Lewis Charles Securities

29 November 2007

Property Management, Construction & Services (United Kingdom)

Speymill Group plc (SYG.L)

Trading Update and Forecast Revisions

Rating	Buy
Price	56p

Share Data

52-wk range (p)	50.25-123
Market Cap (£m)	32.5
Shares o/s (m)	58.0
Free Float	50%
Dividend Yield	0%
Ticker	SYG

Ord. Shares Perf.

1m perf.	-43%
3m perf.	-44%
12m perf.	-16%

Rel. FTSE All-Share

1m perf.	-36%
3m perf.	-46%
12m perf.	-19%

Rel. FTSE Real Estate

1m perf.	-36%
3m perf.	-25%
12m perf.	+16%

Balance Sheet (06/07)

Sh. equity (£m)	3.86
Net cash (debt) (£m)	0.70

Key Dates

Financial Year End	31 Dec
Next Prelims (TBC)	Apr

Company Website
www.speymill.com

Share Price Performance

Analyst
Nicholas Nicolaides
+44 (0)20 7456 9104
nn@lewischarles.com
Equity Sales
+44 (0)20 7456 9111
Andy Charalambous
ac@lewischarles.com
Adele Thackray
at@lewischarles.com
Spencer Krett
sk@lewischarles.com

This note details the reasons behind Speymill's trading update issued earlier this week and we present the impact on our 2007 forecasts and longer term impact and outlook.

- **Investment progress in Germany:** There is no evidence of a lack of availability of investment opportunities. Rather, Speymill is taking a more cautious approach to choosing acquisitions. Larger opportunities are becoming available which take longer to evaluate and at the same time given the current market turmoil, Speymill is taking a conscious "wait-and-see" approach on the possibility of acquiring properties at more attractive valuations. This is a shift in strategy and we believe is ultimately in the interests of shareholders. We estimate the impact on 2007 German-related consolidated fee income is a 6% reduction. We expect SDCC to be fully invested by June 2008. SDCC has secured a €500m funding facility with existing and future floating rate debt fully hedged against interest rate risk. This is positive in the current climate where other funds that have not yet secured facilities may have difficulty in leveraging to the same extent.
- **Macau delays to planning and approval process:** The local planning and approval process in Macau is delaying one of Speymill's developments. There is no financial commitment binding on MCAU if this does not proceed. This has no impact on forecasts since Speymill effectively earns fees based on the invested equity plus remaining cash.
- **Other operations:** Speymill's UK contracting business continues to perform in line with company targets and forward order prospects continue to grow, now at a level of £130m. We have increased our full year revenue forecast for 2007E to £39m, an increase of £1m over our previous estimate. Progress on the Speymill Goodman Retirement Villages JV continues as per the Company's business plan. Initial revenues could be generated from FY 2009 at the earliest.
- **Additional guidance for FY 2007:** In addition to the £400k one-off costs relating to the re-incorporation, Speymill has confirmed details of its bonus scheme in effect from the current year. Based on a revised reported profit before tax estimate for 2007 of £2.1m, a cash element could be paid in 2007 of *up to* £355,000.
- **Profitability:** Based on revised forecasts, we arrive at a reported PBT estimate of £2.1m. Pre-exceptional profit before tax, excluding the one-off re-incorporation costs (£0.4m) and share options charges (£0.9m) is estimated at £3.4m. We outline in the note scope for this estimate to be exceeded such that PBT could potentially end up within the range of £2.1m to £2.5m.
- **Valuation:** Our revised DCF model yields a valuation of 90p per share. Based on current forecasts and share price of 56p Speymill Group trades on adjusted 2007E and 2008E PER multiples of 11.2x and 8.1x respectively. We believe Speymill deserves to trade on higher multiples in line with comparable funds.
- **Outlook:** We have revised down forecasts for the next two years however our medium to long term outlook for the fundamentals behind both the German and Macau markets remain as strong as they were at the beginning of this year and the forward order prospects for the UK contracting business continues to grow. Speymill Group offers reduced exposure to long term risk compared with other funds that are less diversified in their operations and geographical exposure.

2007 is a year in which Speymill Group is moving into profitability with significant increase in costs as it prepares itself for future growth. This is partly reflected in the trading statement, but we believe the recent share price fall to the 50p level is disproportionate. Speymill Group has no debt. The medium term fundamentals of Speymill's areas of operation have not deteriorated and we believe that potential opportunities have arisen that could ultimately create shareholder value. We maintain a Buy recommendation.

