



Interim Report 2005

**Speymill**
Group plc

Chairman's Statement

Introduction

In the 2004 Annual Report issued to shareholders in June this year and in the statement I made during the Company's Annual General Meeting on 26 July, I gave some indication of the structural and operational changes that have needed to be made since I became Chairman in November last year and of the new activities being pursued as part of the Group's recovery programme.

I am now pleased to report that while the period of change has still had some impact on the results for 2005 through further reorganisation costs, the Group has been stabilised and we are making progress both in our core contracting business and in the new property and fund management activities which are just commencing.

Results

Turnover for the six months totalled £8.01m (2004: £10.44m), with gross margin of £1.10m (2004: £1.03m). Operating loss was £0.31m (2004: £1.10m), including £0.06m loss in respect of D F Blanchard (Salisbury) Ltd which was sold in May 2005. Losses have been reduced by £0.79m reflecting the significant reduction in administrative and operating expenses arising from the reorganisation and restructuring of the business. Further reorganisation costs of £0.09m were incurred in the period, though these were offset by a profit of £0.10m on the Blanchard disposal.

Interest costs increased to £0.11m (2004: £0.06m) mainly as a result of loan capital still

outstanding from the refinancing programme. A large proportion of the loan capital has now been removed through conversion and cancellation, considerably reducing the loan interest burden. Loss on Ordinary Activities was £0.43m (2004: £1.15m), resulting in a loss per share of 0.01 pence (2004: loss 0.53 pence).

Operations

In the 2004 Annual Report our Chief Executive Andrew Latham said that 2005 would be a year of consolidation and refocusing and the first half of the year has certainly reflected those comments. The disposal of Blanchard, which also incorporated the business of First National Property Maintenance, has enabled more focus on the recovery and further development of Speymill Contracts.

In my statement at the Annual General Meeting I reported that for a variety of reasons outside our control, a number of Speymill's contracts have been delayed in starting and this has had a detrimental effect on sales in the first months of the year. Consequently, turnover for the first six months was £6.02m, which was around £1m below the first half of 2004. However, I am able to report, as outlined in my AGM statement, that the contracts business is developing well and that the management team is now in place to continue this improvement.

The consolidation of the Group's head office into Speymill Contracts' premises in Huntingdon is fully complete, providing the benefit of a shared resources structure in terms of both staffing and systems.

Chairman's Statement

Board Changes

The first half of 2005 saw the continuation of the Board restructuring begun last year. In March, Peter Hewitt resigned from the Board, while Ilyas Khan joined as a non-executive director. In June Andrew Latham and Keith Lees were appointed as Chief Executive and Finance Director respectively, having both already been working for the Company in interim roles. Since the half year, further changes have occurred. In July, Anthony Baillieu resigned as a non-executive director, with Howard Flight taking his place.

Future Prospects

Order prospects at Speymill Contracts have improved steadily as the year has progressed, with a current total value of £40m, which is a figure representing committed and likely business and a prudent assessment of the win rate achieved for new tenders. Speymill is in the final stages of negotiation on a number of exciting and significant new contracts. These are expected to generate a strengthening of the turnover in the second half of 2005 and beyond.

GOAL Service GmbH

The recently announced GOAL Services property management joint venture with LAGO Service in Berlin commenced operations during September, providing a property management service to landlords of residential and commercial premises in Germany. LAGO has an established record in the provision of this service and has been successful in

finding, managing and developing property in Germany. Your Company has a shareholding of 51% in the joint venture with Herr Florian Lantz, the owner and principal of LAGO Service owning the remaining 49%. Herr Lantz's former activities in LAGO have now ceased and he has brought a number of existing management contracts to the joint venture. GOAL has also contracted to manage the considerable property interests of Burnbrae in Germany. In addition to property management, it is anticipated that there will be a significant opportunity to redevelop and refurbish sites in Germany, in which Speymill Contracts will play an important role.

Speymill Property Managers Ltd

We have established a wholly owned subsidiary, which Howard Flight will chair, to source and manage the acquisition of property and to provide an advisory and asset management service to property funds. This business will, in Germany, use the property management expertise of GOAL to provide a one stop service for property funds.

