

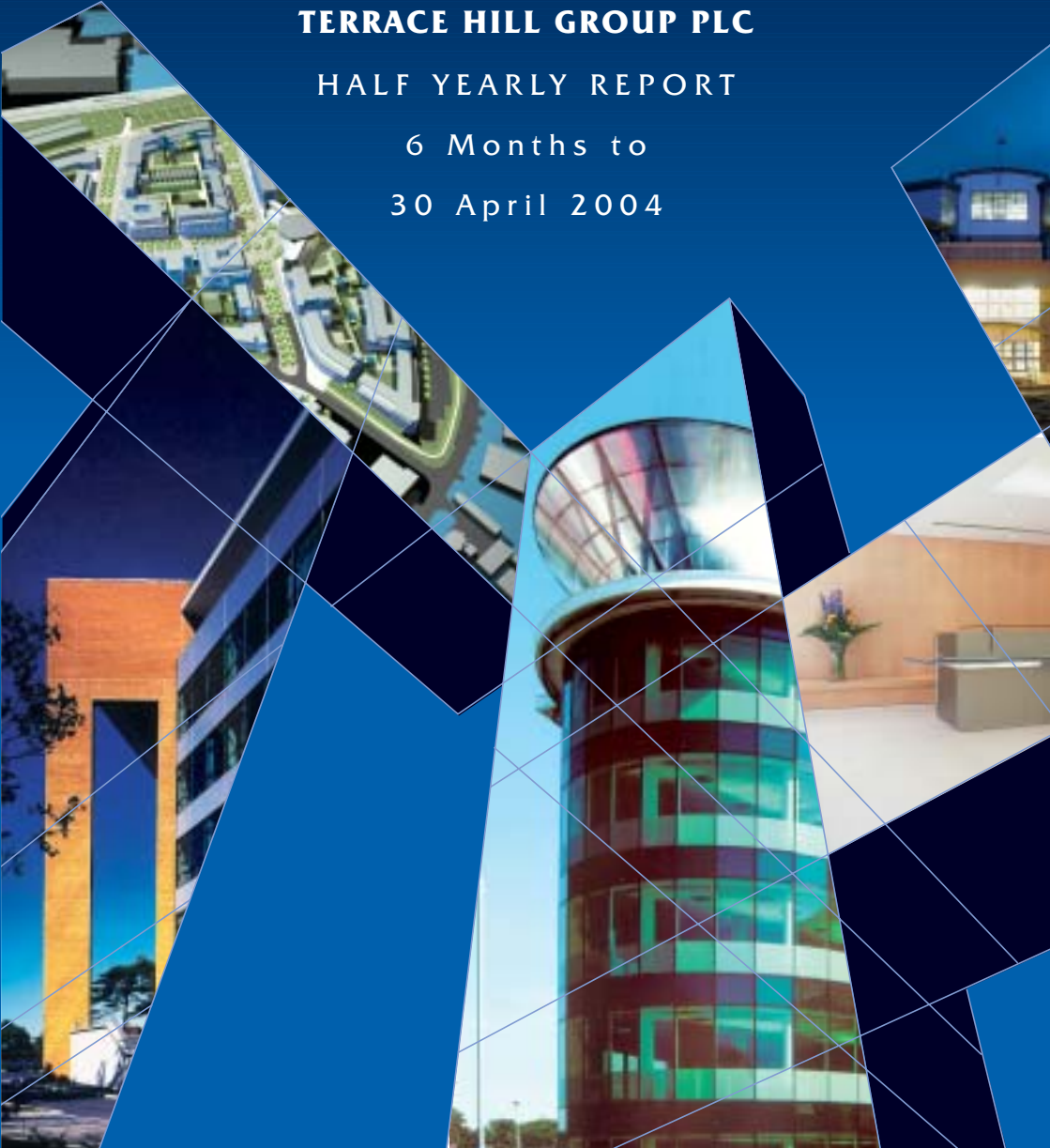


**TERRACE
HILL**

TERRACE HILL GROUP PLC

HALF YEARLY REPORT

6 Months to
30 April 2004





London office

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

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

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

Terrace Hill Group PLC is registered in Scotland.

Registration No. SC149799.

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

CHAIRMAN'S STATEMENT

I am pleased to present the Group's Unaudited Accounts for the six months to 30 April 2004 and my Report on that half year.

Results

The results show substantial progress in our target of growing Net Asset Value per share, which was up from 30.22p at 31 October 2003 to 35.07p at 30 April 2004, an increase of 16%.

The balance sheet shows that since 31 October 2003 the Group's Net Asset Value, after allowing for minority interests, has risen from £46.532 million to £65.518 million, an increase of £18.986 million or 40.80%.