Figure 1: Forecasts

Financial Year	Revenue (£000s)	EBITDA (£000s)	Reported PBT (£000s)	Adj. PBT(1) (£000s)	PBT (Pre FRS20) (£000s)	Shares Out(2) (m)	Adj. EPS(1) (p)	DPS(3) (p)	EV/ EBITDA (x)	Adj. PER (x)	Indicative Yield (%)
2005A	15,323	(857)	(1,650)	(981)	(1,540)	38.8	(2.5)	0.0	n/a	n/a	0.0%
2006A	22,305	726	(525)	631	381	56.4	1.5	0.0	43.6	37.2	0.0%
2007E	48,972	3,483	2,101	3,387	2,987	57.5	5.0	1.4	9.1	11.2	2.5%
2008E	63,450	4,868	4,143	4,819	4,819	58.0	6.9	2.9	6.5	8.1	5.1%
2009E	83,388	6,726	6,114	6,790	6,790	58.0	9.9	4.4	4.7	5.6	7.8%

(1) Pre exceptional items, share-based payments, impairments and income from disposals
(2) Weighted average
(3) Indicative based on 50% pay-out ratio. No announcement has been made regarding a specific dividend policy.

Source: Lewis Charles Forecasts; Fund management forecasts relate only to existing property funds

Important Information

This marketing communication ('report') was produced by Lewis Charles Securities Ltd (Lewis Charles) for information purposes only. It has not been prepared in accordance with the FSA Conduct of Business Sourcebook rules concerning the promotion of research independence. It is not intended to address the investment circumstances of any particular individual or entity receiving this report. Opinions, estimates and projections in this report constitute the current judgement of the author as of the date of this report and may be subject to change without notice. We endeavour to update the material in this report on a timely basis, but regulatory, compliance or other reasons may prevent us from doing so. This report should not be construed as an offer to sell or solicitation to buy any security or other financial instrument. Whilst Lewis Charles uses reasonable efforts to obtain information from sources which it believes to be reliable, it makes no representation that the information or opinions contained in this report are accurate, reliable or complete.

Lewis Charles, the directors and employees thereof and/or any connected persons may have an interest in the securities warrants, futures, options derivatives or other financial instrument of any of the companies referred to in this report and may from time-to-time add to or dispose of such interests. Furthermore, this report is not subject to any prohibition on dealing ahead of the dissemination of research, although as a matter of policy Lewis Charles requires its employees not to deal ahead of the dissemination of the report. Lewis Charles may share remuneration in connection with the sale of its research reports through third parties or their associates. In addition, Lewis Charles may act as advisors or lenders to, have positions in and effect transactions in securities of companies mentioned herein on a principal or agency basis and also provide, may have provided, or may seek to provide investment banking services for those companies. Any relationships, circumstances, conflicts of interest or material positions of Lewis Charles, its officers, employees or connected companies with regard to the investment mentioned which may reasonably be expected to impair the objectivity of the research contained in this report are disclosed in the annex to this report. If any of the companies mentioned in this report have a shareholding in Lewis Charles, or any of its connected companies, these details will be disclosed in the annex to this report. Our analysts may have travel expenses etc paid by the company where travel assists in the production of this report. Important disclosures in relation to Lewis Charles' research recommendations can be found in the Research Ratings section at: www.lewischarles.com. A copy of Lewis Charles Conflicts Policy can be obtained from our Compliance Department.

The research in this report is not intended to provide or be taken as providing any guidance and is not a substitute for professional financial or tax advice based on your own circumstances which you should always seek. Any references to the impact of taxation are made in the context of current legislation and may not be valid should levels or basis of taxation change in the future. When we comment on AIM or PLUS Markets shares, you should be aware that because the rules for those markets are less demanding than the official list of the London Stock Exchange, the risks are higher. Furthermore the marketability of these shares is often restricted. The investments mentioned in this report may not be suitable for all recipients or be appropriate to their personal circumstances and before acting on any advice or recommendations in this report, clients should consider whether it is suitable for their particular circumstances and if necessary seek professional advice.

Past performance is not necessarily a guide to future performance. The value of investments and income arising from them can go down as well as up. Some securities carry a higher degree of risk than others. Clients may not recover the amount invested. Changes in rates of exchange can have an adverse effect on the value, price or income of any non-sterling denominated investments.

