

Auditor's remuneration is paid by the parent company.

Included in administrative expenses is a provision against intercompany loans of £14,626,543.

4. PARTICULARS OF EMPLOYEES

There were no employees other than the directors, during the year.

5. INTEREST RECEIVABLE

	2013 £	2012 £
Other interest receivable	<u>181</u>	<u>477</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2013 £	2012 £
Interest payable on bank borrowing	199,903	861,765
Other similar charges payable	<u>75,253</u>	<u>206,385</u>
	<u>275,156</u>	<u>1,068,150</u>

TERRACE HILL LETTINGS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 SEPTEMBER 2013

7. TAXATION ON ORDINARY ACTIVITIES

Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 23.50% (2012 - 25%).

	2013 £	2012 £
Loss on ordinary activities before taxation	(15,032,633)	(331,247)
Loss on ordinary activities by rate of tax	(3,532,669)	(82,812)
Expenses not deductible for tax purposes	3,437,238	-
Losses carried forward	-	34,958
Revaluation of investment properties	-	93,729
(Gain)/loss on sale of assets	83,565	(45,875)
Losses carried forward	11,866	-
Total current tax	-	-

8. TANGIBLE FIXED ASSETS

	Freehold Property £	Leasehold Property £	Total £
COST			
At 1 October 2012	346,875	10,686,463	11,033,338
Disposals	(346,875)	(10,686,463)	(11,033,338)
At 30 September 2013	-	-	-
NET BOOK VALUE			
At 30 September 2013	-	-	-
At 30 September 2012	346,875	10,686,463	11,033,338

On a historical cost basis the net book value of the company's investment properties is £Nil (2012: £18,417,824).

9. DEBTORS

	2013 £	2012 £
Trade debtors	-	45,919
Amounts owed by group undertakings	-	258,569
Other debtors	1	1
Prepayments and accrued income	-	4,964
	<u>1</u>	<u>309,453</u>

All amounts shown under debtors fall due for payment within one year.

TERRACE HILL LETTINGS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 SEPTEMBER 2013

10. CREDITORS: Amounts falling due within one year

	2013	2012
	£	£
Trade creditors	–	77,973
Accruals and deferred income	–	7,045
	<u>–</u>	<u>85,018</u>

11. CONTINGENCIES

The company entered into a stamp duty land tax (SDLT) saving scheme on the acquisition of its property portfolio in 2006. HMRC have not agreed that this was a valid arrangement and have been in discussion with the company since then. In 2012, HMRC successfully litigated in a similar SDLT structuring case and while the directors are confident that the company's SDLT saving scheme is effective, the risks have increased that HMRC will continue to challenge the company's scheme. The SDLT at stake is £9.66 million, plus interest.

12. RELATED PARTY TRANSACTIONS

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

13. SHARE CAPITAL

Allotted, called up and fully paid:

	2013		2012	
	No	£	No	£
Ordinary shares of 1 each of £1 each	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>

14. RESERVES

	Share premium account £	Profit and loss account £
Balance brought forward	17,965,635	(2,942,422)
Loss for the year	–	(15,032,633)
Balance carried forward	<u>17,965,635</u>	<u>(17,975,055)</u>

15. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2013	2012
	£	£
Loss for the financial year	(15,032,633)	(331,247)
Opening shareholders' funds	<u>15,033,213</u>	15,364,460
Closing shareholders' funds	<u>580</u>	<u>15,033,213</u>

TERRACE HILL LETTINGS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 SEPTEMBER 2013

16. ULTIMATE PARENT COMPANY

The ultimate parent company is Terrace Hill Residential plc, which is registered in Scotland.

Copies of the consolidated financial statements of Terrace Hill Residential plc are available from the company's registered office.