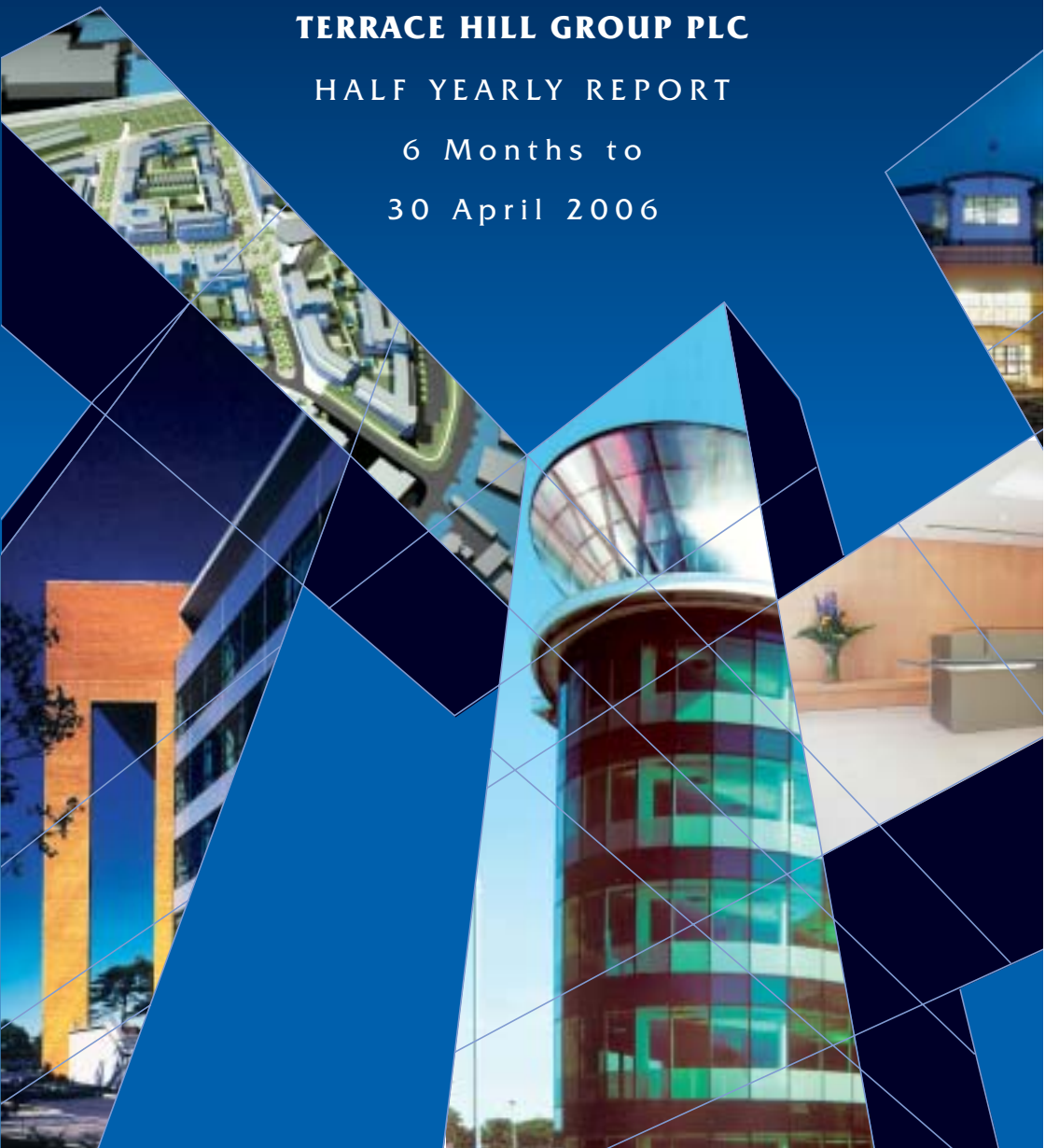
TERRACE HILL GROUP PLC

HALF YEARLY REPORT

6 Months to

30 April 2006



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 delighted to present the Group's Unaudited Results for the six months to 30 April 2006 and my report on the half year where the Triple Net Asset Value per share has risen by 9.55% to 52.65p.

Good progress has been made by the commercial and residential divisions with the letting and sale of commercial investments at record yields, the purchase of new development sites and the establishment of our first commercial development fund.