This report is not directed to, or intended for distribution to or use by any person who is a citizen or resident of, or located in any locality, state, country or other jurisdiction where by reason of that person's nationality, residence, location or otherwise, such distribution, publication, availability or use is prohibited. Persons or in respect of whom such prohibitions apply should disregard this report. Without prejudice to the generality of this, neither this report, nor any copy of it, may be taken or transmitted into the United States, Canada, Australia, Ireland, Japan or any jurisdiction where it would be unlawful to do so. No part of the material in this report may be duplicated in any form or by any means. Neither should any of the material in this report be altered in any way or redistributed without the prior consent of Lewis Charles. Lewis Charles accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any of this material in this report. Lewis Charles is authorised and regulated by the Financial Services Authority and is a member of the London Stock Exchange.

Disclosures

Company	Code	Disclosure
Speymill Group	SYG	2, 6
Speymill Deutsche Immobilien Company (ORD)	SDIC	None
Speymill Deutsche Immobilien Company (C)	SDCC	None
Speymill Macau Property Company	MCAU	None

1. Within the past twelve months Lewis Charles has managed or co-managed a public offering for this company, for which it receives fees or the promise of fees
2. Lewis Charles acts as corporate broker to this company
3. Lewis Charles regularly hold trading positions (which may include options) in this company
4. Lewis Charles holds more than 5% of the securities of this company
5. The company holds more than 5% of Lewis Charles
6. Lewis Charles may currently be providing, expects to provide within the next three months, or may have provided within the previous twelve months, investment banking services to this company, which have given rise to payment or the promise of payment
7. The author and/or an individual responsible for production of this has direct ownership of stock in this company
8. The author and/or an individual responsible for production of this report received or purchased shares in the issuer prior to a public offering of shares

Research Ratings

<u>Buy</u> - The Company is profitable, cash generative, with established operations, a credible management team and proven execution of strategy. Absolute share price return expected to increase by more than 10% over the next twelve months.
<u>Speculative Buy</u> - The Company has operations that are either early stage or loss-making, and/or there is uncertainty over the management's ability to deliver on its strategy. The valuation appears to reflect risks but could reward shareholders if the operations are successful. Absolute share price return expected to increase by more than 10% over the next twelve months contingent upon success of certain operations.
<u>Neutral</u> - Shareholders should await key developments from the company, which may have a positive or negative impact on the company's prospects. Absolute share price return expected to change by between -10% and 10% over the next twelve months.
<u>Sell</u> - the Company's share price and/or valuation does not reflect current underlying prospects for the company. The company may require additional funding above what can be reasonably expected to raise or the company has failed to deliver on key operations that now risk the future success of the company. Absolute share price return expected to decrease by more than 10% over the next twelve months.
<u>Not Rated</u> - Lewis Charles has either not initiated research on this company or is restricted from publishing a recommendation.

Analyst Certification

I, Nicholas Nicolaides, internal analyst employed by Lewis Charles hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company and its securities. I also certify that I have not been and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report.

Investment Progress in Germany: Shift in Strategy

Speymill has categorically stated to us that the slower rate of investment in Germany is not related to lack of availability of investment opportunities. However, it is certainly clear that the recent (and continuing) credit market turmoil is a major factor influencing Speymill Property Managers' strategy in Germany.

There are two factors at play:

Larger acquisition opportunities are being evaluated

- Firstly, SDIC's prelims statement announced on 1 November indicated the opportunity for SDIC to "potentially purchase some mid-sized residential portfolios at attractive prices" as a result of curtailed demand from some highly leveraged investors. With larger portfolios coming onto the market, at potentially overall more attractive valuations, Speymill Property Managers is evaluating specific opportunities for investment. Larger portfolios that require a larger commitment also require significantly more due diligence and as a result more time to evaluate. These larger portfolios may be a group of many properties in various locations rather than many apartments within one single block and therefore may take longer to evaluate. Speymill can give no assurance that any of these sizeable opportunities will go through before the end of the year, let alone at all.

Opportunities potentially exist to acquire at more attractive valuations

- Second, and more relevant, is that market turmoil as a result of the credit crunch could lead to a drop in the prices of properties that Speymill can acquire. This distinct possibility has lead Speymill to take a conscious decision to take a step back from actively acquiring properties as and when they become available and even if they are considered to be attractive enough relative to retail value. In practice, this means that Speymill is taking a "wait-and-see" approach on the basis that it is in the interests of SDCC shareholders should lower valued opportunities arise.

