

25 May 2011

Terrace Hill Group PLC

("Terrace Hill" the "Company" or the "Group")

STRONG OPERATIONAL PROGRESS IN THE HALF YEAR RESULTS TO 31 MARCH 2011

Terrace Hill Group plc (AIM: THG), a leading UK property investment and development group, today announces interim results for the six months to 31 March 2011.

Financial highlights:

- Revenue profit (profit before tax excluding results from joint venture and associated undertakings, valuation movements and one-off financing costs) of £7.1 million (11 months to 30 September 2010: £3.0 million loss)
- IFRS loss/profit before tax of £(1.2) million (11 months to 30 September 2010: £8.4 million profit) impacted by residential sales
- EPRA Net Asset Value per share of 42.7p (30 September 2010: 48.3p) while EPRA Triple Net Asset Value per share was 40.6p (30 September 2010: 44.7p), also impacted by residential sales
- Balance sheet gearing reduced to 58.4% (30 September 2010: 88.4%)

Operational highlights:

- Strong progress with foodstore developments:
 - Planning expected shortly at Sunderland and Whitchurch
 - Pre-letting of 125,000 sq ft at Middlehaven, Teesside, subject to planning
 - Conditional site purchase at Skelton, East Cleveland and terms agreed with retailer for 41,800 sq ft pre-let
 - Appointment of Asda's head of supermarket acquisitions
 - Terms agreed for acquisition of six further sites
- Further advances in the Group's London office development activities:
 - Construction underway of joint venture 160,000 sq ft mixed use development at Howick Place, Victoria
 - Development management agreement for a 29,000 sq ft office and retail development at the corner of Savile Row and Conduit Street in Mayfair
- Completion of sale of 59,740 sq ft warehouse at Christchurch Business Park to Kondor Ltd for £5.0 million
- New lettings at Quantum office development, Maidenhead
- £41.4 million of residential properties sold

Commenting, Robert Adair, Chairman of Terrace Hill, said: *"In addition to the solid progress we have made in the growth areas of foodstore and Central London development, we have achieved a good number of lettings throughout the period. Despite the fact that the outlook for a recovery in the UK economy still looks subdued, this strong operational performance gives me confidence in Terrace Hill's ability to deliver future value."*



For further information, please visit www.terracehill.co.uk, or contact:

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CHAIRMAN'S REPORT

I have pleasure in reporting our unaudited results for the half-year ended 31 March 2011. We continue to make good progress on the commercial development side of our business but our results for this period have been impacted by our residential business.

The Group's revenue profit (which is stated before valuation movements and contributions from our joint venture and associated undertakings but after normal financing costs) was £7.1 million for the period, substantially ahead of the revenue loss for 2010 (11 months to 30 September 2010: loss £3.0 million). However, the Group's IFRS loss before tax for the six months ended 31 March 2011 was £1.2 million (11 months to 30 September 2010: profit £8.4 million). These results include our share of realised losses of £5.1 million on the disposal of three residential property portfolios within Terrace Hill Residential PLC, our residential associated undertaking.

Our net balance sheet gearing has reduced substantially to 58.4% (30 September 2010: 88.4%) and our overall loan to value ratio has also improved to 43.1% (30 September 2010: 58.6%) as a result of disposals made in the period under review. While the banking climate remains challenging, we continue to find new entrants to the lending market with appetite for development, which is pleasing.

Our EPRA Net Asset Value has fallen by 11.5% to 42.7 pence per share (30 September 2010: 48.3 pence per share) and our EPRA Triple Net Asset Value (NAV) has decreased by 9.2% to 40.6 pence per share (30 September 2010: 44.7 pence per share). The EPRA Triple NAV takes account of contingent tax on prospective gains and other fair value adjustments.

We continue to keep our dividend policy under review and believe that, for the time being, the suspension of dividend payments should remain in place. As I have previously stated, we wish to resume a progressive dividend policy as soon as sensible.