The Terrace Hill Development Partnership closed in April having raised £10 million of new equity to invest in a number of the Group's commercial developments with an estimated aggregate sales price of over £90 million.

The fund offers exposure to Terrace Hill's diversified commercial development programme and includes office, prelet retail and industrial schemes across the U.K. with a completed development value of between £5 million and £20 million. The fund has a minimum life of four years during which time we expect to reinvest most of the original equity in new schemes. The Group has contributed £2 million to the fund which demonstrates our commitment to leverage our capital through co-investment providing enhanced performance related returns. In addition the fund generates development management fees for Terrace Hill.

We have continued to take advantage of a very strong market for commercial investments with the sale of our office development at 34 Clarendon Road, Watford, industrial investments at Decimus Park, Tunbridge Wells and Thanet Reach Business Park, and a mixed use retail and residential scheme at Jameson Street, Hull. Since the period end we have exchanged contracts to sell Cyprium, a 70,000 sq. ft. office development which is prelet to the Welsh Development Agency at Swansea Waterfront for £16.65 million reflecting a yield of 4.89%, greatly exceeding our initial expectations. Also since the end of April we have agreed terms to sell 12 of the 20 industrial units at Cirrus, Farnborough and have agreed the sale of a mixed industrial development in Crawley for £5.95 million.

Further progress has been made on our retail warehouse developments at Blyth and Galashiels where 10 units out of a total of 11 have either been prelet or have pre-lettings in solicitor's hands.

Both of the retail warehouse schemes and the Cirrus development at Farnborough are now within the Terrace Hill Development Partnership.

On the residential development front we have sold or exchanged on 38 of 64 units at Glasgow Green and we are confident of having all sold by the end of the year. Advances are also being made with the land development portfolio. Since the 30 April an adjoining site has been purchased at Kilmarnock which improves access and we are now ready to submit a detailed planning application for 165 units. At Shotts the planning process has taken longer than expected but is now at an advanced stage and we are now confident of obtaining consent for 174 units in the autumn. As reported in my statement at the year end we continue to work towards demerging the house building division into a separate AIM listed company which we expect to generate greater value for Terrace Hill shareholders than retaining the operation within the Group. Our projections show that the de-merged house building company should be building at least 200 units per year from 2008 onwards. We continue to seek new sites throughout Scotland for residential development to build the land bank and volume growth.

Since the end of the period we have contracted to acquire, a 49% interest in Nationwide's at.home portfolio of 2,253 flats and houses spread throughout major cities in England and Scotland. The £272 million portfolio is generally let on assured shorthold tenancies and has been purchased at a discount to the vacant possession value of the individual properties. We are assessing the potential to merge much of the at.home portfolio with our existing portfolio of 331 units and forming a residential fund or a REIT. The continuing growth of residential values across the U.K. makes us confident that the purchase will add considerable value to Terrace Hill's TNAV at our financial year end.

Finally, we are further diversifying our interests with our first involvement in the healthcare sector. In joint venture with an established healthcare operator we have entered into a conditional contract to acquire a five acre site in Hereford and have recently submitted a planning application for a retirement village comprising 100 residential units, a retirement hotel and a care home. We foresee substantial growth in the healthcare sector in coming years and we intend to use our development and fund management skills to build a presence in this market.

CHAIRMAN'S STATEMENT *continued*

Triple Net Asset Value

Our proforma Triple Net Asset Value ("TNAV") per share at 30 April 2006 was 52.65p up from 48.06p per share at October 2005 an increase of 9.55%.

TNAV revalues our trading assets to current value and deducts tax that would arise on their disposal.

TNAV is the principal means by which we measure our performance.

Balance Sheet

Total Group assets at 30 April 2006 were £197.9 million compared to £173.4 million at October 2005 and net assets after minority interests, were £80.2 million (£77.6 million at October 2005) an increase of 3.4%.

Bank debt of £75.6 million net of £8.3 million cash stood at 94.2% of equity (85.0% October 2005). Of the bank debt 61.4% was with limited or no recourse to the parent company. Properties held as investments were £57.4 million comprising £41.6 million residential and £15.8 million commercial compared with £52.9 million at October 2005. Work in progress was £97.5 million (£89.2 million October 2005).

Profit and Loss Account

Profit before tax for the period was £3.7 million (six months to April 2005 £0.4 million). Operating profit at £4.5 million (six months to April 2005 £1.2 million) reflected a higher number of disposals of completed developments in the period.