Shift in strategy is in the long term interests of shareholders

This is a shift in strategy the immediate impact of which is that the slower rate of progress on investments impacts on Speymill Group's management fee income, and consequently also results in a time lag from when GOAL Service can take over management of the new properties. This means that Speymill Group is foregoing an element of fees in the short term in return for potentially higher returns and yields in the medium to longer term. We view this as Speymill Property Managers acting in accordance with their role as fund manager to its funds and ultimately in the long term interests of both SDIC's and Speymill Group's shareholders. We do not anticipate a direct impact on the fee income generated from the Ordinary Shares investment portfolio that is already fully invested.

No funding concerns

We do not have major concerns on the ability for SDIC to fund acquisitions. Given the significant leverage, financing is a major part of the strategy. For the C Share Portfolio, a €500m facility had been arranged at a maximum cost of borrowing of 5% and both existing and future floating rate debt drawn is fully hedged against interest rate risk. This is positive in the current climate where other funds that have not yet secured facilities may have difficulty in leveraging to the same extent.

Impact on our model for FY 2007:

As at 19 October notarised properties for the C Share tranche stood at just over €200m. We had initially forecast a year-end notarised investment on a geared basis of approximately €600m. It is anticipated that by year end this level could reach the €350-400m level without the upside from one or two large portfolio acquisition opportunities.

Figure 2: SDCC notarisations to date

Ann. date	Cummulative Notarised Investment (Euro m)	% Invested Estimate (leveraged basis)(1)	Units		Average price per sq m (Euro)	Vacancy Rate	Annual Rental Income (Euro m)	Blended net yield	Projected Yield within 12m
			Residential	Commercial					
30-Jun	50.9	5.5%	1,086		731	29.6%	2.8	5.60%	7.70%
17-Sep	124.1	13.5%	2,395		766	16.0%	8.4	6.60%	7.40%
19-Oct	200.1	21.8%	3,954		766	15.0%	13.6	6.60%	7.30%

(1) Assuming no share buyback and debt as percentage of invested value (post acquisitions costs) of 74%

Source: Speymill Deutsche Immobilien Co PLC

The resulting impact of this on SDIC-related consolidated fee income generated by Speymill Property Managers and GOAL in 2007E is a 5.9% reduction to £5.83m. The SDIC Ordinary share portfolio is fully invested and consequently we have no reason to change our forecasts.

Long term impact on our model:

Fully invested by mid 2008

As a result of the slower rate of investment we are pushing back the targeted date for SDCC to reach full investment from April 2008 to the end of June 2008.

One of SDIC's AGM resolutions (scheduled for 30 November) is to authorise a share purchase programme of up to 15% of each of the ordinary and C shares. On the basis that this resolution is approved and assuming that share buybacks are executed during next year, we consider it prudent to assume that up to 15% less equity will be available for investment by SDCC and are therefore reducing the overall fully invested value accordingly. We shall be reviewing this assumption as more information becomes available.

The resulting impact of this on SDIC-related consolidated fee income generated by Speymill Property Managers and GOAL in 2008E is a 12% reduction to £8.47m. This reflects the combination of the delay in the C share portfolio reaching full investment as well as a lower overall invested value on the basis that share buybacks are undertaken by SDIC. The impact on our 2009E forecast is an approximate 15% reduction to £9.94m reflecting the full impact of share buybacks. No performance fees are included in any of our forecasts.

The most recent valuation by DTZ as at 30 June 2007 indicates an aggregate uplift relative to the purchase price of 5.8% on SDIC's notarised properties in Germany. We have left our property valuation growth assumptions consistent with previous at a level such that the hurdle for payment of performance fees is not triggered. This results in an approximate annual compound growth of 8% for both SDIC and SDCC respectively. Given the combination of low prices (relative to retail value) that Speymill is able to acquire the properties at and the renovation work undertaken on some properties we believe it would take a significant market correction in residential property prices to affect revaluation levels. This is a market risk that, although we believe remains less likely than not, needs to be considered, and is highlighted by the following scenario analysis.

- A reduction in valuation uplift in 2008 from our 8% assumption to 4% would result in only a 2% reduction in consolidated fee income from the combined Epicure and SDIC German portfolios.
- On a zero growth assumption in 2008, the resulting consolidated fee income reduces by 4%.

