



**Terrace Hill Group PLC**

Half-yearly report six months to 30 April 2009

# Terrace Hill Group PLC (THG) is a regionally based UK property development and investment group quoted on AIM.

The group has offices in **London**, the **North East**, the **South West** and **Scotland**, offering national presence with local knowledge.

THG aims to provide shareholders with above average returns through its property skills and expertise and rigorous management of risk. Risk is managed throughout the business with a particular focus on:

- **structuring finance** to ensure all properties are funded to optimise the balance of risk and reward to the group
- **portfolio diversity** by sector and geography, focusing on areas where we perceive the potential for exceptional returns
- **stock selection** using expert knowledge of local markets and thorough due diligence prior to any acquisition
- **managing construction** through an internal project management team, controlling cost, delivery and design risk

THG manages a commercial development programme, commercial and residential investment portfolios and a Scottish housebuilding business.

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## Highlights

**40.4<sub>p</sub>**

Triple net asset value per share

**£344<sub>m</sub>**

Re-financing agreed in principle

**272,333<sub>sq ft</sub>**

Detailed planning consents gained

**£2.9<sub>m</sub>**

Annual rent roll contracted since October 2008

## Chairman's statement

“Our ability to manage our debt position, re-finance loans and implement cost control measures, coupled with the successful management of our existing assets and the profitable new business we continue to transact, gives me confidence that we are well positioned to outperform in the medium term.”

I am pleased to report our unaudited results for the six months ended 30 April 2009. The period has continued to be one of difficulty for the property markets with capital values declining, occupational markets suffering and rental values falling across all sectors. Notwithstanding this, we have achieved some notable successes with lettings of our existing stock and the pre-letting of new developments. During the reporting period, we made good progress across our areas of operation, including a number of important planning gains, and with re-financing and extending our debt facilities as they fall due. This progress continued into the second half and in recent weeks we have concluded a large 38,500 sq ft office pre-letting to a Primary Care Trust; let an 8,100 sq ft floor at 129 Wilton Road, our office development in Victoria, London; let 7,900 sq ft of industrial space to Menzies in Eastbourne; and completed the sale of an office building to Sovereign Housing in Bristol. We are also continuing to work on a significant number of supermarket development opportunities following on from the success of our recent transactions with Sainsbury's.

In line with most in the sector, during the six months under review, adjusted diluted net asset value (as defined by EPRA, the European Public Real Estate Association) has declined by 23.5% to 44.4 pence per share (31 October 2008: 58.0 pence per share) and our triple net asset value (TNAV) has fallen by 24.4% to 40.4 pence per share (31 October 2008: 53.4 pence per share). The TNAV takes account of any valuation uplifts above book costs, as well as contingent tax on prospective gains and adjustments for financial instruments.

Our dividend policy, as outlined in my last statement with the accounts for the year ended 31 October 2008, has been to vary the amount of our dividend in line with the movement in our TNAV. We paid a dividend of 0.54 pence per share to shareholders in April 2009 in accordance with this policy. Given the further reduction in our TNAV and the restricted trading conditions, the board has decided not to pay a dividend at this interim stage. We will review this policy again at the year-end and remain committed to resuming a progressive dividend policy once market conditions have improved.

The group's loss before tax for the period amounted to £30.8 million (six months to 30 April 2008: £4.4 million profit). Excluding property write downs, our loss before tax for the period was £1.1 million, reflecting a period of limited trading activity.

We have also continued to make good progress with our re-financings. Since 31 October 2008, £30.1 million of group debt has been re-financed and terms have been agreed in principle on £39.3 million of group debt where the maturity has been extended for an average period of 30 months. Terms have also been agreed in principle in respect of £260.4 million of associate/JV debt. The group has a further £9.5 million of re-financings still to agree where the existing maturity falls in 2009. We continue to enjoy good relationships with all of our lending banks and remain confident that acceptable terms will be agreed for the remaining loans.

### Outlook

There are encouraging signs of values stabilising in the prime commercial market although the value of secondary properties continues to fall. This presents a clear opportunity for us to generate good development margins by recycling secondary investments and sites into prime assets. Our recent successes in concluding pre-lettings to supermarket retailers and Government backed office occupiers demonstrates our ability to create new business, despite difficult economic conditions.

In addition, we are continuing to have discussions with new, as well as established financial partners regarding potential co-investments in our new development pipeline. This will ensure that the group is well placed, with sufficient capital available to fully exploit opportunities as they arise.