An Investment Advisory Agreement has been signed by GOAL and Speymill Property Managers for the first of these with a German property fund which is aiming to raise 125 million euros of equity, leveraged to a total fund of 500 million euros. Under this agreement GOAL and Speymill Property Managers will provide their combined property and fund management services as described above. The fund already has commitments for a substantial

percentage of the equity target and should start to generate significant income for both GOAL and Speymill Property Managers during the first quarter of 2006.

This new activity for the Group will see significant fee income in the years ahead as the number of funds that the business manages increases and further opportunities are developed. We are already in discussion with other parties about new funds to be launched in 2006.

Our initial activities have centred on Germany, where we believe there are some unique opportunities. However, we do not intend to concentrate our efforts there. We intend to participate in the anticipated introduction of Real Estate Investment Trusts (REITs) after expected legislation in the UK and through anticipated REIT opportunities in Germany. When the UK legislation is established we will operate a number of specialist funds that will be complementary to Speymill's strengths.

As 2005 has progressed, the strategy of stabilising the Group's activities around the core Speymill Contracts business and then developing new property management and fund management activities alongside this has gradually been coming to fruition. As part of this process we have continued to strengthen our management team to ensure we have all the in-house skills and expertise required for successful business development and operational management of our expanding activities.

Furthermore, the post-balance sheet share warrant

exercises and loan conversion (as shown in Note 5 on page 7) have now returned Group net assets to a positive position.

Overall, we are positioning the Group to use our contract management skills to complement our property and fund management activities and to also be ready to take advantage of appropriate niche markets in the UK. We aim to significantly increase funds under management by the end of 2006, providing a strong platform for further growth.

Paul Doona

Chairman

30 September 2005

Consolidated Profit and Loss Account

For the six months ended 30 June 2005

	6 months to 30 June 2005 (unaudited) £'000	6 months to 30 June 2004 (unaudited) £'000	Year to 31 December 2004 (audited) £'000
Turnover — continuing activities	6,023	7,092	11,534
— discontinued activities	1,988	3,346	6,644
	8,011	10,438	18,178
Cost of sales — continuing activities	(5,224)	(9,402)	(11,587)
— discontinued activities	(1,682)	(2,862)	(5,902)
	(6,906)	(9,402)	(17,489)
Gross profit — continuing activities	799	551	(53)
— discontinued activities	306	484	742
	1,105	1,035	689
Administrative expenses	(1,406)	(1,930)	(4,079)
Administrative expenses — exceptional items	(90)	(100)	(586)
Amortisation of goodwill	(28)	(102)	(196)
Impairment of goodwill	—	—	(2,440)
Gain on disposal of discontinued activity	104	—	—
Operating loss — continuing activities	(253)	(845)	(5,938)
— discontinued activities	(62)	(252)	(874)
	(315)	(1,097)	(6,612)
Interest payable and similar charges	(115)	(58)	(181)
Loss on ordinary activities before taxation	(430)	(1,155)	(6,793)
Taxation on loss on ordinary activities	—	—	—
Loss on ordinary activities after taxation	(430)	(1,155)	(6,793)
Loss per share (pence)	(0.01)	(0.53)	(0.75)

In both 2004 and 2005 the Group had no recognised gains or losses other than the result for each financial period shown above.

Consolidated Balance Sheet

As at 30 June 2005

	30 June 2005 (unaudited) £'000	30 June 2004 (unaudited) £'000	31 December 2004 (audited) £'000
Fixed assets			
Intangible fixed assets — goodwill	972	3,614	1,000
Tangible fixed assets	105	843	756
	1,077	4,457	1,756
Current assets			
Stock and work in progress	48	84	59
Debtors	2,764	4,243	3,059
Cash at bank and in hand	—	2	—
	2,812	4,329	3,118
Current liabilities			
Creditors: amounts falling due within one year	(3,845)	(6,428)	(5,422)
Net current liabilities	(1,033)	(2,099)	(2,304)
Total assets less current liabilities	44	2,358	(548)
Creditors: amounts falling due after more than one year	(630)	(1,139)	(1,426)
Net assets	(586)	1,219	(1,974)
Capital and reserves			
Called up share capital	404	23	237
Called up deferred share capital	2,294	2,294	2,294
Share premium account	4,708	914	3,057
Profit and loss account — deficit	(7,992)	(2,012)	(7,562)
Shareholders' funds	(586)	1,219	(1,974)
Attributable to			
Equity shareholders	(2,880)	(1,075)	(4,268)
Non-equity shareholders	2,294	2,294	2,294
	(586)	1,219	(1,974)

