

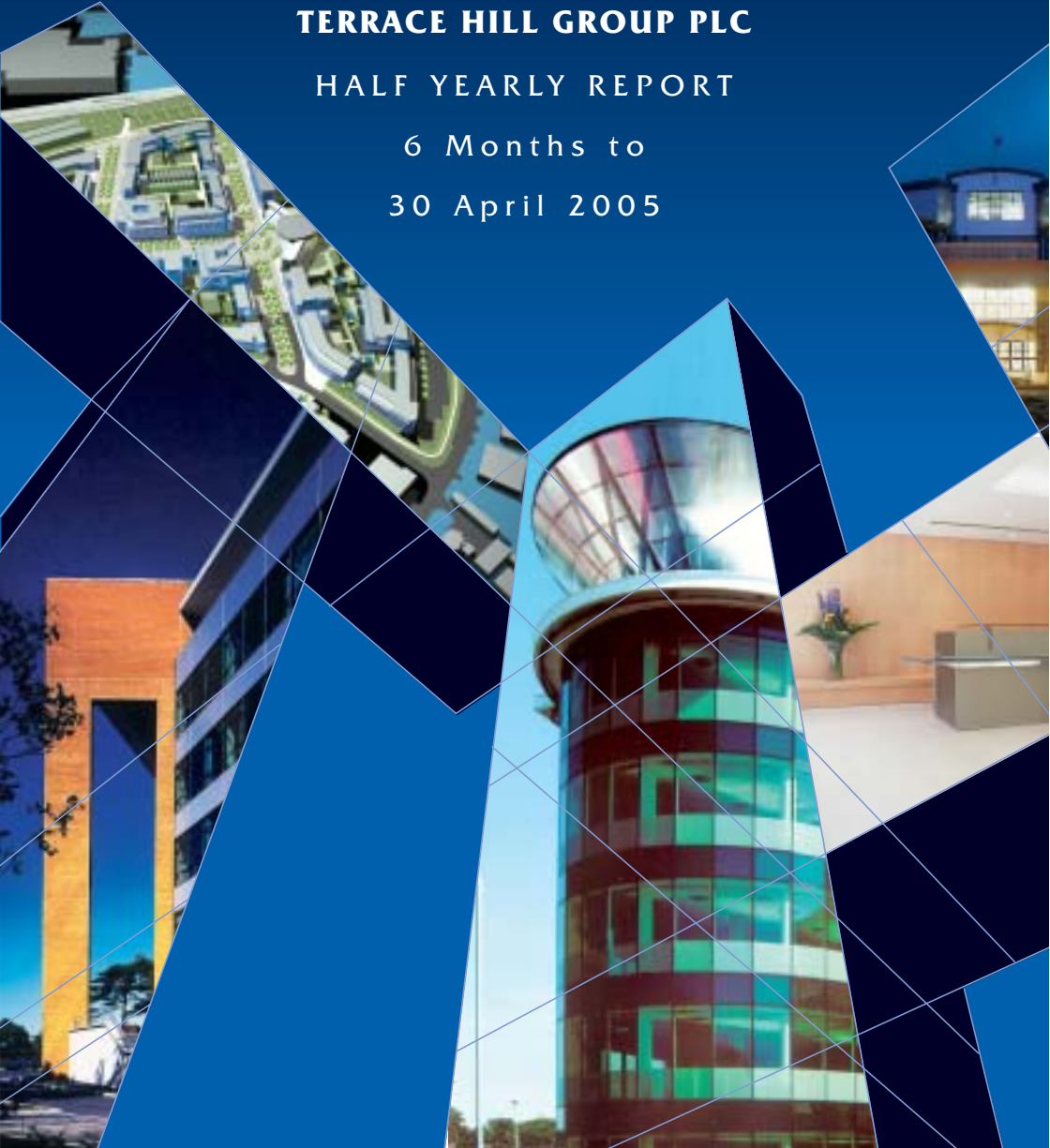


**TERRACE
HILL**

TERRACE HILL GROUP PLC

HALF YEARLY REPORT

**6 Months to
30 April 2005**





London office

Terrace Hill Group PLC was created by the merger of CapitalTech PLC and the Westview Group, whose principal operating subsidiary is Terrace Hill Limited. The Group's shares are traded on the alternative investment market (AIM) of the London Stock Exchange.