The value of residential property continues to decline, albeit at a much slower rate than before. The specific locations and intentionally affordable nature of our portfolios has led to outperformance of most House Price Indices and I foresee stability returning as liquidity and availability of mortgage financing improves in the medium term.

Our ability to manage our debt position, re-finance loans and implement cost control measures, coupled with the successful management of our existing assets and the profitable new business we continue to transact, gives me confidence that we are well positioned to outperform in the medium term.



**Robert F M Adair**  
Chairman  
14 July 2009

## Review of operations and finance review

- Substantial re-financing of £344 million agreed in principle
  - Maturity profile improved to an average of 32 months
- Substantial capital available from new and established joint venture partners for new business
- Completed pre-let of 38,500 sq ft office building at Teeside to Middlesbrough Primary Care Trust
- Completed letting of 8,100 sq ft at 129 Wilton Road, Victoria to AFEX
- Completed letting of 7,900 sq ft at Eastbourne industrial and trade park to Menzies
- Detailed planning consents gained at:
  - Howick Place, for 135,000 sq ft of offices and 33 apartments
  - A 92,333 sq ft Sainsbury's food store at Bishop Auckland
  - A 45,000 sq ft Design Centre at the Baltic Business Quarter in Gateshead

### Commercial property

The recession and the low availability of bank debt continue to affect the commercial property market. Capital values have fallen by more than 45% since the start of the downturn, although the pace of decline has slowed markedly in recent months.

Encouragingly, prime property values show signs of stabilising although secondary values are continuing to fall. According to IPD, "All Property" equivalent yields have reached 9.3%, the highest since 1993 and reflect a record premium of almost 600 basis points over five year swaps and ten year gilt yields. These high yields are encouraging investors to re-enter the market and demand from overseas investors has increased as they take advantage of sterling's weakness.

We intend to take advantage of the current market conditions by pursuing our established strategy of buying secondary properties and sites and applying our development skills to create prime investment properties. In addition, we continue to experience strong demand from food retailers for new stores and from Government backed office occupiers for pre-lets. We have had recent success in both of these areas and are actively pursuing a number of similar transactions.

Our business model for commercial development is to carry out projects in joint venture with financial partners, with us making a higher return on our equity committed while minimising our exposure to risk. Both existing and new partners are keen to work with us on new projects and we are confident that we will have sufficient capital to take full advantage of new opportunities.

The operational highlights since October 2008 are as follows:

- A new 38,500 sq ft office building has been pre-let to Middlesbrough Primary Care Trust at Middlehaven on Teeside for a 15 year term at an initial rent of £635,000 per annum (£16.50 per sq ft).

- At 129 Wilton Road, Victoria, AFEX has leased the whole of the 8,100 sq ft fifth floor for a 10 year term at an initial rent of £364,500 per annum (£45.00 per sq ft).
- The sale of the 8,000 sq ft office building which was forward sold to Sovereign Housing for £1.8 million at Brabazon Business Park, Bristol has completed.
- At the Eastbourne industrial and trade park, we have recently let 7,900 sq ft to Menzies for a new distribution unit.
- Detailed planning consents were granted at:
  - Howick Place, Victoria for 135,000 sq ft of offices, 23 private apartments and ten affordable housing units. This is a joint venture project with Doughty Hanson;
  - Bishop Auckland, where a resolution to grant detailed planning consent was given for a 92,333 sq ft food superstore which has been pre-let to Sainsbury's; and
  - Baltic Business Quarter, Gateshead for a 45,000 sq ft Design Centre jointly sponsored by Gateshead Council and One North East.

### Residential investment portfolios

At 30 April 2009, our residential investment portfolios comprised 1,957 units and were valued at £260.3 million (31 October 2008: £275.0 million). 1,714 of these units are held within the Terrace Hill Residential PLC associate, in which we hold a 49% stake. Overall, the value of the portfolios fell by 6.1% since 31 October 2008, significantly outperforming the Halifax HPI, which recorded a fall of 8.0% over the same period. Occupancy levels have remained satisfactory at 89.3%, slightly below the level at 31 October 2008 of 91.8%. This change is largely a consequence of our rolling maintenance programme,

which causes slight occupancy level fluctuations where we take the opportunity to refurbish units when lease terms end, rather than resulting from any changing trend. The Terrace Hill Residential PLC associate has outperformed the IPD Index (Residential Market Lets) for the period to 31 December 2008 by 7.3% and was in the top quartile performance of the databank.

### Clansman Homes

We continue to operate this business cautiously with very few new project starts. However, we are encouraged by our continued success in selling inventory units and by the fact that we have recently seen increased interest from potential purchasers. Additionally, we have also created further value through the recently received planning consents on our sites at Fenwick and Carnwath, increasing the total number of consented plots by 20 and we expect to receive planning for a further 340 units at two other sites during the course of the year.

