Interim Report 2006

Speymill
Group plc

Speymill Group plc's activities cover construction and refurbishment services primarily in the hotel and leisure industries, plus property management and fund management services.

Highlights

- Turnover on continuing activities increased by 12.6% to £6.8m (£6.0m)
- Gross profit on continuing activities of £1.8m (£0.8m)
- Loss on ordinary activities before FRS 20 share options provision of £0.09m (£0.43m)
- Loss per share of 0.49p (1.00p)
- Loss per share before FRS 20 share options provision of 0.16p (1.00p)
- Implementation of New Business Strategy well under way

Chairman's Statement

Introduction

In my first report to you as your Chairman in April this year I outlined the Board's strategy for the development and expansion of our property fund management services and our contracting activities. I am delighted to be able to inform you now that in the five months since that report, progress with our strategy has been encouraging.

The investment programmes for the two property funds that we currently have under management are both developing in line with their respective targets, while our contracting business has continued to increase the value of its pipeline of order prospects and has successfully developed and diversified into turnkey design and build contracts within its chosen markets.

Results

Given the timing of the launch of our second property fund, Speymill Deutsche Immobilien Company ('SDIC'), in mid March this year and the time needed for Speymill Contracts to convert more of its substantial prospects, our level of activity in 2006 has been inevitably weighted to the second half of the year. Group Turnover in the first six months was £6.78m (2005: £8.01m), though the comparative figure included £1.99m for discontinued activities, giving an increase of 12.6% in continuing activities.

This year, for the first time, the results include a provision under FRS 20 for share option costs, amounting to £0.18m (2005: £Nil) for the first six months. Excluding this charge, general administrative expenses increased to £1.88m (2005: £1.41m) mainly through the investment in resources necessary to handle the increase in fund and property management activities. Operating loss before charging the FRS 20 provision was £0.08m (2005: £0.42m).

Net interest costs were significantly reduced to £0.01m (2005: £0.12m) due to the benefit of surplus funds in the first part of the year from the share placing in November 2005. Loss on ordinary activities before tax was £0.27m (2005: £0.43m), giving a loss per share of 0.49p (2005: loss 1.00p), which reduces to a loss per share of 0.16p (2005: 1.00p) excluding the FRS 20 charge. The 2005 comparative has been restated following the 1 for 100 share consolidation in July 2005.

Group net assets at the end of the period were £1.50m (2005: net liabilities £0.59m). The cumulative FRS 20 charge is held in a separate reserve and does not reduce the net assets total. In February 2006 full repayment was made of the convertible redeemable loan notes of £0.15m at par and in July 2006 further repayment instalments of £0.13m have been made against the outstanding redeemable loan notes, leaving a balance of only £0.04m to be repaid in July next year.

The Board does not propose an interim dividend payment and it is not currently anticipated that there will be any final dividend for 2006.

Chairman's Statement (continued)

Operations

During this year significant effort and investment has gone into building the resources and infrastructure necessary to enable the investment and management of the current property funds to progress at the required rate and achieve their target investment returns. Funds committed for investment on our first fund, The Epicure Berlin Property Company ('Epicure'), have now reached 316m euros. In July 2006 SDIC announced that 241m euros had been committed for investment and the SDIC board will soon be issuing an update on current progress. Epicure is targeted to be substantially invested by the end of December this year and SDIC investment is currently expected to be complete by the end of March 2007.

As part of this process, several key managerial appointments were made early in the year and we have subsequently announced the appointment in July 2006 of Floris van Dijkum as our Chief Investment Officer for Speymill Property Managers. Floris has a strong background as a real estate analyst and banker and he will play a vital role in the development of our fund management business.

Speymill Contracts has successfully continued the pursuit of design and build development projects to add to its established new build and refurbishment activities. The total value of order prospects has increased to a current value of over £70m and orders recently won have included a new 150 bed safari hotel with leisure complex at Chessington World of Adventures, an 80 bed Days Inn hotel with associated Whitbread pub, plus three Premier Travel Inn hotel extensions. We are also in the final stages of negotiations for six other significant hotel developments, with letters of intent already in place on four of these. This encouraging progress clearly demonstrates the further strengthening of the company's name and reputation in its chosen markets.

Board changes

As noted in my last report to you, Paul Doona resigned from the Board in January this year, having made a significant contribution to the Group's recovery and reorganisation. In July we announced that Jim Mellon joined the Board as a non-executive director. Jim has been closely associated with the Group's redevelopment since the initial investment by Burnbrae Ltd (of which he is the ultimate beneficiary) in mid 2004 and his presence on the Board will further benefit the Company with his strategic vision and expertise.

Future prospects

The implementation of our business development strategy is now well under way with strong progress in both our fund management and contracting activities. As previously indicated, we are already pursuing further opportunities for the launch of new funds for investment in Europe and beyond and we have been carrying out detailed research in relation to the introduction of REITS legislation in the UK next year.