In the commercial development division we remain very excited by our pre-let foodstore developments where we have been successful in building up a substantial pipeline. Good progress has been made, particularly towards gaining planning consents at our sites in Sunderland and Whitchurch. We have also conditionally pre-let a 125,000 sq ft store on Teesside, completed the sale of the site in Manchester to Sainsbury's and purchased, subject to planning, a 5.2 acre site in the North East, where we have also agreed terms for a 41,800 sq ft pre-let. We have teams dedicated to this sector in all our offices giving us unique access to this growing market and helping us to expand rapidly our foodstore development programme. We hope to show further significant progress in the foodstore sector in the near future. In the office development market the main area of focus has been in Central London where our joint venture at Howick Place in Victoria and a new opportunity in Savile Row/Conduit Street in Mayfair are likely to reap rewards when they complete in 2012-13.

The value of our residential investment portfolio fell by 1.2% over the period due to a decline in values in the regions offsetting a rise in value of the London portfolio of 0.6%. Rental levels and occupancy, in contrast, have risen across the portfolio, with the most dramatic rises seen in London where we have experienced tenants competing for properties.

Lastly, I am sad to report that Julie Green has had to resign as our most recently appointed independent non-executive director, following her appointment within Ernst & Young's real estate advisory team which does not allow potentially conflicting appointments. We have greatly valued her contribution to the Board and will be seeking to appoint a replacement independent director in the near future.

OUTLOOK

The outlook for recovery in the UK economy looks to remain subdued in the near term, but our focus on the growth areas of foodstores and Central London developments should provide good potential for growth. I remain confident that we will perform well over the medium term.

Robert FM Adair
Chairman
25 May 2011

OPERATIONAL REVIEW

COMMERCIAL PROPERTY

Since we reported our full year results, our main focus has been on advancing our committed and pipeline foodstore development sites as well as progressing new opportunities in the central London markets.

FOODSTORES

The occupational market in the foodstore sector has remained strong with all four main groups, Sainsbury's, Tesco, Morrison and Asda, expanding rapidly, with additional demand being generated by Waitrose and some regional retailers. Terrace Hill has the specialist teams to take advantage of this expansion and, as a result, we continue to progress a growing pipeline of new developments, with terms agreed on six further sites. We have also appointed the former Asda head of foodstore acquisitions as a consultant in our retail division. Timing in the short term, as ever, is difficult to predict given the vagaries of the planning system; however, we are confident that substantial returns will be made in the medium term.

Highlights during the period include:

- **Skelton, East Cleveland** – conditional contracts have been exchanged to purchase a 5.2 acre site in Skelton in the North East. Terms have been agreed with a major food retailer to pre-let a 41,800 sq ft store for a 25 year term. The planning consultation is progressing well and we expect to submit a detailed planning application before September this year.
- **Middlehaven, Teesside** – contracts have been exchanged, conditional upon planning, with a retailer to take a 125,000 sq ft foodstore. A planning application is likely to be made before the end of the year.
- **London Road, Whitchurch, Shropshire** – a detailed planning application for a 55,000 sq ft Sainsbury's store was made in December 2010. We are confident of winning consent which we expect to be determined in June 2011, and following the expiry of a Judicial Review period, the site will be sold to Sainsbury's.
- **Wessington Way, Sunderland** – we submitted a detailed planning application for a 98,000 sq ft Sainsbury's supermarket and petrol filling station in November last year and we expect consent to be granted in June 2011. The site vendor will then be served notice to vacate with construction likely to start towards the end of the year.
- **Bishop Auckland** – following the completion of the 97,000 sq ft Sainsbury's in October last year, we have sold two adjacent sites to KFC and Marston's, who are building a fast-food drive through unit and public house respectively. We have retained two further plots which we expect to sell to similar operators over the next 12 months.
- **Heaton Park, Manchester** – the site sale to Sainsbury's completed in February 2011.

OFFICES AND INDUSTRIAL

The occupational side of the office market outside central London remains weak and our attention, therefore, has remained focused on central London, especially Victoria and the West End:

- **Wilton Road, Victoria** – we sold this fully let and completed development in December 2010 to Cordea Savills European Commercial Fund for £53.5 million producing a very good return of £16.0 million (our share £8.0 million).
- **Howick Place, Victoria** – the construction of our joint venture mixed use office and residential scheme in the heart of Victoria is now well underway. The development will comprise 135,000 sq ft of offices and 25,300 sq ft of residential and will be delivered into a market of scarce supply when it completes in late 2012. The joint venture is with Doughty Hanson and has the benefit of development finance with no recourse to the Group.
- **Conduit Street, London W1** – we are working, under a development management agreement on the redevelopment of a prominent office and retail scheme on the corner of Savile Row and Conduit Street. The tenants' leases within the building expire at the end of 2011 and we expect to receive detailed planning for a 29,000sq ft redevelopment shortly thereafter. The anticipated investment value of the completed scheme is some £55.0 million.