### Financial results and net asset value

The group's NAV fell by 26.7% in the period to £75.6 million (35.7 pence per share) from £103.0 million (48.6 pence per share) at 31 October 2008 and our adjusted NAV (equivalent to that defined by EPRA) fell by 23.5% to £94.1 million (44.4 pence per share) from £124.2 million (58.0 pence per share) at 31 October 2008.

The fall in group NAV was principally caused by the reduction in the carrying value of our properties, which on an ungeared basis has fallen £22.9 million or 13.5% since 31 October 2008 (year to 31 October 2008: £16.4 million, 9.1%).

Our TNAV, which takes into account any tax payable on profits arising if all the group's properties were sold at the values used for our adjusted NAV, the write-off of goodwill and fair value adjustments, fell by 24.4% to £85.6 million (40.4 pence per share) from the £114.3 million (53.4 pence per share) at 31 October 2008.

### Income statement

Revenue is significantly lower compared with the year to 31 October 2008 as no property sales were completed in the period.

The income statement includes the valuation write-downs of the carrying value of our properties mentioned above, as follows:

- Development properties (and included in cost of sales): £19.5 million;
- Investment properties: £3.4 million; and
- Development and investment properties held in off-balance sheet undertakings (and included in the share of joint venture and associated undertakings): £6.8 million.

Administrative expenses were £3.1 million in the period under review, which is in line with our expected annualised administrative expenses mentioned in our last Annual Report. We continue to seek ways of reducing costs. Executive directors and senior staff have agreed to a reduction in base salaries of 10%, no bonuses have been paid and we have reduced our headcount by 11 (19%) since 31 October 2008. Finance costs for the period include the cost of our group debt which was reduced by a credit of £2.1 million in respect of a development funding agreement and £0.6 million in respect of a discount on settlement of a loan.

Our investment in joint ventures and associated undertakings generated a loss in the period of £8.1 million (six months to 30 April 2008: £4.8 million). This loss is primarily due to the results of Terrace Hill Residential PLC of which our share is 49%. The loss of £8.1 million includes our share of the non-cash and unrealised pre-tax loss on property revaluations of £6.8 million (six months ended 30 April 2008: £4.8 million) and a trading loss in the period of £1.3 million (six months ended 30 April 2008: loss £2.7 million).

## Review of operations and finance review

### Balance sheet

The group's total assets at 30 April 2009 were £198.1 million, a decrease of 14.7% on the amount as reported at 31 October 2008 of £232.4 million. Net assets, after deducting minority interests, were £75.6 million (31 October 2008: £103.0 million), a reduction of 26.6%.

### Financial resources and capital management

Our debt position as at 30 April 2009 is summarised in the table below.

The group's net debt has increased since last October largely due to expenditure in respect of:

- the buy-out of our partner at Kean House in Covent Garden (£4.3 million);
- expenditure in our housebuilding division less sales income (£4.0 million);
- carrying costs of our commercial development sites (£2.0 million);
- the group's share of the operating deficit in Terrace Hill Residential PLC (£1.3 million); and
- general working capital less rental income (£3.5 million).

The group continues to finance its projects with dedicated debt facilities where an individual project provides the security to the lender, ensuring the project and related debt are ring-fenced. Where loan expiries have approached we have successfully negotiated with our lenders in advance to extend facilities for up to three further years.

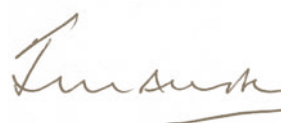
Since 31 October 2008, £30.1 million of group debt has been re-financed. The group has a further £48.8 million of debt and £260.4 million of associate/JV debt to re-finance during 2009. Of this, terms have been agreed in principle in respect of £39.3 million of group debt and all of the associate/JV debt. Each bank has indicated that they believe the revised financing arrangements will be completed in accordance with the terms which have been agreed. The re-financings in all cases are characterised by higher margins but, due to the lower levels of current interest rates, our funding costs remain broadly as before. The maturity profile of the re-financed debt (including where terms have been agreed but not documented) is greatly improved, with the average term to expiry for this debt now 32 months (group debt: 30 months).

Notwithstanding our success in dealing with our maturing bank facilities, we continue to monitor our loans and our rolling 24 month cash forecast very closely. The group has been successful in constraining project expenditure such that, in respect of its projects, outgoings are largely limited to funding costs and some professional fees. In respect of associate/JV projects, all project expenditure is funded by related bank facilities.