Dividend

The directors have decided to pay an interim dividend in respect of the half year under review of 0.7p per share (six months to April 2005: 0.5p). This will be paid on 25 August 2006 to shareholders on the Register at 11 August 2006. The dividend increase reflects our progressive dividend policy and confidence in the future.

The Future

The purchase of Nationwide's at.home portfolio has seen us rebuild our presence in the residential investment market. The high quality of the properties linked to the growth in residential values since the deal was agreed early in the year is likely to have significant impact on our TNAV at the year end. In the past we have sold much of our residential investment and realised the increase in value and whilst this remains an option we are investigating the potential of creating a residential fund or REIT which might allow us to benefit from the performance of the portfolio in the future whilst capturing any immediate uplift in value today.

Our plans to de-merge a house building company from the main Group are advancing well and we expect this to have a significant impact on existing shareholder value in the future.

The commercial development programme continues to mature well and the prospect for substantial schemes in the fast moving south east market at our sites at Maidenhead, Pinewood Wokingham and Croydon promise excellent returns.

Our management team has been further strengthened by the recruitment of Miss Nicky Wilden as Corporate Finance Director who will be joining us in September. Nicky, a qualified accountant and FSA registered has extensive experience over many years of corporate finance in the property sector.

In summary, I am confident that we will show excellent further growth in TNAV over the rest of the year and beyond.

Robert F M Adair

Chairman

4 July 2006

TERRACE HILL

UNAUDITED CONSOLIDATED PROFIT & LOSS ACCOUNT

	6 months to 30 Apr 06 £000 (unaudited)	*Year to 31 Oct 05 £000 (unaudited)*	*6 months to 30 Apr 05 £000 (unaudited)*
TURNOVER			
Group and share of joint venture	23,377	28,119	11,924
Less: Share of joint venture turnover	(34)	(1,269)	(1,256)
Group turnover: continuing operations	23,343	26,850	10,668
GROUP OPERATING PROFIT			
Continuing operations	4,485	3,966	927
Share of joint venture operating (loss)/profit	(29)	202	259
TOTAL OPERATING PROFIT	4,456	4,168	1,186
Continuing operations:			
Amounts written off unlisted investments	–	(12)	–
Gain/(loss) on disposal of other fixed asset investments	30	(1)	(1)
Net gain on disposal of investment property	36	3,495	997
Gain/(loss) on disposal of subsidiary undertakings	575	(108)	(123)
Income from other fixed asset investments	89	15	–
Net interest payable	(1,444)	(3,320)	(1,672)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	3,742	4,237	387
Taxation charge	(955)	(763)	–
PROFIT ON ORDINARY ACTIVITIES AFTER TAX	2,787	3,474	387
Minority interest	2	4	5
PROFIT ATTRIBUTABLE TO MEMBERS OF PARENT COMPANY	2,789	3,478	392
Basic and diluted earnings per share	1.490p	1.864p	0.211p

UNAUDITED SUMMARISED CONSOLIDATED BALANCE SHEET

	30 Apr 06 £000 (unaudited)	*31 Oct 05 £000 (unaudited) (restated)*	*30 Apr 05 £000 (unaudited) (restated)*
FIXED ASSETS			
Intangible Assets: Positive goodwill	4,486	4,465	3,079
Negative goodwill	(1,070)	(1,178)	(1,864)
	3,416	3,287	1,215
Tangible Assets			
Investment properties	57,359	52,899	76,414
Other	43	59	186
	57,402	52,958	76,600
Investments			
Joint venture – share of gross assets	5,019	4,958	3,573
Joint venture – share of gross liabilities	(4,982)	(4,802)	(3,243)
	37	156	330
Other fixed asset investments	3,991	2,599	123
	4,028	2,755	453
	64,846	59,000	78,268
CURRENT ASSETS			
Work in progress	97,518	89,162	67,752
Debtors	27,343	13,207	20,601
Cash at bank and in hand	8,289	12,052	8,700
	133,150	114,421	97,053
CREDITORS: amounts falling due within one year			
Borrowings	(6,476)	(11,325)	(19,454)
Other creditors	(28,072)	(17,342)	(9,724)
	(34,548)	(28,667)	(29,178)
NET CURRENT ASSETS	98,602	85,754	67,875
TOTAL ASSETS LESS CURRENT LIABILITIES	163,448	144,754	146,143
CREDITORS: amounts falling due after more than one year	(82,874)	(66,758)	(70,487)
PROVISIONS FOR LIABILITIES AND CHARGES	–	–	(122)
NET ASSETS	80,574	77,996	75,534
CAPITAL AND RESERVES			
Called up share capital	3,744	3,744	3,716
Shares to be issued	–	–	558
Share premium account	19,369	19,369	19,369
Revaluation reserves: Investment properties	17,973	17,268	21,308
Other	375	23	24
Capital redemption reserve	849	849	849
Merger reserve	8,386	8,386	7,875
Profit and loss account	29,529	28,007	21,486
SHAREHOLDERS FUNDS	80,225	77,646	75,185
MINORITY INTERESTS	349	350	349
	80,574	77,996	75,534