- **Baltic Business Quarter, Gateshead** – construction of the 60,000 sq ft Northern Design Centre has commenced on our 50 acre business park on the south bank of the Tyne. The building is being funded and will be owned and operated by Gateshead Council and One North East.
- **Christchurch Business Park** – the sale of our 59,740 sq ft building to Kondor Ltd completed in March this year for £5.0 million.
- **Quantum, Maidenhead** – new lettings were completed at our joint venture office development in Maidenhead making the scheme 80% let.

RESIDENTIAL INVESTMENT

There continues to be strong demand from tenants to lease our properties, especially in London where competition from prospective occupiers has led to rapid rental growth. The aggregate capital value of the portfolio has fallen to £223.3 million (representing a 1.2% fall), largely as a result of 57% of the portfolio being located outside London and the South East.

There currently appears to be only limited appetite from institutional investors for a unitised residential fund and we have therefore ended our fundraising initiative with AEGON Asset Management and are looking at alternative ways of maximising the value of the portfolio. In the meantime, we continue to actively manage the assets and disposed of a number of properties in March with an aggregate value of £51.4 million.

BUSINESS REVIEW – FINANCE

FINANCIAL RESULTS AND NET ASSET VALUE

The Group's IFRS NAV fell by 1.8% in the six month period ended 31 March 2011 to £82.6 million (39.0 pence per share) from £84.1 million (39.7 pence per share) at 30 September 2010 and our EPRA NAV decreased by 11.5% to £90.8 million (42.7 pence per share) from £102.6 million (48.3 pence per share) at 30 September 2010.

The decrease in our EPRA NAV before deduction of administrative expenses and interest was caused principally by the following:

- 2.4 pence per share arising from realised losses following sales in our residential joint venture
- 0.7 pence per share arising from an additional provision against an interest shortfall guarantee.

The Group's EPRA Triple NAV, which takes into account any tax payable on profits arising if all the Group's properties were sold at the values used for the EPRA NAV, the write-off of goodwill and any other fair value adjustments, decreased by 9.2% to £86.3 million (40.6 pence per share) from £95.1 million (44.7 pence per share) at 30 September 2010.

STATEMENT OF COMPREHENSIVE INCOME

Revenue for the six month period ended 31 March 2011 includes rental income of £2.4 million, recognition of revenue under the construction contract at Bishop Auckland of £7.4 million, site sales at Christchurch and Farnborough totalling £7.6 million, and our share of the sale proceeds of the office building at Wilton Road, Victoria amounting to £26.8 million.

The statement of comprehensive income also includes movements in the valuation of our properties. Included in cost of sales is the reversal of £0.5 million of write-downs to the carrying value of our development properties. Our investment properties fell in value by £0.5 million (1.7%). Our share of the results of joint venture and associated undertakings was a loss of £6.3 million, reflecting our share of realised losses on disposals of £5.1 million from the residential division and our share of valuation falls of £1.0 million.

Administrative expenses for the period ended 31 March 2011 amounted to £2.5 million (11 months to 30 September 2010: £4.7 million).

Net finance costs for the period ended 31 March 2011 were £3.5 million. Included in the figure is £2.0 million additional provision in respect of an interest shortfall guarantee provided by the Group to an associated undertaking which has since been placed in administration. £1.0 million was provided in the period to 30 September 2010 and the guarantee is now fully provided for in these half year results. The Group has no other liabilities in respect of this company. Also included in the net finance costs is £0.6 million relating to interest expensed on development projects where the Directors have assessed that interest should not be capitalised as work is not currently underway.

Our revenue profit (defined as our profit before tax adjusted to exclude results from our joint venture and associated undertakings, valuation movements and abnormal financing costs) was £7.1 million in the period, compared with a loss of £3.0 million for the 11 months to 30 September 2010.

BALANCE SHEET

The Group's net assets at 31 March 2011 were £82.6 million, a decrease of 1.8% on the amount reported at 30 September 2010 of £84.1 million. The Group's gearing continues to improve and net debt as a percentage of EPRA Net Assets was 58.4% as at 31 March 2011 compared to 88.4% at 30 September 2010.