There are no bank facilities in place which measure group loan to value ratios. We have a number of loans with loan to value covenants based on the assets used as security for those loans. In many cases, the loan to value covenants have been amended in order allow the group to focus its efforts on commercial property development. We believe that this demonstrates the continuing willingness of our relationship banks to support the group during the current global economic recession. The group has also been approached by a number of banks with whom we have had no previous corporate relationship and who are keen to advance debt capital for our new developments.



**Philip Leech**  
Chief Executive



**Jon Austen**  
Group Finance Director  
14 July 2009

### Summary of debt position

	April 2009	October 2008
Net debt	<b>£101.0m</b>	£85.9m
Net gearing	<b>107.3%</b>	69.1%
Net debt (including share of associate/JV debt)	<b>£237.7m</b>	£231.1m
Total net gearing	<b>252.5%</b>	186.1%
Loan to value	<b>60.9%</b>	45.7%
Loan to value (including share of associate/JV debt)	<b>74.2%</b>	63.3%

# Independent review report to Terrace Hill Group PLC

## Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly report for the six months ended 30 April 2009 which comprises the unaudited consolidated income statement, the unaudited consolidated statement of changes in equity, the unaudited consolidated balance sheet, the unaudited consolidated cash flow statement and related notes.

We have read the other information contained in the half-yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

## Directors' responsibilities

The half-yearly 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 half-yearly report in accordance with the rules of the London Stock Exchange for companies trading securities on AIM 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.

## Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Our report has been prepared 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 AIM 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.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 April 2009 is not prepared, in all material respects, in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

## BDO Stoy Hayward LLP

Chartered Accountants and Registered Auditors

55 Baker Street

London

W1U 7EU

14 July 2009

## Unaudited consolidated income statement for the six months ended 30 April 2009

	Notes	Unaudited six months to 30 April 2009 £'000	Audited year to 31 October 2008 £'000	Unaudited six months to 30 April 2008 £'000
Revenue		5,946	63,366	55,360
Direct costs		(23,372)	(67,438)	(40,102)
<b>Gross (loss)/profit</b>		<b>(17,426)</b>	(4,072)	15,258
Administrative expenses		(3,109)	(6,195)	(4,749)
(Loss)/profit on disposal of investment properties		—	(20)	132
Loss on revaluation of investment properties		(3,376)	(3,846)	(440)
<b>Operating (loss)/profit</b>		<b>(23,911)</b>	(14,133)	10,201
Finance income		1,158	467	853
Finance costs		23	(5,488)	(1,805)
Share of joint venture and associated undertakings post tax loss		(8,082)	(12,448)	(4,803)
<b>(Loss)/profit before tax</b>		<b>(30,812)</b>	(31,602)	4,446
Tax		4,763	4,327	(2,650)
<b>(Loss)/profit for the period</b>		<b>(26,049)</b>	(27,275)	1,796
Attributable to				
<b>Equity holders of the parent</b>		<b>(26,030)</b>	(27,253)	1,805
Minority interest		(19)	(22)	(9)
		<b>(26,049)</b>	(27,275)	1,796
<b>Basic earnings per share</b>	2	<b>(12.28)p</b>	(12.90)p	0.85p
<b>Diluted earnings per share</b>	2	<b>(12.28)p</b>	(12.90)p	0.84p

## Unaudited consolidated statement of changes in equity

for the six months ended 30 April 2009

	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	Minority interest £'000	Total £'000
<b>Balance at 1 November 2007</b>	4,240	43,208	—	849	8,386	—	80,196	136,879	306	137,185
Loss for the period	—	—	—	—	—	—	(27,253)	(27,253)	(22)	(27,275)
Unrealised losses on available-for-sale investments	—	—	—	—	—	(498)	—	(498)	—	(498)
Total recognised income and expense for the period	—	—	—	—	—	(498)	(27,253)	(27,751)	(22)	(27,773)
Acquisition of minority interest	—	—	—	—	—	—	—	—	(26)	(26)
Own shares	—	—	(609)	—	—	—	—	(609)	—	(609)
Share-based payment	—	—	—	—	—	—	(997)	(997)	—	(997)
Merger reserve release	—	—	—	—	(1,298)	—	1,298	—	—	—
Interim ordinary dividends	—	—	—	—	—	—	(1,684)	(1,684)	—	(1,684)
Final ordinary dividends	—	—	—	—	—	—	(2,791)	(2,791)	—	(2,791)
<b>Balance at 31 October 2008</b>	4,240	43,208	(609)	849	7,088	(498)	48,769	103,047	258	103,305
Loss for the period	—	—	—	—	—	—	(26,030)	(26,030)	(19)	(26,049)
Losses on investments transferred to income statement on disposal	—	—	—	—	—	498	—	498	—	498
Total recognised income and expense for the period	—	—	—	—	—	498	(26,030)	(25,532)	(19)	(25,551)
Share-based payment	—	—	—	—	—	—	(789)	(789)	—	(789)
Final ordinary dividends	—	—	—	—	—	—	(1,155)	(1,155)	—	(1,155)
<b>Balance at 30 April 2009</b>	<b>4,240</b>	<b>43,208</b>	<b>(609)</b>	<b>849</b>	<b>7,088</b>	<b>—</b>	<b>20,795</b>	<b>75,571</b>	<b>239</b>	<b>75,810</b>