Macau: Delays to planning and approval process

Investment delay has no impact on fee income

The local planning and approval process in Macau is delaying the Bel-Lago development. 25% of the total consideration of $187m is the forward funding element conditional on the developer obtaining necessary building plan approvals within certain time frames – if these are not met, there is no financial commitment binding on MCAU. As a result of MCAU holding un-invested cash any plan to raise additional funding for further identified investments has been delayed.

No impact on forecasts

Our forecasts for management fee income from Macau investments remains unchanged since Speymill effectively earns a management fee (based on the invested equity plus remaining cash), irrespective of how much has been invested and levels of gearing.

Valuations announced in April 2007 show overall a rise of 31% over the purchase prices for two developments and there are no indications of a negative impact on valuation growth. We are forecasting 2007 fee income of just over £0.7m. No performance fees (payable upon realisations) are included in our forecasts going forward.

Given the ongoing growth opportunities in Macau, the region remains a key area of focus for Speymill Group and Speymill Group has a permanent presence via a Hong Kong office. Earlier this year the Company had made clear its intentions to make further investments in Macau and we expect it to proceed at the earliest opportunity.

Update on other operations

Speymill Contracts

Both Speymill Contracts and retirement village JV on target

Speymill's UK contracting business continues to perform in line with company targets and forward order prospects continue to grow, now at a level of £130m, representing committed and likely business at the win rate achieved for new contracts, a figure that has been growing consistently since 2004. At the time of Speymill's interims announcement, the Company stated that it expected 2007 full year turnover to reach more than double the 2006 level of £18m.

As we progress toward year end with continued confidence in targets being met we have increased our full year revenue forecast for 2007E to £39m, an increase of £1m over our previous estimate and still in line with guidance. We are forecasting gross profit margin of 10%.

Speymill Goodman Retirement Villages

Progress on the JV continues as per the Company's business plan. At this stage we are including initial revenues to be generated from the first village only from FY 2009 at the earliest.

Additional guidance for FY 2007

Isle of Man re-incorporation costs and bonus scheme

In addition to the £400k one-off costs relating to the re-incorporation in the Isle of Man to impact on the 2007 P&L, Speymill Group has confirmed details of its bonus scheme that will relate to the current financial year.

We highlighted in our note following the Interim Results on 24 September intentions to put in place a remuneration policy to ensure existing management is incentivised and continued attraction of key staff as the group grows.

Remuneration policy in line with market

It is not uncommon for management funds to put into place similar bonus schemes. We believe this is a necessity in order to remain competitive and to attract and retain key hires going forward. For purposes of comparison, in 2006 Charlemagne Capital paid an employee performance bonus that was overall 30% of pre-bonus PBT. For the same period, Inspace plc paid a bonus that was overall 19% of pre-bonus PBT.

With the clearer guidance we are now able to more accurately forecast maximum payment levels. Based on a revised reported profit before tax estimate for 2007 of £2.1m, a 50% cash bonus element could be paid in 2007 of *up to* £355,000 (based on 20% on the first £1m plus *up to* 35% of remaining PBT above £1m). The remaining 50% would be payable in shares which we have charged to the P&L under share based payments spread over the following three years. Under this scenario, the overall combined cash and bonus payment would represent 25% of pre-bonus PBT.

Profitability

Revised PBT estimate in the range of £2.1m to £2.5m

We have also made revisions to our cost model for the group to re-allocate some costs previously below the gross profit line into direct costs associated with GOAL increasingly subcontracting property management services, arriving at an overall gross profit margin estimate for the group of 25-26%.

Guidance on profit before tax has been provided such that profitability for the full year, excluding re-incorporation costs and bonus costs, will be broadly in line with that of the first half. We arrive at a reported profit before tax estimate of £2.1m. Pre-exceptional profit before tax, excluding the one-off re-incorporation costs (£0.4m) and share options charges (£0.9m) is estimated at £3.4m.

There is scope for this estimate to be exceeded such that PBT could potentially end up within the range of £2.1m to £2.5m. There are two specific operational areas where upside exists for 2007:

- Speymill Contracts: Given the increasingly strong performance seen so far this year supported by positive momentum as evidenced by the increase in forward order prospects to £130m, it is possible that Speymill Contracts exceeds our forecast of £39m turnover.
- Germany: In the event that at least one of the large property portfolios currently being evaluated by Speymill Property Managers is notarised before year end, additional fee income could be achieved. We have no indication of the potential size or the likelihood that this will materialise.
- GOAL Construction: Contracts with a combined spend in excess of €50m had been awarded for the Epicure and SDIC refurbishment programme. We have slightly revised upwards our estimate for the spend in 2007 to €25m, however given the high rate of notarisations on the initial SDIC portfolio leading to full investment by June 2007, this figure may ultimately be higher.