FINANCIAL RESOURCES AND CAPITAL MANAGEMENT

Our net debt at 31 March 2011 was £53.0 million and further detail is included in the table below. The main reasons for the changes in net debt since 30 September 2010 are as follows:

- Property sales net of debt repayment (£40.1 million reduction)
- Expenditure at our development sites (£1.7 million increase)
- General working capital less rent and other income (£0.7 million increase).

As a consequence of sales made in the period, gearing and loan to value ratios have improved, as noted in the table below. The Group continues to finance its projects with bank debt secured on individual projects, together with its own resources. This ensures to the maximum degree possible that each project is ring-fenced. A consequence of this is that the Group has a number of discrete bank facilities outstanding at any moment in time, some of which are relatively short-term. In the period since 30 September 2010, the Group has re-financed £25.6 million of Group debt. The Group currently has £66.4 million of short-term debt. One loan of £33.7 million is secured on a number of commercial development sites and matures in September 2011. The Group also has two loans secured on its residential properties totalling £20.4 million which mature in September 2011 and March 2012. The Group has commenced discussions to re-finance these loans. The Group has considered the likely level of loan to value achievable on these re-financings and has built in to its cash forecasts anticipated partial re-payments. The balance of the short term loans will be re-financed through a combination of asset sales and new facilities.

Summary of debt position	31 March 2011	30 September 2010
Net debt	£53.0m	£90.7m
Net gearing	58.4%	88.4%
Net debt including share of joint venture and associated undertaking debt	£153.9m	£228.2m
Total net gearing	169.5%	220.7%
Loan to value	43.1%	58.6%
Loan to value including share of joint venture and associated undertaking debt	62.6%	70.9%

The net gearing and loan to value percentages shown above are in relation to our adjusted NAV. All joint venture and associated undertaking debt has limited recourse to the Group.

At 31 March 2011, the Group had no interest rate hedging in place. As a consequence, the Group benefits from the low current interest rate environment but also actively manages its interest rate exposure and monitors movements in swap rates. 40.5% of joint ventures and associated undertaking debt is hedged with an average interest rate of 3.0%.

The Group monitors its cash resources and future cash flows closely through its comprehensive rolling 24 months cash forecasts. The Group regularly reviews the underlying assumptions supporting the cash forecast and believes it has sufficient resources to execute its strategy for the foreseeable future.

Philip Leech
Chief executive
Jon Austen
Group finance director
25 May 2011

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 financial report for the six months ended 31 March 2011 which comprises the unaudited consolidated statement of comprehensive income, the unaudited consolidated statement of changes in equity, the unaudited consolidated balance sheet, the unaudited consolidated cash flow statement and related explanatory notes.

We have read the other information contained in the half-yearly financial 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 31 March 2011 is not prepared, in all material respects, in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

BDO LLP

Chartered Accountants and Registered Auditors
55 Baker Street
London W1U 7EU
25 May 2011

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

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 MARCH 2011

	Notes	Unaudited six months to 31 March 2011 £'000	Audited eleven months to 30 September 2010 £'000	Unaudited six months to 30 April 2010 £'000
Revenue		50,103	30,747	9,220
Direct costs		(38,488)	(24,437)	(10,062)
Gross profit/(loss)		11,615	6,310	(842)
Administrative expenses		(2,459)	(4,745)	(2,604)
Profit on disposal of investment properties		—	47	47
(Loss)/profit on revaluation of investment properties	4	(498)	1,008	1,488
OPERATING PROFIT/(LOSS)		8,658	2,620	(1,911)
Finance income		45	1,281	312
Finance costs		(3,583)	(3,105)	(1,253)
Share of joint venture and associated undertakings post tax (loss)/profit	5	(6,343)	7,581	3,514
(LOSS)/PROFIT BEFORE TAX		(1,223)	8,377	662
Tax		(531)	(2,818)	(464)
(LOSS)/PROFIT FROM CONTINUING OPERATIONS/ TOTAL COMPREHENSIVE INCOME		(1,754)	5,559	198
ATTRIBUTABLE TO:				
Equity holders of the parent		(1,754)	5,563	202
Non controlling interest		—	(4)	(4)
		(1,754)	5,559	198
BASIC EARNINGS PER SHARE	2	(0.83)p	2.64p	0.10p
DILUTED EARNINGS PER SHARE	2	(0.83)p	2.64p	0.10p