# Unaudited consolidated balance sheet

as at 30 April 2009

	Notes	Unaudited 30 April 2009 £'000	Audited 31 October 2008 £'000	Unaudited 30 April 2008 £'000
<b>Non-current assets</b>				
Investment properties	3	45,789	49,160	55,031
Property plant and equipment		511	590	606
Investments in equity accounted associates and joint ventures	4	2,710	7,145	14,813
Available-for-sale investments	4	—	442	2,251
Other investments	4	133	109	131
Intangible assets		3,393	3,456	3,519
Deferred tax assets		8,429	4,327	388
		<b>60,965</b>	<b>65,229</b>	<b>76,739</b>
<b>Current assets</b>				
Property inventories	5	103,877	120,488	124,333
Trade and other receivables	6	26,940	28,612	51,938
Cash and cash equivalents		6,336	18,022	25,499
		<b>137,153</b>	<b>167,122</b>	<b>201,770</b>
<b>Total assets</b>		<b>198,118</b>	<b>232,351</b>	<b>278,509</b>
<b>Non-current liabilities</b>				
Bank loans	7	(56,589)	(40,890)	(57,147)
Other payables		(3,370)	(3,370)	(8,980)
Deferred tax liabilities		—	(782)	(2,182)
		<b>(59,959)</b>	<b>(45,042)</b>	<b>(68,309)</b>
<b>Current liabilities</b>				
Trade and other payables		(10,945)	(20,878)	(32,980)
Current tax liabilities		(611)	(153)	(2,581)
Bank overdrafts and loans	7	(50,793)	(62,973)	(41,287)
		<b>(62,349)</b>	<b>(84,004)</b>	<b>(76,848)</b>
<b>Total liabilities</b>		<b>(122,308)</b>	<b>(129,046)</b>	<b>(145,157)</b>
<b>Net assets</b>		<b>75,810</b>	<b>103,305</b>	<b>133,352</b>
<b>Equity</b>				
Called up share capital		4,240	4,240	4,240
Share premium account		43,208	43,208	43,208
Own shares		(609)	(609)	(507)
Capital redemption reserve		849	849	849
Merger reserve		7,088	7,088	8,386
Unrealised losses		—	(498)	(1,737)
Retained earnings		20,795	48,769	78,628
<b>Equity attributable to equity holders of the parent</b>		<b>75,571</b>	<b>103,047</b>	<b>133,067</b>
<b>Minority interests</b>		<b>239</b>	<b>258</b>	<b>285</b>
<b>Total equity</b>		<b>75,810</b>	<b>103,305</b>	<b>133,352</b>