Terrace Hill Limited was formed in 1986 and is now well established as a successful UK property development company with offices in London, the North East and the South West.

In addition, the Group holds a substantial residential property portfolio located primarily in Scotland and the North.

Terrace Hill Group PLC is registered in Scotland.
Registration No. SC149799.

Terrace Hill is online at **www.terracehill.co.uk**

CHAIRMAN'S STATEMENT

I am pleased to present the Group's Unaudited Accounts for the six months to 30 April 2005 and my Report on that half year where Triple Net Asset Value has shown an encouraging 10% increase to 44.02p per share in the period. We have continued to make excellent progress with our commercial development programme, acquiring a number of new sites, obtaining favourable planning consents, letting and disposing of several mature assets.

Two office buildings, which we held in our books as investments for the long term in anticipation of rental growth, have been sold at a keen price due to the strong demand from investors. At 11 Berkeley Street, our joint venture office refurbishment in Mayfair, we sold the investment to clients of ING for £13.7 million at a yield of 5.37%. Following the letting of our joint venture office development UBI in Uxbridge to Hertz Corporation, investor demand was so strong that we decided to sell the building, selling to NFU (pension fund) for £25.2 million at a yield of 5.68%.

New office and industrial development sites in London and the South East are also under offer or in solicitors hands which will help to strengthen our ongoing development programme and expand our land bank.

Substantial interest has also been shown in the investment sale of our completed joint venture development at 16 Berkeley Street. Further office and industrial units were sold to owner occupiers in new phases of our schemes in Guildford and Tunbridge Wells, showing continued strong demand in this sector. We are looking to commence similar developments at our sites near Farnborough and Wokingham.

In the regions we have continued to make good progress with healthy levels of occupier demand for our new developments. In the North East final preparations are underway for the construction of our 83,000 sq. ft. office development at Gallowgate in Newcastle, where we are already seeing considerable tenant interest.

At Manhattan Gate in Middlehaven, Middlesbrough's 50 acre flagship regeneration project, our first joint venture development is nearing completion with good tenant interest being shown. At Baltic Business Quarter infrastructure works on the first phase are nearing completion. We have recently received planning consents for retail warehouse use on our sites in Blyth and Bishop Auckland totalling 116,000 sq. ft. and are now arranging pre-lets prior to commencement on site. In Galashiels, we anticipate obtaining an open A1 retail consent for 45,000 sq. ft. this summer.

In the South West and South Wales our developments have progressed well with Templar House, our 90,000 sq. ft. office development in Bristol City Centre, under offer to an owner occupier. In Swansea, the Welsh Development Agency has pre-let the whole of Cyprium, our 40,000 sq. ft. office development on the Swansea waterfront. We have also been selected by the WDA to develop the next phase of offices in the same area.

The residential division continued to focus on its core holdings in Scotland, Newcastle and Manchester disposing of 48 flats and houses in the six months. There remain 371 units in the investment portfolio. The Glasgow Green development is progressing smoothly. Further land has been added improving access at Shotts in Lanarkshire, where a planning application for residential development will be made shortly.

Triple Net Asset Value

Our proforma Triple Net Asset Value ("TNAV") per share at 30 April 2005 was 44.02p up from 39.99p at October 2004, an increase of 10.08%. The principal adjustments we make in arriving at a TNAV are to revalue current work-in-progress and to allow for tax that would be payable were we to realise our assets at the revalued amounts. TNAV is the principal means by which we measure our performance.

Our Net Asset Value, after allowing for minority interests, has risen from £70.84 million to £74.25 million, an

CHAIRMAN'S STATEMENT *continued*

increase of £3.41 million. Net Asset Value per share was up from 38.12p at 31 October 2004 to 39.66p at 30 April 2005.