Of the increase in value, the two major factors were revaluation of investment properties (£9.737million) and a placing with institutional shareholders (£8.128 million net of costs). This placing was effected on 29 April 2004, at the end of the half year, with payment for the shares due on 5 May 2004, so that of the debtors shown in the balance sheet £8.128 million was converted to cash shortly after the date of the balance sheet. The other factors contributing to growth of net asset value were issues of shares upon corporate acquisitions, and profit.

At 30 April 2004 bank debt net of cash and the proceeds of the recent placing stood at 45.00% of gross assets net as aforesaid (31 October 2003: 49.19%). As a result we now have substantial financial resources and flexibility available to pursue growth.

Pre tax (and post tax) profit for the half year of £776,000 included only modest sales of investment and development properties. Operational profit, at £2.082 million, well exceeded the six monthly rates of the comparative periods shown for the 18 months to 31 October 2003 and the year to 30 April 2003.

Corporate Acquisitions

During the half year we made formal offers for the outstanding share capital not held by us or others with whom we were acting, of Grosvenor Land Holdings plc ("Grosvenor"), another AiM traded property group, and SERAH Properties plc ("SERAH"). In both cases we believe we have acquired at a substantial discount to net asset value. By 30 April 2004, the acquisition of Grosvenor had advanced to the point where the Accounts reflect our ownership of 70.66% of its capital, the outstanding balance being reflected in minority interests in the amount of £2.522 million. In the case of SERAH our Offer closed with us holding 83.13% of its share capital.

Additional Directors

Of the institutions taking shares in the placing referred to above, the largest, which has a notifiable interest of 7.48% in the Group, is Caledonia Investments plc. The directors were delighted on 22 June 2004 to welcome to our Board Caledonia's Associate Director Will Wyatt as a Non-executive Director, along with Douglas Blausten, the former Chief Executive of Grosvenor, Chris Phillips of Colliers CRE and Guy Brennan who was for many years a Managing Director, Corporate Finance, of ABN Amro Bank.

Activities in the six months to 30 April 2004

We continued to progress the development of new properties, and to manage the letting and improvement in value of properties completed. We sold the Health and Fitness Centre, Foodstore and Nursery School (at an aggregate price of £7.5 million) developed in Joint Venture with HSBC for occupation by Esporta, Budgens and Academy respectively at Queen Elizabeth Park in Guildford. Routine residential property sales amounted to £8.583 million, primarily in England. We acquired 36 flats in Manchester at a price of £4 million. The number

CHAIRMAN'S STATEMENT *continued*

of residential units in our portfolio has fallen from 585 at 31 October 2003 to 535 at 30 April 2004. We continue to focus the portfolio on affordable housing in Scotland, with a heavy emphasis on Glasgow, and the North of England, which we believe is best sheltered from the current round of interest rate rises.

Current Trading

In the North East of England we are progressing new developments at Gallowgate, Newcastle, at Baltic Business Park on Gateshead Quays and at Westminster House, our latest office development in the highly successful Teesdale Business Park. In London's West End we have seen increasing tenant interest in our developments at 11 Berkeley Street, 16 Berkeley Street and 22 King Street, a location where good rental growth is anticipated.

Since 30 April 2004 we have sold profitably, for £11.7 million, to Royal London Asset Management a building known as Colston 33 in Bristol City Centre developed in Joint Venture with Northridge Capital. At Queen Elizabeth Park, Guildford we have now sold the first four units of the first phase of 13 units of our development of office suites aimed at the owner occupier market.

We have purchased an industrial property at Edmonton, North London for £5 million for future redevelopment, leasing it back to the vendors for a short period while we consider planning alternatives. Near Glasgow City Centre we have purchased, at a price of £2.6 million, an excellent residential site fronting onto Glasgow Green, which we intend to develop out as 64 units, mainly 2 bedroom flats with a few townhouses. We have also acquired, at a cost of £3 million, a 10.5 acre site at Tunbridge Wells where, with planning permission in place, we plan to develop a 170,000 sq. ft. industrial park and are about to start on the first phase.

Since 30 April 2004 we have also acquired, at a price of £1.825 million, the outstanding 29.34% of the share capital of Grosvenor, which was reflected at the Balance Sheet date in the minority interests as above at £2.522 million.

Dividend

The Directors have decided to pay an interim dividend in respect of the half year under review of 0.3p per share. This dividend is at double the rate of the final dividend paid for the preceding period and demonstrates our confidence in our future growth prospects. We intend to maintain a progressive dividend policy in future. This dividend will be paid on 25 August 2004 to shareholders on the register at 13 August 2004.

Repurchase of Shares

We also propose a repurchase by the Group announced today of up to 2,000,000 shares at a price of 28p each. Again, we are providing an opportunity for small shareholders to realise their shareholdings without costs.