Consolidated Cash Flow Statement

For the six months ended 30 June 2005

	6 months to 30 June 2005 (unaudited) £'000	6 months to 30 June 2004 (unaudited) £'000	Year to 31 December 2004 (audited) £'000
Net cash outflow from operating activities	(1,358)	(1,627)	(3,037)
Returns on investments and servicing of finance	(115)	(58)	(181)
Tax paid	—	—	(6)
Capital expenditure and financial investment	7	(62)	(38)
Acquisitions and disposals	518	—	(70)
Cash outflow before financing	(948)	(1,747)	(3,332)
Financing	1,125	812	3,425
Increase/(decrease) in cash in the period	177	(935)	93

Reconciliation of Net Cash Flow to Movement in Net Debt

Increase/(decrease) in cash in the period	177	(935)	93
Cash inflow from increase in debt	(157)	(530)	(1,642)
Change in net debt resulting from cash flows	20	(1,465)	(1,549)
New finance leases	—	(163)	(158)
Conversion of loan notes	850	—	850
Cancellation of loan notes	139	—	—
	1,009	(1,628)	(857)
Opening net debt	(2,496)	(1,639)	(1,639)
Closing net debt	(1,487)	(3,267)	(2,496)

Notes

- 1 Turnover and gross margin for the period include £170,000 for recovery of exceptional contract costs provided in 2004.
- 2 Exceptional administrative costs of £90,000 in the period relate to reorganisation costs.
- 3 During the period the following movements occurred on share capital:
 - a) On various dates, warrants were exercised over a total of 80,000,000 ordinary shares of 0.01 pence at par, raising £8,000.
 - b) In June 2005 warrants were exercised over 54,545,455 ordinary shares of 0.01pence at 0.11 pence per share, raising £60,000.
 - c) On various dates, loans totalling £150,000 were converted to ordinary shares of 0.01 pence at the rate of 1 share for every 0.10p of loan capital, resulting in the issue of 150,000,000 ordinary shares.
 - d) In April 2005 loans totalling £700,000 were converted to ordinary shares of 0.01 pence at the rate of 1 share for every 0.11p of loan capital, resulting in the issue of 636,363,636 ordinary shares.
 - e) In April 2005 416,666,667 ordinary shares of 0.01 pence were issued at 0.11 pence per share, raising £500,000.
 - f) In June 2005 333,333,333 ordinary shares of 0.01 pence were issued at 0.11 pence per share, raising £400,000.
- 4 On 18 May 2005 the Company disposed of D F Blanchard (Salisbury) Limited for a total consideration of £574,000, which included cancellation of £139,000 of redeemable loan notes.
- 5 **Post-Balance Sheet Events:**
 - a) In July 2005 warrants were exercised over 40,000,000 ordinary shares of 0.01 pence each at 0.11 pence per share, raising £44,000.
 - b) On 26 July 2005 the members approved a restructuring of the Company's share capital through the buy-back and cancellation of all issued deferred ordinary shares of 0.99 pence each and by a 1 for 100 consolidation of the ordinary shares of 0.01 pence each into ordinary shares of 1 pence each.
 - c) In August 2005 warrants were exercised over 700,000 ordinary shares of 1 pence each at 11 pence per share, raising £77,000.
 - d) In September 2005 warrants were exercised over 5,300,000 ordinary shares of 1 pence each at 11 pence per share, raising £583,000. The entire proceeds were used to reduce borrowings under the Burnbrae overdraft facility.
 - e) In September 2005 a loan of £300,000 was converted into ordinary shares of 1 pence each at 11 pence per share, resulting in the issue of 2,727,273 ordinary shares.

Notes

- 6 The interim results are unaudited and do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The figures for the year ended 31 December 2004 have been extracted from the statutory accounts, which have been reported on by the Company's auditors and have been delivered to the Registrar of Companies. The auditors' report did not contain any statement under Section 237(2), (3) or (4) of the Companies Act 1985.
- 7 The interim financial statements have been prepared using the accounting policies set out in the 2004 accounts.
- 8 Earnings per ordinary share have been calculated using the weighted average number of shares in issue during the relevant financial periods.
- 9 The Directors do not propose to pay a dividend for the period.
- 10 Copies of this statement will be posted to shareholders and will also be available on written application to the Company's Registered Office at Mace House, Sovereign Court, Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU.

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