Balance Sheet at 30 April 2005

Total Group assets at 30 April 2005 were £175.3 million compared to £180.6 million at 31 October 2004, and net assets, after minority interest, were £74.2 million (31 October 2004: £70.8 million) an increase of £3.4 million.

Bank debt of £80.0 million net of £8.7 million cash stood at 107% of equity (31 October 2004: 81.6%). Properties held as investments were £76.4 million (£36.7 million residential and £39.7 million commercial) compared to £91.1 million at October 2004. Work in progress at £67.8 million (£63.9 million commercial and £3.9 million residential) is up from £55.7 million in October 2004.

Profit & Loss Account

Profit before and after tax for the period was £386,534 (6 months to April 2004: £776,000). Operating profit, at £1.186 million, (6 months to April 2004: £2.082 million) reflected fewer development disposals in the period. The timing of sales of developments impacts on realisation of profit.

Corporate Acquisitions

As announced on 19 April 2005 we acquired the minority interest in Terrace Hill North East Limited from our Managing Director Philip Leech at a cost of £1.1 million with 50% payable in cash and 50% in shares. A subsidiary SERAH Properties plc ("SERAH") acquired and cancelled 95,400 of its own ordinary shares at a cost of £74,787 and as a result the Group's interest in the share capital of SERAH has increased to 86.69%.

Dividend

The Directors have decided to pay an interim dividend in respect of the half year under review of 0.5p per share (half year to 30 April 2004: 0.3p). This will be paid on 26 August 2005 to shareholders on the Register at 12 August 2005. This dividend increase reflects our progressive dividend policy and our confidence in the future.

The Future

We have strengthened our professional team with the appointment of new development surveyors and project coordinators in London and the South West, who are helping to manage our existing development programme and to add to our land bank through judicious acquisitions of new opportunities.

We have also appointed an experienced fund manager from Morley who will be joining us in September with a remit to help create an asset management and co-investment business to augment our existing development activities leveraging off the strong Terrace Hill brand. I continue to be extremely encouraged by the expansion of our development programme and the underlying strengths of the occupier and investment markets in our specialist sectors. Currently, we are working on an institutional development fund which will considerably assist the build up of our development programme.

I believe we will show a further good growth in Triple Net Asset value over the rest of the year and beyond.

Robert F M Adair
Chairman

7 July 2005

UNAUDITED CONSOLIDATED PROFIT & LOSS ACCOUNT

	<i>6 months to 30 Apr 05 £000 (unaudited)</i>	<i>Year to 31 Oct 04 £000 (audited)</i>	<i>6 months to 30 Apr 04 £000 (unaudited)</i>
TURNOVER			
Group and share of joint venture	11,924	27,495	9,290
Less: share of joint venture turnover	(1,256)	(4)	–
	<hr/>	<hr/>	<hr/>
Group turnover: continuing operations	10,668	27,491	9,290
	<hr/>	<hr/>	<hr/>
GROUP OPERATING PROFIT			
Continuing operations	927	5,302	2,082
Share of joint venture operating profit/(loss)	259	(43)	–
	<hr/>	<hr/>	<hr/>
TOTAL OPERATING PROFIT	1,186	5,259	2,082
Continuing operations:			
Amounts written off unlisted investments	–	(144)	4
(Loss)/gain on disposal of fixed asset investments	(1)	1	–
Net gain on disposal of investment property	997	3,252	456
Permanent diminution in value of an investment property	–	(279)	–
Discontinued operations:			
(Loss)/gain on liquidation of former subsidiary	(123)	143	143
	<hr/>	<hr/>	<hr/>
Net interest payable	(1,672)	(4,148)	(1,909)
	<hr/>	<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	387	4,084	776
Taxation credit	–	3	–
	<hr/>	<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES AFTER TAX	387	4,087	776
Minority interest	5	(256)	(71)
	<hr/>	<hr/>	<hr/>
PROFIT ATTRIBUTABLE TO MEMBERS OF PARENT COMPANY	392	3,831	705
Dividends	(936)	(1,487)	(561)
	<hr/>	<hr/>	<hr/>
TRANSFER TO RESERVES	(544)	2,344	144
	<hr/>	<hr/>	<hr/>
Basic and diluted earnings per share	0.211p	2.238p	0.453p
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UNAUDITED SUMMARISED CONSOLIDATED BALANCE SHEET