The Future

I believe that we have an exciting future ahead with a business and an asset base which should deliver good growth in shareholder value over the coming years. Our development programme now amounts to around £500 million, of which approaching £200 million is underway and £300 million is at planning stage.

Robert F M Adair
Chairman

5 July 2004

UNAUDITED CONSOLIDATED PROFIT & LOSS ACCOUNT

	<i>6 months to 30 Apr 04 £000 (unaudited)</i>	<i>18 months to 31 Oct 03 £000 (audited)</i>	<i>Year to 30 Apr 03 £000 (unaudited)</i>
TURNOVER			
Continuing operations	7,519	39,646	13,961
Acquisitions	1,771	–	–
	<u>9,290</u>	<u>39,646</u>	<u>13,961</u>
GROUP OPERATING PROFIT			
Continuing operations	1,570	3,295	2,545
Acquisitions	512	–	–
	<u>2,082</u>	<u>3,295</u>	<u>2,545</u>
TOTAL OPERATING PROFIT	2,082	3,295	2,545
Continuing operations:			
Amounts written off unlisted investments	4	(202)	(202)
Gain/(loss) on disposal of fixed asset investment	–	23	(2)
Net gain on disposal of investment property	456	7,123	3,202
Permanent diminution in value of an investment property	–	(300)	–
Discontinued operations:			
Gain/(loss) on liquidation of former subsidiary	143	(4)	(4)
Net interest payable	(1,909)	(4,842)	(3,319)
	<u>(1,909)</u>	<u>(4,842)</u>	<u>(3,319)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	776	5,093	2,220
Taxation charge	–	(872)	(144)
	<u>776</u>	<u>5,093</u>	<u>2,220</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAX	776	4,221	2,076
Minority Interest	(71)	(150)	(93)
	<u>(71)</u>	<u>(150)</u>	<u>(93)</u>
PROFIT ATTRIBUTABLE TO MEMBERS OF PARENT COMPANY	705	4,071	1,983
Dividends	(561)	(625)	(193)
	<u>144</u>	<u>3,446</u>	<u>1,790</u>
Earnings per share – basic and diluted	0.453p	3.033p	1.599p

UNAUDITED SUMMARISED CONSOLIDATED BALANCE SHEET

	30 Apr 04 £000 (unaudited)	31 Oct 03 £000 (restated)	30 Apr 03 £000 (restated)
FIXED ASSETS			
Intangible assets			
Positive goodwill	2,586	2,583	2,691
Negative goodwill	(2,857)	(1,307)	(1,509)
	<u>(271)</u>	<u>1,276</u>	<u>1,182</u>
Tangible assets			
Investment properties	103,306	83,524	83,732
Other	206	22	180
	<u>103,512</u>	<u>83,546</u>	<u>83,912</u>
Investments			
Investments in associates	528	1,053	–
Other fixed asset investments	101	85	1,245
	<u>629</u>	<u>1,138</u>	<u>1,245</u>
	<u>103,870</u>	<u>85,960</u>	<u>86,339</u>
CURRENT ASSETS			
Work in progress	21,972	18,046	38,934
Debtors	24,491	7,297	15,776
Cash at bank and in hand	5,696	14,013	2,994
	<u>52,159</u>	<u>39,356</u>	<u>57,704</u>
CREDITORS: amounts falling due within one year			
Borrowings	(27,260)	(26,428)	(30,733)
Other creditors	(8,263)	(8,791)	(15,171)
	<u>(35,523)</u>	<u>(35,219)</u>	<u>(45,904)</u>
NET CURRENT ASSETS	<u>16,636</u>	<u>4,137</u>	<u>11,800</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	120,506	90,097	98,139
CREDITORS: amounts falling due after more than one year	(51,482)	(42,986)	(54,971)
PROVISIONS FOR LIABILITIES AND CHARGES	(477)	(477)	–
NET ASSETS	<u>68,547</u>	<u>46,634</u>	<u>43,168</u>
CAPITAL AND RESERVES			
Called up share capital	3,737	3,079	3,094
Shares to be issued	–	193	193
Share premium account	19,369	11,823	11,807
Revaluation reserve – investment properties	21,153	13,397	12,951
– other	17	6	3
Capital redemption reserve	821	821	807
Merger reserve	8,686	8,228	15,801
Profit and loss account	11,735	8,985	(1,533)
	<u>65,518</u>	<u>46,532</u>	<u>43,123</u>
EQUITY SHAREHOLDERS FUNDS	<u>65,518</u>	<u>46,532</u>	<u>43,123</u>
MINORITY INTERESTS	3,029	102	45
	<u>68,547</u>	<u>46,634</u>	<u>43,168</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	<i>6 months to</i> 30 Apr 04 £000 (unaudited)	<i>18 months to</i> 31 Oct 03 £000 (audited)	<i>Year to</i> 30 Apr 03 £000 (unaudited)
Profit attributable to members of the parent company	705	4,071	1,983
Unrealised surplus on revaluation of properties	9,737	8,145	6,258
Unrealised surplus/(deficit) on revaluation of unlisted investments	11	2	(1)
Total recognised gains and losses relating to period	<u>10,453</u>	<u>12,218</u>	<u>8,240</u>