Tax

Following the re-incorporation of Speymill Group, estimating the tax charge for the year and going forward at this stage is relatively difficult. We expect Speymill Contracts' profits will be offset by previous years' tax losses. Speymill is in the process of restructuring the ownership of its subsidiaries and until this is complete we expect Speymill Property Managers' profits this year to generate a tax charge.

Nevertheless, going forward we are still modelling a significant element of Speymill Group's profits to continue to be taxable. This will also include profits generated from GOAL Service.

Dividend

In the trading statement Speymill effectively confirmed its intention to pay a dividend for 2007. We have not had any indication of what the dividend policy will be and we have left our indicative estimate unchanged in our forecasts.

Summary

The table below summarises the interim results down to the PBT level and compares them with both our previous and revised forecasts for the full year 2007E.

Figure 3: Forecast Revisions

	6 months to 30 June (£000)	Previous FY 2007E forecast (£000)	New FY 2007E forecast (£000)	Change in 2007E forecast vs previous forecast	Comment
Speymill Contracts: Fit out & construction of UK leisure premises	17,039	38,000	39,000	+2.6%	Management expectation that "FY turnover to more than double 2006 level of £18m"
Speymill Property Managers & GOAL: Continental Europe	4,606	9,588	9,245	-3.6%	Lower impact of slower rate of investment of SDCC funds. Partially offset by higher GOAL Construction work
Speymill Property Managers & GOAL: Rest of World	380	727	727	+0.0%	
Group Turnover	**22,025**	**48,315**	**48,972**	**+1.4%**	
Cost of sales	(16,036)	(34,960)	(36,412)	+4.2%	Re-allocated GOAL costs for subcontracted services
Gross profit	**5,989**	**13,355**	**12,560**	**-6.0%**	
Gross profit Margin	27.2%	27.6%	25.6%		
General administrative expenses	(4,144)	(8,686)	(9,203)	+6.0%	Excludes re-allocated direct GOAL costs & revised upwards employee costs & cash bonus
Share based payments	(443)	(1,068)	(886)	-17.0%	Revised estimate
One-off re-incorporation costs	0	0	(400)		Costs relating to Isle of Man re-incorporation
Operating Profit	**1,402**	**3,601**	**2,070**	**-42.5%**	
Operating profit Margin	6.4%	7.5%	4.2%		
Net Interest	3	50	31	-38.1%	
Profit Before Tax	**1,405**	**3,651**	**2,101**	**-42.4%**	

Source: Company, Lewis Charles Forecasts

Impact on FY 2008

The impact on 2008 forecasts as a result of our revisions outlined above are as follows:

- Revenue of £63.4m.
    - Driven partly by reduced fee income to Speymill Property Managers as a result of slower investments in Germany and consequential slower take up of property management by GOAL Service.
    - We have revised forward revenue forecasts for Speymill Contracts such that the UK contracting business (excluding Speymill Goodman) increases turnover over each of the next two years by approximately £10m. The impact on profitability is far less given the lower margin value of this business. We believe this is a fairer assumption given that the medium term growth in turnover is partially dependent on the level of resources and overheads that Speymill is prepared to invest and having turned the business around management focus will ultimately be on growing the business with attention to meeting budgets, timetables and ensuring quality for its clients.

- Adjusted (pre-exceptional) profit before tax of £4.8m. Our cost model reflects higher investment in overheads and costs relating to GOAL's outsourcing of property management services and construction related engineering costs.

Valuation

Revised valuation of 90p per share

Based on our forecast revisions our updated DCF model yields a valuation of 90p per share. This is based on a cost of capital of 11.2% reflecting the current 5 year risk free rate of 4.7%, market risk premium of 5% and long term growth of 2%.

Based on our current forecasts, and the current share price of 56p Speymill Group trades on adjusted 2007E and 2008E PER multiples of 11.2x and 8.1x respectively. We believe Speymill deserves to trade on a higher multiples. 2007 will be the first full year of profits expected in with a dividend policy to be introduced. The contracts business is beginning to demonstrate sustainable results following a successful turnaround. Management has proven its ability to raise significant equity for investment into specific property portfolios with secured facilities by its funds to significantly leverage equity investments.