	30 Apr 05 £000 (unaudited)	31 Oct 04 £000 (audited)	30 Apr 04 £000 (unaudited)
FIXED ASSETS			
Intangible assets			
Positive goodwill	3,079	2,468	2,586
Negative goodwill	(1,864)	(1,921)	(2,857)
	<u>1,215</u>	<u>547</u>	<u>(271)</u>
Tangible assets			
Investment properties	76,414	91,165	103,306
Other tangible assets	186	216	206
	<u>76,600</u>	<u>91,381</u>	<u>103,512</u>
Investments			
Joint venture – share of gross assets	3,573	4,033	–
Joint venture – share of gross liabilities	(3,243)	(3,940)	–
	<u>330</u>	<u>93</u>	<u>–</u>
Investments in associates	–	–	528
Other fixed asset investments	123	446	101
	<u>453</u>	<u>539</u>	<u>629</u>
	<u>78,268</u>	<u>92,467</u>	<u>103,870</u>
CURRENT ASSETS			
Work in progress	67,752	55,687	21,972
Debtors	20,601	14,627	24,491
Cash at bank and in hand	8,700	17,801	5,696
	<u>97,053</u>	<u>88,115</u>	<u>52,159</u>
CREDITORS: amounts falling due within one year			
Borrowings	(19,454)	(30,928)	(27,260)
Other creditors	(10,660)	(33,295)	(8,263)
	<u>(30,114)</u>	<u>(64,223)</u>	<u>(35,523)</u>
NET CURRENT ASSETS	<u>66,939</u>	<u>23,892</u>	<u>16,636</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	145,207	116,359	120,506
CREDITORS: amounts falling due after more than one year	(70,487)	(44,672)	(51,482)
PROVISIONS FOR LIABILITIES AND CHARGES	(122)	(122)	(477)
NET ASSETS	<u>74,598</u>	<u>71,565</u>	<u>68,547</u>
CAPITAL AND RESERVES			
Called up share capital	3,716	3,716	3,737
Shares to be issued	558	–	–
Share premium account	19,369	19,369	19,369
Revaluation reserve	21,332	21,492	21,170
Capital redemption reserve	849	849	821
Merger reserve	7,875	8,115	8,686
Profit and loss account	20,550	17,300	11,735
	<u>74,249</u>	<u>70,841</u>	<u>65,518</u>
EQUITY SHAREHOLDERS FUNDS	<u>74,249</u>	<u>70,841</u>	<u>65,518</u>
MINORITY INTERESTS	349	724	3,029
	<u>74,598</u>	<u>71,565</u>	<u>68,547</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	<i>6 months to</i> 30 Apr 05 £000 (unaudited)	<i>Year to</i> 31 Oct 04 £000 (audited)	<i>6 months to</i> 30 Apr 04 £000 (unaudited)
Profit attributable to members of the parent company excluding share of profit/(loss) of joint venture company	155	3,888	705
Share of joint venture profit/(loss) for period	237	(57)	–
	<hr/>	<hr/>	<hr/>
Profit attributable to members of the parent company	392	3,831	705
Unrealised surplus on revaluation of properties	3,391	13,161	9,737
Unrealised surplus on revaluation of unlisted investments	3	11	11
	<hr/>	<hr/>	<hr/>
Total recognised gains and losses relating to period	3,786	17,003	10,453