GROUP STATEMENT OF CASH FLOWS

	<i>6 months to</i> 30 Apr 04 £000 (unaudited)	<i>18 months to</i> 31 Oct 03 £000 (restated)	<i>Year to</i> 30 Apr 03 £000 (restated)
Cash (outflow)/inflow from operating activities	(7,042)	14,993	(10,493)
Returns on investments and servicing of finance	(1,965)	(5,036)	(4,269)
Taxation	–	(98)	(36)
Capital expenditure and financial investment	8,162	50,476	40,465
Acquisitions and disposals	(8,002)	276	310
Equity dividends paid	(231)	(393)	–
Cash (outflow)/inflow before liquid resources and financing	<u>(9,078)</u>	<u>60,218</u>	<u>25,977</u>
Financing	2,231	(49,010)	(25,121)
(Decrease)/increase in cash	<u>(6,847)</u>	<u>11,208</u>	<u>856</u>

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

	£000	£000	£000
Operating profit	2,082	3,295	2,545
Depreciation	17	75	50
Loss on sale of other tangible fixed assets	–	133	–
Positive goodwill amortisation and impairment losses	81	308	185
(Increase)/decrease in stock	(3,136)	7,425	(7,776)
(Increase)/decrease in operating debtors	(4,306)	7,974	(1,914)
Decrease in operating creditors	(1,780)	(4,217)	(3,583)
Net cash (outflow)/inflow from operating activities	<u>(7,042)</u>	<u>14,993</u>	<u>(10,493)</u>

GROUP RECONCILIATION OF SHAREHOLDERS' FUNDS

	<i>6 months to</i> 30 Apr 04 £000 <i>(unaudited)</i>	<i>18 months to</i> 31 Oct 03 £000 <i>(audited)</i>	<i>Year to</i> 30 Apr 03 £000 <i>(unaudited)</i>
Total recognised gains and losses	10,453	12,218	8,240
New shares issued	657	1,622	1,658
Shares to be issued, settled for cash	(193)	–	–
Share premium arising on new shares issued	7,546	2,111	2,111
Merger reserve arising on new shares issued	1,084	6,519	6,519
Purchase of ordinary shares	–	(472)	(371)
Ordinary dividends	(561)	(625)	(193)
	<hr/>	<hr/>	<hr/>
Total movements during the period	18,986	21,373	17,964
Opening shareholders' funds	46,532	25,159	25,159
	<hr/>	<hr/>	<hr/>
Closing shareholders' funds	65,518	46,532	43,123

NOTES

BASIS OF PREPARATION

These interim accounts are unaudited but have been reviewed by the auditors whose review report is set out on page 7. The abridged financial information relating to the 18 months ended 31 October 2003 is based on an extract from the latest financial statements, which have been filed with the Registrar of Companies. The report of the auditors on these financial statements was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985. Certain balance sheet figures as at 31 October 2003 and 30 April 2003 and cash flow information for the periods then ended, have been restated to reflect a change in accounting for a joint arrangement. There is no change to net assets as previously reported. The financial information summarised above does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985.

EARNINGS PER ORDINARY SHARE

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

	<i>6 months to</i> 30 Apr 04 £000	<i>18 months to</i> 31 Oct 03 £000	<i>Year to</i> 30 Apr 03 £000
Profit	705	4,071	1,983
	<hr/>	<hr/>	<hr/>
The weighted average number of ordinary shares in issue during the period:			
Basic and diluted	155,704,845	134,207,985	124,015,370
	<hr/>	<hr/>	<hr/>

DIVIDEND

The company intends to pay an interim dividend of 0.30p per share.

HALF-YEARLY REPORT

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

INDEPENDENT REVIEW REPORT TO TERRACE HILL GROUP PLC

Introduction

We have been instructed by the company to review the financial information for the 6 months ended 30 April 2004 set out on pages 3 to 6. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. Where a company is fully listed, the directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed. The directors of Terrace Hill Group PLC have voluntarily complied with this requirement in preparing the interim review report.

Review work performed

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

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the 6 months ended 30 April 2004.

BDO Stoy Hayward LLP

Chartered Accountants

Glasgow

5 July 2004



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