Outlook

No change to our medium to long term outlook

We are confident that our revenue model accurately reflects the short term prospects barring unexpected or exogenous events that are almost impossible to predict, let alone model.

Given that Speymill Group is turning the corner into full year profitability in 2007, combined with the speed of its growth of operations and corresponding requirement for investment, particularly headcount, it is challenging to arrive at earnings estimates in 2007 without providing for an element of variability until the Group reaches some level of stability in growth.

Our medium to long term outlook for Speymill Group remains unchanged. Over the last 12-18 months, Speymill Group has grown significantly from a relatively small organisation to one with a headcount of almost 290, with professionals located in the UK, Isle of Man, Germany and Hong Kong. During this time the business has been transformed to create distinct business areas with sustainable income generation. At the same time this growth has necessitated a corresponding level of investment, particularly in headcount.

Fundamentals in Germany and Macau have not deteriorated

The fundamentals behind both the German and Macau markets remain as strong as they were at the beginning of this year.

- In Germany's major cities, Speymill continues to acquire properties below retail value and has not seen any slow down in the number of acquisition opportunities. In fact, we believe the opposite is true with larger portfolios now increasingly becoming available. It is worth highlighting that the German residential property market is far from comparable to many other European countries. Germany is a major developed market with house prices well below their replacement cost. With limited new residential construction and continued household growth and with some of the lowest valuations on a per sqm basis, we see far less risk of slowing price appreciation, let alone depreciation, when compared to other cities such as London.

- Macau's residential property market also stands apart from other developing markets. The Macau economy has been growing at 14% per annum between 2000 and 2006. Macau remains the only place in China with legalised gambling attracting increasing numbers of visitors – Gaming revenue in 2006 reached almost US$7bn and overtook those of Las Vegas Strip. Housing supply is limited and the population has been growing at approximately 5-6% over each of the last two years.

One of the key changes over the last 6 months that is difficult to ignore has been that of deteriorating sentiment for property exposure and increasing risk aversion together with increasing concerns over credit tightening. This has certainly been reflected in the share prices of most listed funds – Speymill Group and the listed funds it manages are no exception. Nevertheless, for the reasons we highlight, we believe Speymill Group offers reduced exposure to long term risk compared with other funds that have less diversification in their operations and geographical exposure.

2007 is a year in which Speymill Group is moving into profitability with significant increase in its costs as it prepares itself for future growth. This is partly reflected in the trading statement commentary on additional costs, but we believe the recent share price fall to the 50p level is disproportionate. The medium term fundamentals of Speymill's areas of operation have not deteriorated, and in fact, one can argue that new opportunities have arisen that could ultimately create shareholder value. We maintain a Buy recommendation.

