144 West George Street
Glasgow G2 2HG
T: 0141 332 2014
F: 0141 332 2015

28 January 2011

Dear Shareholder

ANNUAL GENERAL MEETING OF TERRACE HILL GROUP PLC – TUESDAY, 1 MARCH 2011 AT 11AM

I am pleased to inform you that the Terrace Hill Group PLC ("the Company") 2010 Annual Report and Accounts have now been published.

If you requested a printed copy of the Company's 2010 Annual Report and Accounts, it is enclosed with this letter together with the Notice of this year's Annual General Meeting ("AGM") and Form of Proxy.

We previously wrote to Shareholders seeking authority to communicate electronically, however, if you did not return the election card sent to you then please accept this letter as notification that the Company's 2010 Annual Report and Accounts (and Notice of AGM and Form of Proxy) are now available to view and download on our website (www.terracehill.co.uk) and can be accessed via the home page by clicking on the Investor Relations link of the website (and then follow the Financial Performance link on the left-hand side to the PDF version of the Annual Report). The online version of the Annual Report can also be accessed directly at www.terracehill.co.uk/ar10.

In order to access the documents and information on our website you will need access to the internet, web browser software (such as Microsoft Internet Explorer) and Adobe Acrobat Reader. If you do not have Adobe Acrobat Reader you can download a free copy from www.adobe.com.

Our 2011 AGM will be held at our registered office at 144 West George Street, Glasgow G2 2HG on Tuesday, 1 March 2011 at 11am. The Directors recommend that Shareholders vote in favour of all the resolutions set out in the Notice. Your Directors will be voting in favour of the resolutions in respect of their own shareholdings. To vote, please complete the Form of Proxy enclosed with this letter (or download the Form of Proxy from our website) and return it to Share Registrars Limited (Proxies), Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey GU9 7LL.

If you wish to receive future correspondence from the Company electronically please send a request by email to enquiries@shareregistrars.uk.com or write to me at the address shown on this letter. Increased use of electronic communications will deliver savings to the Company in terms of administration, printing and postage costs, as well as speeding up the provision of information to Shareholders. The reduced use of paper will also have environmental benefits.

Yours faithfully

M A Kelly
Company Secretary

TERRACE HILL

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Terrace Hill Group PLC ("the Company") will be held at 144 West George Street, Glasgow G2 2HG on Tuesday, 1 March 2011 at 11am to consider and, if thought fit, pass the following resolutions of which Resolutions 1 to 7 will be proposed as Ordinary resolutions and Resolutions 8 and 9 will be proposed as Special resolutions.

ORDINARY BUSINESS

1. To receive and consider the Directors' Report and Accounts for the 11 months to 30 September, 2010 and the Auditors' Report thereon.
2. To reappoint BDO LLP as auditors of the Company.
3. To authorise the Directors to fix the remuneration of the auditors.
4. That, Mr Robert William Dyson, having retired by rotation in accordance with the Articles of Association of the Company, be re-appointed as a Director of the Company.
5. That, Mr Andrew Nicholas Gaskell, having been appointed as a Director since the last Annual General Meeting and offering himself for re-appointment in accordance with the Articles of Association of the Company, be elected as a Director of the Company.
6. That, Mrs Annette Julie Green, having been appointed as a Director since the last Annual General Meeting and offering herself for re-appointment in accordance with the Articles of Association of the Company, be elected as a Director of the Company.

SPECIAL BUSINESS

7. (i) THAT the board be and it is hereby generally and unconditionally authorised pursuant to Section 551 of the Companies Act 2006 to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £1,413,141 provided that this authority shall expire on the date of the next Annual General Meeting save that the Company may before such expiry make an offer or agreement which would or might require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after such expiry and the board may allot shares or grant rights to subscribe for or convert securities into shares in pursuance of such an offer or agreement as if the authority conferred hereby had not expired,

   and further,

   (ii) THAT the board be and it is hereby generally and unconditionally authorised to exercise all powers of the Company to allot equity securities (within the meaning of Section 560 of the said Act) in connection with a rights issue in favour of Ordinary shareholders where the equity securities respectively attributable to the interests of all Ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of Ordinary shares held by them up to an aggregate nominal amount of £1,413,141 provided that this authority shall expire on the date of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the board may allot equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

   This authority, which will be renewed at each Annual General Meeting of the Company, is a general and unconditional authority which allows the Directors to allot authorised but unissued new shares in the Company up to a maximum of two-thirds of the Company's current issued share capital. The Board is seeking to obtain this authority in order that it can allot new shares at short notice and without the need to hold a general meeting to obtain shareholder approval for the allotment. The authority sought under Part (ii) of Resolution 7 shall be applied to fully pre-emptive rights issues only.