## Unaudited consolidated cash flow statement

for the six months ended 30 April 2009

	Unaudited six months to 30 April 2009 £'000	Audited year to 31 October 2008 £'000	Unaudited six months to 30 April 2008 £'000
<b>Cash flows from operating activities</b>			
(Loss)/profit before taxation	(30,812)	(31,602)	4,446
Adjustments for:			
Finance revenue	(1,158)	(467)	(853)
Finance costs	(23)	5,488	1,805
Share of joint venture and associated undertakings post tax loss	8,082	12,448	4,803
Depreciation and impairment charge	19,984	20,777	176
Loss on revaluation of investment properties	3,376	3,846	440
Loss/(profit) on disposal of investment properties	—	20	(132)
Loss on disposal of tangible fixed assets	9	—	—
Share-based payment credit	(789)	(997)	(585)
<b>Cash flows from operating activities before change in working capital</b>	(1,331)	9,513	10,100
(Increase)/decrease in property inventories	(2,730)	(3,634)	10,755
(Increase)/decrease in trade and other receivables	(2,115)	6,419	3,141
Decrease in trade and other payables	(7,076)	(22,295)	(23,510)
<b>Cash (absorbed by)/generated from operations</b>	(13,252)	(9,997)	486
Income from investments	—	7	7
Finance costs	(1,986)	(4,087)	(1,976)
Finance income	333	1,615	941
Tax received/(paid)	338	(1,500)	(700)
<b>Net cash flows from operating activities</b>	(14,567)	(13,962)	(1,242)
Investing activities			
Sale of investment property	—	1,137	778
Purchase of investments	—	(4,011)	(3,996)
Sale of investments	447	1,982	—
Sale of tangible fixed assets	5	—	—
Purchase of property, plant and equipment	(38)	(236)	(136)
<b>Net cash flows from investing activities</b>	414	(1,128)	(3,354)
Financing activities			
Borrowings drawn down	33,968	39,813	29,756
Borrowings repaid	(26,840)	(34,516)	(25,059)
Purchase of own shares	—	(609)	—
Equity dividends paid	(1,155)	(4,475)	(2,788)
Net cash flows from financing activities	5,973	213	1,909
Net decrease in cash and cash equivalents	(8,180)	(14,877)	(2,687)
Cash and cash equivalents at 1 November 2008	11,494	26,371	26,371
<b>Cash and cash equivalents at 30 April 2009</b>	<b>3,314</b>	<b>11,494</b>	<b>23,684</b>

# Notes to the half-yearly financial statements

for the six months ended 30 April 2009

## 1 Accounting policies

### Basis of preparation

The financial information in this half-yearly report does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The comparative financial information for the year ended 31 October 2008 does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985.

The statutory accounts of Terrace Hill Group PLC for the year ended 31 October 2008 have been reported on by the company's auditors and have been delivered to the Registrar of Companies. The auditors' report was unqualified, did not include a reference to matters which the auditors drew attention by way of emphasis without qualifying their report and did not contain statements under Section 237(2) or 272(3) of the Companies Act 1985.

The half-yearly report has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRSs) as endorsed by the European Union using accounting policies that are expected to be applied for the financial year ended 31 October 2009.

### Going concern

The directors are required to make an assessment of the group's ability to continue to trade as a going concern. Because of the difficult market conditions prevailing, this assessment has been subject to more uncertainties than are usual. 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 includes estimates of a number of key variables including the assumed dates and amounts relating to property disposals and amounts that may be required to reduce indebtedness as a consequence of falling property values and re-financing. 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: possible falls in value of the portfolio which could result in margin calls or increased funding costs if future loan to value covenants were breached; possible delays in the timing and reductions in proceeds from portfolio sales given the current lack of liquidity in the market; and, possible reductions in anticipated cash flows from re-financing properties after planning permission has been obtained. After considering the potential cash flow sensitivities the group believes that it has sufficient resources to continue trading for the foreseeable future.

Support of the group's banks – since 31 October 2008, £30.1 million of group debt has been re-financed. The group has a further £48.8 million of debt and £260.4 million of associate/JV debt to re-finance during 2009. Of this, terms have been agreed in principle in respect of £39.3 million of group debt and all of the associate/JV debt. Each bank has indicated that they believe the revised financing arrangements will be completed in accordance with the terms which have been agreed. The re-financings in all cases are characterised by higher margins but, due to the lower levels of current interest rates, our funding costs remain broadly as before. The maturity profile of the re-financed debt (including where terms have been agreed but not documented) is greatly improved, with the average term to expiry for this debt now 32 months (group debt: 30 months).

Further information is contained in the review of operations and finance review.

## 2 Earnings per ordinary share

The calculation of basic earnings per ordinary share is based on a loss of £26,030,000 (31 October 2008: £27,253,000 loss and 30 April 2008: £1,805,000 profit) and on 211,971,299 (31 October 2008: 211,187,902 and 30 April 2008: 211,361,386) ordinary shares, being the weighted average number of shares in issue during the period.

The calculation of diluted earnings per ordinary share for the period to April 2009 and October 2008 is the same as the calculation of the basic earnings per ordinary share. For April 2008 the calculation of diluted earnings per ordinary share is based on a profit of £1,805,000 and on 214,671,386 ordinary shares, being the weighted average number of shares in issue during the period adjusted to allow for the issue of shares in relation to all performance related share awards.

**3 Investment properties**

	£'000
<b>Valuation</b>	
At 1 November 2007	53,887
Transfer from inventory	220
Disposals	(1,101)
Loss on revaluation	(3,846)
At 31 October 2008	49,160
Additions	5
Loss on revaluation	(3,376)
<b>At 30 April 2009</b>	<b>45,789</b>

Included in additions is capitalised interest of £Nil (2008: £Nil).