Figure 4: Speymill Group Model

Year to 31 December (£000s)	2004A	2005A	2006A	2007E	2008E	2009E
Profit & Loss						
UK Fit Out & Construction	18,178	15,242	18,143	39,000	50,000	68,500
Fund management - Continental Europe	0	81	3,854	9,245	12,436	13,671
Fund management - Rest of World	0	0	308	727	1,014	1,217
Group Revenue	**18,178**	**15,323**	**22,305**	**48,972**	**63,450**	**83,388**
Gross Profit	**689**	**1,674**	**5,467**	**12,560**	**16,768**	**20,558**
Gross margin	*3.8%*	*10.9%*	*24.5%*	*25.6%*	*26.4%*	*24.7%*
EBITDA	**(3,173)**	**(857)**	**726**	**3,483**	**4,868**	**6,726**
EBITDA margin	*-17.5%*	*-5.6%*	*3.3%*	*7.1%*	*7.7%*	*8.1%*
Depreciation	(217)	(89)	(86)	(127)	(137)	(135)
Amortisation	(2,636)	(56)	0	0	0	0
Exceptionals	(3,026)	(613)	(1,156)	(1,286)	(676)	(676)
Operating Profit	**(6,612)**	**(1,615)**	**(516)**	**2,070**	**4,055**	**5,915**
Operating Profit (Adjusted)	**(3,390)**	**(946)**	**640**	**3,356**	**4,731**	**6,591**
Adj. Operating margin	*-18.6%*	*-6.2%*	*2.9%*	*6.9%*	*7.5%*	*7.9%*
Gain on Disposals	0	104	0	0	0	0
Net Interest	(181)	(139)	(9)	31	88	199
Profit Before Tax	**(6,793)**	**(1,650)**	**(525)**	**2,101**	**4,143**	**6,114**
Profit Before Tax (Pre FRS20)	**(6,793)**	**(1,540)**	**381**	**2,987**	**4,819**	**6,790**
Profit Before Tax (Adjusted)	**(3,571)**	**(981)**	**631**	**3,387**	**4,819**	**6,790**
Tax	88	(3)	217	(507)	(812)	(1,027)
Minorities	0	0	0	0	0	0
Net Income to Shareholders	**(6,705)**	**(1,653)**	**(308)**	**1,595**	**3,331**	**5,087**
Dividend	0	0	0	(797)	(1,665)	(2,543)
Retained Earnings	**(6,705)**	**(1,653)**	**(308)**	**797**	**1,665**	**2,543**
Average Shares - Weighted (m)	8.9	38.8	56.4	57.5	58.0	58.0
Average Shares - Diluted (m)	8.9	49.9	56.4	68.6	69.0	69.0
EPS - Basic (p)	(75.11)	(4.26)	(0.55)	2.77	5.75	8.77
EPS - Adjusted (p)	**(39.02)**	**(2.53)**	**1.50**	**5.01**	**6.91**	**9.94**
EPS - Adjusted & Diluted (p)	(39.02)	(1.97)	1.50	4.20	5.81	8.35
DPS (p)	0.00	0.00	0.00	1.39	2.87	4.39
Balance Sheet						
Fixed Assets	**1,756**	**1,024**	**1,396**	**2,172**	**1,938**	**1,956**
Intangible Fixed Assets (Goodwill)	1,000	944	944	944	944	944
Tangible Assets	756	80	197	224	241	259
Current Assets	**3,118**	**4,424**	**8,333**	**16,711**	**23,280**	**33,157**
Stocks	59	11	33	71	91	125
Debtors	3,059	3,283	7,430	15,758	19,928	26,926
Cash	0	1,130	870	882	3,261	6,107
Total Assets	**4,874**	**5,448**	**9,729**	**18,883**	**25,218**	**35,114**
Current Liabilities	**5,422**	**3,696**	**7,263**	**14,772**	**18,766**	**25,442**
Borrowings	1,071	155	49	0	0	0
Other Current Liabilities	4,351	3,541	7,214	14,772	18,766	25,442
Long Term Liabilities	**1,426**	**190**	**39**	**0**	**0**	**0**
Total Liabilities & Provisions	**6,848**	**3,886**	**7,302**	**14,772**	**18,766**	**25,442**
Net Assets	**(1,974)**	**1,562**	**2,427**	**4,110**	**6,452**	**9,671**
Cash Flow						
EBIT	(6,612)	(1,615)	(516)	2,070	4,055	5,915
Tax	86	(3)	213	(499)	(795)	(994)
NOPLAT	**(6,526)**	**(1,618)**	**(303)**	**1,571**	**3,260**	**4,921**
Depreciation & Amortisation	2,853	145	86	127	137	135
Cash from Earnings	**(3,673)**	**(1,473)**	**(217)**	**1,698**	**3,397**	**5,057**
Change in Working Capital	551	(986)	(496)	(807)	(197)	(356)
Net Capital Expenditure	(330)	(31)	(203)	(154)	(154)	(154)
Cash before Financing (FCF)	**(3,452)**	**(2,490)**	**(916)**	**737**	**3,047**	**4,547**
Dividends	0	0	0	(797)	(1,665)	(2,543)
Post Tax Interest and Financing Costs	(179)	(35)	(5)	24	71	166
Change in Investments & Deferred tax	0	0	(255)	(749)	251	0
Change in Debt	375	(2,152)	(257)	(88)	0	0
Capital, Reserves and Provisions	2,678	5,189	951	886	676	676
Disposals / (Acquisitions)	165	619	0	0	0	0
Transfers	0	1	222	0	0	0
Change in Cash	**(413)**	**1,130**	**(260)**	**12**	**2,379**	**2,845**

Source: Lewis Charles Forecasts

Lewis Charles Securities

LCS House
44 Worship Street
London
EC2A 2EA

TEL +44 (0) 20 7456 9100
FAX +44 (0) 20 7456 9106
EMAIL info@lewischarles.com
WEB www.lewischarles.com