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	6 months to 30 Apr 06 £000 (unaudited)	*Year to 31 Oct 05 £000 (unaudited)*	*6 months to 30 Apr 05 £000 (unaudited)*
Profit attributable to members of the parent company excluding share of (loss)/profit of joint venture company	2,908	3,415	155
Share of joint venture (loss)/profit for period	(119)	63	237
Profit attributable to members of the parent company	2,789	3,478	392
Unrealised surplus on revaluation of properties	749	3,735	3,391
Unrealised surplus on revaluation of unlisted investments	352	6	3
Total recognised gains and losses relating to period	3,890	7,219	3,786

GROUP STATEMENT OF CASH FLOWS

	6 months to 30 Apr 06 £000 (unaudited)	*Year to 31 Oct 05 £000 (unaudited)*	*6 months to 30 Apr 05 £000 (unaudited)*
Cash (outflow) from operating activities	(13,234)	(48,931)	(50,788)
Returns on investments and servicing of finance	(2,194)	(6,138)	(1,806)
Taxation	(255)	(992)	(769)
Capital expenditure and financial investment	1,217	54,102	32,363
Acquisitions and disposals	6,158	(4,903)	(216)
Equity dividends paid	(1,311)	(1,865)	(929)
Cash (outflow) before liquid resources and financing	(9,619)	(8,727)	(22,145)
Financing	5,606	2,735	13,168
(Decrease) in cash	(4,013)	(5,992)	(8,977)

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

	£000	£000	£000
Operating profit	4,485	3,966	927
Depreciation	41	84	47
Loss on sale of other tangible fixed assets	–	128	12
Positive goodwill amortisation and impairment losses	186	469	69
(Increase) in stock	(24,217)	(41,893)	(22,854)
(Increase)/decrease in debtors	(14,290)	3,591	(7,925)
Decrease/(increase) in creditors	20,561	(15,276)	(21,064)
Net cash (outflow) from operating activities	(13,234)	(48,931)	(50,788)

GROUP RECONCILIATION OF SHAREHOLDERS' FUNDS

	6 months to 30 Apr 06 £000 (unaudited)	*Year to 31 Oct 05 £000 (unaudited) (restated)*	*6 months to 30 Apr 05 £000 (unaudited) (restated)*
Total recognised gains and losses	3,890	7,219	3,786
New shares issued	–	28	–
Shares to be issued	–	–	558
Merger reserve arising on new shares issued	–	530	–
Purchase of own shares by subsidiary	–	(36)	–
Dividend paid to ordinary shareholders	(1,311)	(1,865)	(929)
Total movements during the year	2,579	5,876	3,415
Opening shareholders' funds – as restated	77,646	71,770	71,770
Closing shareholders' funds	80,225	77,646	75,185

Note: Comparative figures for prior periods have been restated in line with the requirements of Financial Reporting Standards 21 and 25. Otherwise the accounting policies adopted are consistent with those applied in year ended 31 October 2005.

The effect of the restatement on the balance sheet is to increase the net assets at 31 October 2005 by £1,310,532 (April 2005 – £936,094, October 2004 – £929,117) due to the write back of the proposed dividends at 31 October 2005 (and 30 April 2005 and 31 October 2004.)

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 2005 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:

	6 months to 30 Apr 06 £000	*Year to 31 Oct 05 £000*	*6 months to 30 Apr 05 £000*
Profit	2,789	3,478	392
The weighted average number of ordinary shares in issue during the period:			
Basic and diluted	187,218,824	186,576,536	185,923,602

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 six months ended 30 April 2006 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 six months ended 30 April 2006.

BDO Stoy Hayward LLP

Chartered Accountants
Glasgow

4 July 2006

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