The investment properties situated in Scotland owned by the group have been valued as at 30 April 2009 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 April 2009 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 at open market value by directors, who are suitably qualified or experienced, at 30 April 2009 having regard to professional advice and/or sales evidence during the period. The value of these properties was £5,051,000 (2008: £5,387,000).

**4 Investments****Associates and joint ventures**

	Associates £'000	Joint venture £'000	Total £'000
<b>Cost or valuation</b>			
At 1 November 2007	18,766	(147)	18,619
Investment write off	(81)	—	(81)
Share of results	(12,310)	(138)	(12,448)
Unrealised profit	—	1,055	1,055
At 31 October 2008	6,375	770	7,145
Disposals	(5)	—	(5)
Transfer to other investments	(15)	—	(15)
Share of results	(8,021)	(61)	(8,082)
Share of results for period applied against long term receivables forming part of net investment	3,667	—	3,667
<b>At 30 April 2009</b>	<b>2,001</b>	<b>709</b>	<b>2,710</b>

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 was incorporated in Scotland.

# Notes to the half-yearly financial statements

for the six months ended 30 April 2009

## 4 Investments continued

### Summarised information 2009

	Terrace Hill Development Partnership £'000	Devcap 2 Partnership £'000	Castlegate House Partnership £'000	Terrace Hill Residential PLC £'000	Two Orchards £'000	Total £'000
Revenue	2,246	826	309	6,233	—	9,614
(Loss)/profit after taxation	(109)	(1,178)	47	(15,522)	(12,603)	(22,782)
Total assets	55,262	45,482	9,448	233,596	60,234	404,581
Bank debt	(26,066)	(39,092)	(8,563)	(207,891)	(67,814)	(338,239)
Other liabilities	(19,345)	(9,353)	(2,353)	(33,189)	(5,023)	(74,425)
Total liabilities	(45,411)	(48,445)	(10,916)	(241,080)	(72,837)	(412,664)
Net assets/(liabilities)	9,851	(2,963)	(1,468)	(7,484)	(12,603)	(8,083)
Opening carrying amount of interest under equity method	2,416	—	—	3,938	1	6,355
Share of results for period <sup>(1)</sup>	(416)	—	—	(3,938)	—	(4,354)
Closing carrying amount of interest under equity method	2,000	—	—	—	1	2,001
Opening long term receivables forming part of net investment	—	—	—	14,306	—	14,306
Advance during the period	—	—	—	637	—	637
Share of results for period applied against long term receivables forming part of net investment <sup>(2)</sup>	—	—	—	(3,667)	—	(3,667)
Closing long term receivables forming part of net investment	—	—	—	11,276	—	11,276
Total share of results for period <sup>{(1) &amp; (2)}</sup>	(416)	—	—	(7,605)	—	(8,021)
Capital commitments	230	—	—	—	916	1,146

### Summarised information 2008

	Terrace Hill Development Partnership £'000	Devcap 2 Partnership £'000	Castlegate House Partnership £'000	Terrace Hill Residential PLC £'000	Two Orchards £'000	Howick Place £'000	Total £'000
Revenue	7,012	308	610	12,265	—	1,502	21,697
(Loss)/profit after taxation	(2,119)	(1,793)	92	(26,043)	—	(1,708)	(31,571)
Total assets	56,285	46,367	9,398	247,724	59,805	72,278	491,857
Bank debt	(27,604)	(38,962)	(8,558)	(207,502)	(52,273)	(50,523)	(385,422)
Other liabilities	(16,602)	(9,190)	(2,355)	(32,184)	(7,531)	(25,530)	(93,392)
Total liabilities	(44,206)	(48,152)	(10,913)	(239,686)	(59,804)	(76,053)	(478,814)
Net assets/(liabilities)	12,079	(1,785)	(1,515)	8,038	1	(3,775)	13,043
Share of results for period	—	—	451	(12,761)	—	—	(12,310)
Share of net assets	2,416	—	—	3,938	1	20	6,375
Capital commitments	2,424	—	—	—	13,485	—	15,909

**4 Investments continued****Summarised information**

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
	2009 Achadonn Limited £'000	2008 Achadonn Limited £'000
Revenue	31	2,803
(Loss)/profit	(122)	1,834
Total assets	13,921	14,332
Bank debt	(8,110)	(9,436)
Other liabilities	(4,393)	(3,356)
Total liabilities	(12,503)	(12,792)
Net assets	1,418	1,540
Share of results for the period	(61)	917
Share of net assets	709	770