GROUP STATEMENT OF CASH FLOWS

	<i>6 months to</i> 30 Apr 05 £000 (unaudited)	<i>Year to</i> 31 Oct 04 £000 (audited)	<i>6 months to</i> 30 Apr 04 £000 (unaudited)
Cash (outflow) from operating activities	(50,788)	(7,086)	(7,042)
Returns on investments and servicing of finance	(1,806)	(3,987)	(1,965)
Taxation	(769)	(7)	–
Capital expenditure and financial investment	32,363	20,306	8,162
Acquisitions and disposals	(216)	(9,682)	(8,002)
Equity dividends paid	(929)	(788)	(231)
	<hr/>	<hr/>	<hr/>
Cash (outflow) before liquid resources and financing	(22,145)	(1,244)	(9,078)
Financing	13,168	5,093	2,231
	<hr/>	<hr/>	<hr/>
(Decrease)/increase in cash	(8,977)	3,849	(6,847)

Reconciliation of group operating profit to net cash (outflow) from operating activities

	£000	£000	£000
Operating profit	927	5,302	2,082
Depreciation	47	81	17
Loss on sale of other tangible fixed assets	12	–	–
Positive goodwill amortisation and impairment losses	69	169	81
(Increase) in stock	(22,854)	(36,758)	(3,136)
(Increase)/decrease in debtors	(7,925)	1,805	(4,306)
(Decrease)/increase in creditors	(21,064)	22,315	(1,780)
	<hr/>	<hr/>	<hr/>
Net cash (outflow) from operating activities	(50,788)	(7,086)	(7,042)

GROUP RECONCILIATION OF SHAREHOLDERS' FUNDS

	<i>6 months to 30 Apr 05 £000 (unaudited)</i>	<i>Year to 31 Oct 04 £000 (audited)</i>	<i>6 months to 30 Apr 04 £000 (unaudited)</i>
Total recognised gains and losses	3,786	17,003	10,453
New shares issued	–	665	657
Shares to be issued	558	(193)	(193)
Share premium arising on new shares issued	–	7,546	7,546
Merger reserve arising on new shares issued	–	1,184	1,084
Purchase of ordinary shares	–	(409)	–
Dividend paid to ordinary shareholders	(936)	(1,487)	(561)
Total movements during the year	<u>3,408</u>	<u>24,309</u>	<u>18,986</u>
Opening shareholders' funds	70,841	46,532	46,532
Closing shareholders' funds	<u>74,249</u>	<u>70,841</u>	<u>65,518</u>

NOTES

BASIS OF PREPARATION

These interim accounts are unaudited but have been reviewed by the auditors whose review report is set out on page 7. The abridged financial information relating to the year ended 31 October 2004 is based on an extract from the latest financial statements, which have been filed with the Registrar of Companies. The report of the auditors on these financial statements was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985. The financial information summarised above does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985.

EARNINGS PER ORDINARY SHARE

The calculation of basic and diluted earnings per ordinary share is based on the following:

	<i>6 months to 30 Apr 05 £000</i>	<i>Year to 31 Oct 04 £000</i>	<i>6 months to 30 Apr 04 £000</i>
Surplus	<u>392</u>	<u>3,831</u>	<u>705</u>
The weighted average number of ordinary shares in issue during the period:			
Basic and diluted	<u>185,923,602</u>	<u>171,192,098</u>	<u>155,704,845</u>

DIVIDEND

The company intends to pay an interim dividend of 0.50p per share.

HALF-YEARLY REPORT

The half-yearly report will be posted to shareholders shortly and copies will be available, free of charge for one month, from the Company Secretary, Terrace Hill Group PLC, James Sellars House, 144 West George Street, Glasgow, G2 2HG.

INDEPENDENT REVIEW REPORT TO TERRACE HILL GROUP PLC

Introduction

We have been instructed by the company to review the financial information for the 6 months ended 30 April 2005 set out on pages 3 to 6. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Our report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market which require that the half-yearly report be presented and prepared in a form consistent with that which will be adopted in the company's annual accounts having regard to the accounting standards applicable to such annual accounts.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom by auditors of fully listed companies. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the 6 months ended 30 April 2005.

BDO Stoy Hayward LLP

Chartered Accountants
Glasgow

7 July 2005



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