8. THAT subject to the passing of the previous resolution the board be and it is hereby empowered pursuant to Section 570 of the Companies Act 2006 to allot equity securities (within the meaning of Section 560 of the said Act) for cash pursuant to the authority conferred by the previous resolution as if sub-section (1) of Section 561 of the said Act did not apply to any such allotment provided that this power shall be limited:

   (i) to the allotment of equity securities in connection with a rights issue in favour of Ordinary shareholders where the equity securities respectively attributable to the interests of all Ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of Ordinary shares held by them and,

   (ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal value of £211,971

   and shall expire on the date of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may before expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the board may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

   This authority, which will be renewed at each Annual General Meeting of the Company, allows the Directors to allot equity securities of the Company for cash up to an aggregate nominal amount of £211,971 which represents 5% of the current issued share capital of the Company without first having to offer all the shares to existing shareholders.

9. THAT subject to and in accordance with the Company's Articles of Association, the Company is hereby generally and unconditionally authorised for the purposes of Section 701 of the Companies Act 2006 to make market purchases (within the meaning of section 693(4) of the said Act) of ordinary shares of 2 pence each in the capital of the Company ("Ordinary Shares") provided that:

   (i) the maximum aggregate number of Ordinary Shares hereby authorised to be purchased shall be 21,197,129;

   (ii) the minimum price (excluding expenses) which may be paid for each Ordinary Share is the nominal value of an Ordinary Share (this being 2 pence per share);

   (iii) the maximum price (excluding expenses) which may be paid for each Ordinary Share shall be an amount equal to 105% of the average of the middle market quotations for an Ordinary Share, as derived from the AIM appendix to the Daily Official List published by the London Stock Exchange plc for the five business days before the purchase is made or the price of the last independent trade or the current non-connected party bid on the trading platform where the purchase is carried out; and

   (iv) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company (except in relation to the purchase of Ordinary Shares in respect of which a contract was concluded before such date and executed wholly or partly after such date), unless such authority is renewed prior to such time.

   This resolution seeks authority for the Company to make market purchases of its own ordinary shares. If passed, the resolution gives authority for the Company to purchase up to 21,197,129 of its Ordinary Shares, representing just under 10% of the Company's issued ordinary share capital as at 28 January 2011.

   The Directors do not currently have any intention of exercising the authority granted by this resolution. The Directors will only exercise the authority to purchase Ordinary Shares where they consider that such purchases will be in the best interests of shareholders generally and will result in an increase in earnings per ordinary share.

   The Company may either cancel any shares it purchases under this authority or transfer them into treasury (and subsequently sell or transfer them out of treasury or cancel them).

By order of the Board

M A Kelly
Company Secretary
Terrace Hill Group PLC
144 West George Street
Glasgow G2 2HG

28 January 2011

NOTES

ENTITLEMENT TO ATTEND AND VOTE

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulation 2001, the Company specifies that those members registered on the Company's register of members at 6.00pm on 25 February 2011 (or, in the case of an adjournment, 48 hours before the time of the adjourned meeting) shall be entitled to attend and vote at the Meeting.

APPOINTMENT OF PROXIES

2. If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this Notice of Meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
3. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to your proxy.
4. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, please photocopy the proxy form and indicate on each proxy form the number of shares that the proxy is to exercise in voting rights.
5. A vote withheld is not a vote in law which means that the vote will not be counted in the calculation of votes for or against the resolution. If you do not give your proxy an indication of how to vote on any resolution, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

APPOINTMENT OF PROXY USING HARD COPY PROXY FORM

6. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold his or her vote. To appoint a proxy using the proxy form, the form must be:

- completed and signed;
- (i) sent by post or delivered to the Company's Registrars, Share Registrars Limited, Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey GU9 7LL or ii) by fax to Share Registrars Limited on 01252 719 232 or iii) scanned and emailed to proxies@shareregistrars.uk.com; and
- received by the Company's Registrars not less than 48 hours before the time appointed for holding the above Meeting (or, as the case may be, any adjournment of such Meeting).

In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

APPOINTMENT OF PROXY BY JOINT MEMBERS

7. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

CHANGING PROXY INSTRUCTIONS

8. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

   Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact the Company's Registrars, Share Registrars Limited.

   If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

TERMINATION OF PROXY APPOINTMENTS

9. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Share Registrars Limited, Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey GU9 7LL. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

   The revocation notice must be received by the Company not less than 48 hours before the time appointed for holding the above Meeting (or, as the case may be, any adjournment of such Meeting).

   If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

   Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

CORPORATE REPRESENTATIVES

10. In order to facilitate voting by corporate representatives at the Meeting, arrangements will be put in place at the Meeting so that:

- if a corporate member has appointed the Chairman of the Meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all the other corporate representatives for that member at the Meeting, then, on a poll, those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and
- if more than one corporate representative for the same corporate member attends the Meeting but the corporate member has not appointed the Chairman of the Meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative.

Corporate representatives are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – www.icsa.org.uk – for further details of the procedure. The guidance includes a sample form of representation letter to appoint the Chairman as a corporate representative.

COMMUNICATION

11. Except as provided above, members who have general queries about the Meeting should contact Share Registrars Limited on 01252 821390 or by email to enquiries@shareregistrars.uk.com (no other methods of communication will be accepted).

    You may not use any electronic address provided either:

- in this notice of Annual General Meeting; or
- any related documents (including the proxy form),

to communicate with the Company for any purposes other than those expressly stated.