**Available-for-sale investments and other investments**

	Available-for-sale investments £'000	Other investments £'000	Total £'000
<b>Valuation</b>			
At 1 November 2007	—	147	147
Additions	3,987	1	3,988
Disposals	(3,047)	(15)	(3,062)
Change in fair value	(498)	(24)	(522)
At 31 October 2008	442	109	551
Disposals	(442)	—	(442)
Transfer from associates	—	15	15
Change in fair value	—	9	9
<b>At 30 April 2009</b>	<b>—</b>	<b>133</b>	<b>133</b>

	2009 £'000	2008 £'000
UK unlisted investments at fair value	60	45
UK listed investments at fair value	73	506
	133	551

# Notes to the half-yearly financial statements

for the six months ended 30 April 2009

## 5 Property inventories

	£'000
At 1 November 2007	126,950
Additions	43,301
Disposals	(36,978)
Transfer to investment properties	(220)
Amounts written off the value of inventories	(12,565)
At 31 October 2008	120,488
Additions	4,336
Disposals	(1,435)
Amounts written off the value of inventories	(19,512)
<b>At 30 April 2009</b>	<b>103,877</b>

Included in property inventories is capitalised interest of £8,583,000 (2008: £8,269,000).

## 6 Trade and other receivables

	2009 £'000	2008 £'000
Trade receivables	1,675	1,915
Other receivables	6,975	2,553
Trade and other receivables	8,650	4,468
Prepayments and accrued income	2,891	2,247
Amounts due from associates and joint ventures	27,122	29,673
Provision for amounts due from associates and joint ventures	(11,723)	(7,776)
	<b>26,940</b>	<b>28,612</b>

Included in other receivables is a balance of £3.5 million that has a final maturity date of 31 December 2014.

The movement in the allowance for impairment in respect of amounts due from associates and joint ventures during the year was as follows:

	2009 £'000	2008 £'000
At 1 November 2008	7,776	—
Amounts written off in year	—	—
Increase in allowance on amounts due from associates	3,947	7,776
Closing balance	<b>11,723</b>	<b>7,776</b>

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

## 7 Bank overdrafts and loans

	2009 £'000	2008 £'000
Bank loans	104,782	97,680
Bank overdrafts	3,022	6,528
	<b>107,804</b>	<b>104,208</b>
Unamortised loan issue costs	(422)	(345)
	<b>107,382</b>	<b>103,863</b>
Amounts due:		
Within one year	50,793	62,973
After more than one year	56,589	40,890
	<b>107,382</b>	<b>103,863</b>

## Half-yearly report

The half-yearly report is available, free of charge, from the Company Secretary, Terrace Hill Group PLC, 144 West George Street, Glasgow G2 2HG.

# Directors and advisers

## Directors

R F M Adair MA ACA CTA FGS (Chairman)  
P A J Leech MRICS (Chief Executive)  
J M Austen BSc FCA (Group Finance Director)  
K M Hudson MA ACA (Non-Executive)  
W P Wyatt (Non-Executive)  
R W Dyson MSc FRICS (Non-Executive)

## Secretary

M A Kelly LLB NP

## Registered office

144 West George Street  
Glasgow G2 2HG

## Principal place of business

1 Portland Place  
London W1B 1PN

## Independent auditors

BDO Stoy Hayward LLP  
55 Baker Street  
London W1U 7EU

## Registrars

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

## Nominated adviser

Oriel Securities Limited  
125 Wood Street  
London EC2V 7AN

## Nominated broker

Oriel Securities Limited  
125 Wood Street  
London EC2V 7AN

## Registered number

SC149799



ISO 14001  
Produced at a mill that holds  
ISO 14001 certification



Fully recyclable and  
biodegradable



Elemental Chlorine Free



NAPM approved  
recycled product



● **Head office**

1 Portland Place  
London W1B 1PN  
T: +44 (0)20 7631 1666  
F: +44 (0)20 7631 1126  
E: [info@terracehill.co.uk](mailto:info@terracehill.co.uk)  
W: [www.terracehill.co.uk](http://www.terracehill.co.uk)

● **Bristol**

16 Queen Square  
Bristol BS1 4NT  
T: +44 (0)117 9800 300  
F: +44 (0)117 9800 309

● **Glasgow**

144 West George Street  
Glasgow G2 2HG  
T: +44 (0)141 332 2014  
F: +44 (0)141 332 2015

● **Teesside**

Westminster  
St Mark's Court, Teesdale  
Stockton on Tees TS17 6QP  
T: +44 (0)1642 243 444  
F: +44 (0)1642 243 500