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 MARCH 2011

	Share capital £'000	Share premium £'000	Own shares £'000	Capital redemption reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000	Non controlling interest £'000	Total £'000
BALANCE AT 1 NOVEMBER 2009	4,240	43,208	(609)	849	7,088	23,380	78,156	230	78,386
Total comprehensive income and expense for the period	—	—	—	—	—	5,563	5,563	(4)	5,559
Share-based payment	—	—	—	—	—	384	384	—	384
Distribution to non controlling interest	—	—	—	—	—	—	—	(226)	(226)
BALANCE AT 30 SEPTEMBER 2010	4,240	43,208	(609)	849	7,088	29,327	84,103	—	84,103
Total comprehensive income and expense for the period	—	—	—	—	—	(1,754)	(1,754)	—	(1,754)
Share-based payment	—	—	—	—	—	285	285	—	285
BALANCE AT 31 MARCH 2011	4,240	43,208	(609)	849	7,088	27,858	82,634	—	82,634

UNAUDITED CONSOLIDATED BALANCE SHEET

AT 31 MARCH 2011

	Notes	Unaudited 31 March 2011 £'000	Audited 30 September 2010 £'000	Unaudited 30 April 2010 £'000
NON-CURRENT ASSETS				
Investment properties	4	30,855	31,373	31,942
Property, plant and equipment		151	235	271
Investments in equity accounted associates and joint ventures	5	2,738	9,081	5,014
Other investments		26	182	146
Intangible assets		3,336	3,336	3,278
Deferred tax assets		5,147	5,789	7,143
		42,253	49,996	47,794
CURRENT ASSETS				
Development properties	6	83,937	104,902	103,740
Trade and other receivables	7	29,311	40,521	34,252
Cash and cash equivalents		24,036	1,759	4,006
		137,284	147,182	141,998
TOTAL ASSETS		179,537	197,178	189,792
NON-CURRENT LIABILITIES				
Bank loans	8	(10,609)	(36,286)	(69,449)
Other payables		—	(3,000)	(3,000)
		(10,609)	(39,286)	(72,449)
CURRENT LIABILITIES				
Trade and other payables		(16,839)	(14,640)	(13,942)
Current tax liabilities		(3,040)	(3,012)	(1,343)
Bank overdrafts and loans	8	(66,415)	(56,137)	(23,634)
		(86,294)	(73,789)	(38,919)
TOTAL LIABILITIES		(96,903)	(113,075)	(111,368)
NET ASSETS		82,634	84,103	78,424
EQUITY				
Called up share capital		4,240	4,240	4,240
Share premium account		43,208	43,208	43,208
Own shares		(609)	(609)	(609)
Capital redemption reserve		849	849	849
Merger reserve		7,088	7,088	7,088
Retained earnings		27,858	29,327	23,648
TOTAL EQUITY		82,634	84,103	78,424

UNAUDITED CONSOLIDATED CASHFLOW STATEMENT

FOR THE SIX MONTHS ENDED 31 MARCH 2011

	Unaudited six months to 31 March 2011 £'000	Audited eleven months to 30 September 2010 £'000	Unaudited six months to 30 April 2010 £'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before taxation	(1,223)	8,377	662
Adjustments for:			
Finance income	(45)	(1,281)	(312)
Finance costs	3,583	3,105	1,253
Share of joint venture and associated undertakings post tax loss/(profit)	6,343	(7,581)	(3,514)
Depreciation and impairment (credit)/charge	(453)	3,844	(984)
Loss/(profit) on revaluation of investment properties	498	(1,008)	(1,488)
Profit on disposal of investment properties	—	(47)	(47)
(Profit)/loss on disposal of tangible fixed assets	(61)	12	7
Share-based payment charge	285	384	66
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGE IN WORKING CAPITAL	8,927	5,805	(4,357)
Decrease/(increase) in property inventories	21,501	(6,635)	(741)
Decrease/(increase) in trade and other receivables	10,725	(2,330)	4,834
Decrease in trade and other payables	(2,237)	(3,491)	(5,476)
CASH GENERATED/(ABSORBED) BY OPERATIONS	38,916	(6,651)	(5,740)
Finance costs	(1,506)	(3,222)	(1,765)
Finance income	128	465	236
Tax received	—	594	—
NET CASH FLOWS FROM OPERATING ACTIVITIES	37,538	(8,814)	(7,269)
INVESTING ACTIVITIES			
Purchase of investment property	—	(50)	(50)
Sale of investment property and tangible fixed assets	96	16,459	16,402
Sale of investments	149	28	8
Purchase of tangible fixed assets	(18)	(35)	(8)
NET CASH FLOWS FROM INVESTING ACTIVITIES	227	16,402	16,352
FINANCING ACTIVITIES			
Borrowings drawn down	—	6,342	3,508
Borrowings repaid	(15,475)	(17,581)	(14,115)
NET CASH FLOWS FROM FINANCING ACTIVITIES	(15,475)	(11,239)	(10,607)
Net increase/(decrease) in cash and cash equivalents	22,290	(3,651)	(1,524)
Cash and cash equivalents at 1 October 2010	1,639	5,290	5,290
CASH AND CASH EQUIVALENTS AT 31 MARCH 2011	23,929	1,639	3,766

NOTES TO THE HALF-YEARLY FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 MARCH 2011

1 ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial information in this half-yearly report does not constitute the full statutory annual accounts within the meaning of Section 434(3) of the Companies Act 2006 and is unaudited.

The statutory annual accounts of Terrace Hill Group PLC for the period ended 30 September 2010 have been reported on by the company's auditors and have been delivered to the Registrar of Companies. The Independent Auditors' Report on the annual accounts for 2010 was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under Section 498(2) or 498(3) of the Companies Act 2006.

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.

The same accounting policies, presentation and method of computation are followed in these financial statements as were applied in the Group's latest annual audited financial statements and using accounting policies that are expected to be applied for the financial year ended 30 September 2011. Although there are a number of IFRS and IFRIC amendments or interpretations issued since the 2010 annual accounts were published, none are expected to have a material impact on the Group's reporting.

COMPARATIVE PERIODS

This half-yearly report covers the six months ended 31 March 2011. As a result of the change in the Group's accounting reference date, from October to September, which took place during 2010, the comparative figures shown are the eleven months ended 30 September 2010 and the six months ended 30 April 2010.

GOING CONCERN

The directors are required to make an assessment of the Group's ability to continue to trade as a going concern. 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 Group maintains a rolling 24 months 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: (i) the possible falls in value of the portfolio which could result in margin calls; (ii) increased funding costs if future loan to value covenants were breached; (iii) reduced debt facility levels on renewed facilities and (iv) possible delays in the timing and reductions in proceeds from sales. The Group has £66.4 million of debt facilities due to be re-financed over the next 12 months. The Group has commenced discussions over re-financing its debt and expects the re-financing requirement to be lower than the amount of debt currently outstanding as it is anticipated that through the normal course of business, developments will be completed and disposed of allowing for partial repayment. After considering the potential cash flow sensitivities the Group believes that it has sufficient resources to continue trading for the foreseeable future.

2 EARNINGS PER ORDINARY SHARE

The calculation of basic earnings per ordinary share is based on a loss of £1,754,000 (30 September 2010: profit of £5,563,000 and 30 April 2010: profit of £202,000) and on 210,951,299 ordinary shares, being the weighted average number of shares in issue during the period (30 September 2010 and 30 April 2010: 210,951,299).

For 31 March 2011 the calculation of diluted earnings per ordinary share is based on a loss of £1,754,000 and on 211,497,353 ordinary shares, being the weighted average number of shares in issue during the period adjusted to allow for the issue of ordinary shares in connection with a share award. The calculation of diluted earnings per ordinary share for the period to September 2010 and April 2010 is the same as the calculation of the basic earnings per ordinary share.

3 ANALYSIS OF DIVISIONS

The Group operates in two principal divisions being commercial property development and residential property investment. The Group does not operate outside the UK.

	Residential March 2011 £'000	Commercial March 2011 £'000	Unallocated items March 2011 £'000	Total March 2011 £'000	Residential September 2010 £'000	Commercial September 2010 £'000	Unallocated items September 2010 £'000	Total September 2010 £'000
BALANCE SHEET								
Investment properties	27,605	3,250	—	30,855	28,103	3,270	—	31,373
Property, plant and equipment	—	19	132	151	—	25	210	235
Investments – associates and joint ventures	271	2,467	—	2,738	6,425	2,656	—	9,081
Other investments	—	6	20	26	3	49	130	182
Intangible assets	2,476	860	—	3,336	2,476	860	—	3,336
Deferred tax assets	—	—	5,147	5,147	—	—	5,789	5,789
	30,352	6,602	5,299	42,253	37,007	6,860	6,129	49,996
Development properties	—	83,937	—	83,937	—	104,902	—	104,902
Trade and other receivables	15,303	14,008	—	29,311	15,356	25,165	—	40,521
Cash	25	24,011	—	24,036	41	1,718	—	1,759
	15,328	121,956	—	137,284	15,397	131,785	—	147,182
Borrowings	(20,392)	(56,632)	—	(77,024)	(20,375)	(72,048)	—	(92,423)
Trade and other payables	(470)	(16,369)	—	(16,839)	(514)	(17,126)	—	(17,640)
Current tax	—	—	(3,040)	(3,040)	—	—	(3,012)	(3,012)
	(20,862)	(73,001)	(3,040)	(96,903)	(20,889)	(89,174)	(3,012)	(113,075)
NET ASSETS	24,818	55,557	2,259	82,634	31,515	49,471	3,117	84,103

4 INVESTMENT PROPERTIES

	£'000
VALUATION	
At 1 November 2009	46,758
Additions	443
Disposals	(16,810)
Gain on revaluation	982
At 30 September 2010	31,373
Transfer to development properties	(20)
Loss on revaluation	(498)
AT 31 MARCH 2011	30,855

The investment properties situated in Scotland have been valued as at 31 March 2011 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 have been valued as at 31 March 2011 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 have been valued as at 31 March 2011 by suitably qualified valuers from Allsops LLP, 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.

5 INVESTMENTS ASSOCIATES AND JOINT VENTURES

	Associates £'000	Joint venture £'000	Total £'000
COST OR VALUATION			
At 1 November 2009	2,148	698	2,846
Share of results	7,624	(43)	7,581
Share of results for period applied against long-term receivables forming part of net investment	(1,346)	—	(1,346)
At 30 September 2010	8,426	655	9,081
Share of results	(6,154)	(189)	(6,343)
AT 31 MARCH 2011	2,272	466	2,738

6 DEVELOPMENT PROPERTIES

	£'000
At 1 November 2009	101,719
Additions	6,170
Disposals	(6,742)
Movement in stock provisions	3,755
At 30 September 2010	104,902
Additions	1,677
Disposals	(23,176)
Movement in stock provisions	534
AT 31 MARCH 2011	83,937

Included in property inventories is capitalised interest of £7,993,000 (2010: £10,450,000).

7 TRADE AND OTHER RECEIVABLES

	2011 £'000	2010 £'000
Trade receivables	1,050	5,229
Other receivables	7,102	8,984
Trade and other receivables	8,152	14,213
Amounts recoverable under construction contracts	1,506	4,872
Prepayments and accrued income	2,289	4,235
Amounts due from associates and joint ventures	28,086	27,896
Provision for amounts due from associates and joint ventures	(10,722)	(10,695)
	29,311	40,521

Included in other receivables and prepayments and accrued income is a balance of £4.3 million (2010: £4.5 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:

	2011 £'000	2010 £'000
At 1 October 2010	10,695	10,234
Amounts written back in period	—	(1,346)
Increase in allowance on amounts due from associates	27	1,807
AT 31 MARCH 2011	10,722	10,695

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

8 BANK OVERDRAFTS AND LOANS

	2011 £'000	2010 £'000
Bank loans	77,029	92,504
Bank overdrafts	107	120
	77,136	92,624
Unamortised loan issue costs	(112)	(201)
	77,024	92,423
Amounts due:		
Within one year	66,415	56,137
After more than one year	10,609	36,286
	77,024	92,423

9 POST BALANCE SHEET EVENT

Two Orchards Limited, an associated undertaking of the Group, was placed into administration on 19 May 2011. The Group has fully provided for any liabilities in connection with this company.

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.