Our contracting business has significantly increased the value of its order prospects pipeline and has already successfully negotiated several new orders in the turnkey private development sector. Turnover for this business for 2006 will show a marked improvement over the last two years and there is now a platform for further substantial increases next year and beyond.

There are clear opportunities for substantial growth and the Board is committed to achieving its targets and increasing shareholder value.

Bob MacDonald
Executive Chairman
20 September 2006

Consolidated Profit and Loss Account

For the six months ended 30 June 2006

		Notes	**6 months to 30 June 2006 (unaudited) £'000**	6 months to 30 June 2005 (unaudited) £'000	Year to 31 December 2005 (audited) as restated £'000
Turnover	— continuing activities		**6,776**	6,023	13,335
	— discontinued activities		**—**	1,988	1,988
			6,776	8,011	15,323
Cost of sales	— continuing activities		**(4,953)**	(5,224)	(11,967)
	— discontinued activities		**—**	(1,682)	(1,682)
			(4,953)	(6,906)	(13,649)
Gross profit	— continuing activities		**1,823**	799	1,368
	— discontinued activities		**—**	306	306
			1,823	1,105	1,674
General administrative expenses			**(1,875)**	(1,406)	(2,620)
Share options charge		5	**(182)**	—	(110)
Exceptional items			**—**	(90)	(503)
Amortisation of goodwill			**(28)**	(28)	(56)
Total administrative expenses			**(2,085)**	(1,524)	(3,289)
Operating loss	— continuing activities		**(262)**	(357)	(1,553)
	— discontinued activities		**—**	(62)	(62)
			(262)	(419)	(1,615)
Gain on disposal of discontinued activity			**—**	104	104
Interest payable and similar charges			**(6)**	(115)	(139)
Loss on ordinary activities before taxation			**(268)**	(430)	(1,650)
Taxation on loss on ordinary activities			**(5)**	—	(3)
Loss on ordinary activities after taxation			**(273)**	(430)	(1,653)
Loss per share (pence) — basic and fully diluted		9	**(0.49)**	(1.00)	(4.25)

In both 2005 and 2006 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 2006

	Notes	**30 June 2006 (unaudited) £'000**	30 June 2005 (unaudited) £'000	31 December 2005 (audited) as restated £'000
Fixed assets				
Intangible fixed assets — goodwill		**916**	972	944
Tangible fixed assets		**125**	105	80
		1,041	1,077	1,024
Current assets				
Stock and work in progress		**61**	48	11
Debtors		**3,616**	2,764	3,283
Cash at bank and in hand		**237**	—	1,130
		3,914	2,812	4,424
Current liabilities				
Creditors: amounts falling due within one year		**(3,419)**	(3,845)	(3,696)
Net current assets/(liabilities)		**495**	(1,033)	728
Total assets less current liabilities		**1,536**	44	1,752
Creditors: amounts falling due after more than one year		**(40)**	(630)	(190)
Net assets		**1,496**	(586)	1,562
Capital and reserves				
Called up share capital		**565**	404	559
Share premium account		**7,834**	4,708	7,814
Called up deferred share capital		**—**	2,294	—
Capital redemption reserve		**2,294**	—	2,294
Profit and loss account — deficit		**(9,489)**	(7,992)	(9,215)
Share options reserve	5	**292**	—	110
Shareholders' funds		**1,496**	(586)	1,562

Consolidated Cash Flow Statement

For the six months ended 30 June 2006

	Notes	**6 months to 30 June 2006 (unaudited) £'000**	6 months to 30 June 2005 (unaudited) £'000	Year to 31 December 2005 (audited) as restated £'000
Net cash outflow from operating activities	1	**(844)**	(1,358)	(2,314)
Returns on investments and servicing of finance		**(6)**	(115)	(139)
Tax paid		**(5)**	—	(3)
Capital expenditure and financial investment		**(81)**	7	3
Acquisitions and disposals		**—**	518	518
Cash outflow before financing		**(936)**	(948)	(1,935)
Financing	2	**(136)**	1,125	4,030
(Decrease)/increase in cash in the period		**(1,072)**	177	2,095

Reconciliation of Net Cash Flow to Movement in Net Debt

	Notes			
(Decrease)/increase in cash in the period		**(1,072)**	177	2,095
Cash flow from change in debt		**163**	(157)	197
Change in net debt resulting from cash flows		**(909)**	20	2,292
Conversion of loan notes		**—**	850	850
Cancellation of loan notes		**—**	139	139
		(909)	1,009	3,281
Opening net debt		**785**	(2,496)	(2,496)
Closing net debt	3	**(124)**	(1,487)	785

Notes

1. Reconciliation of operating loss to operating cash flows

	6 months to 30 June 2006 (unaudited) £'000	6 months to 30 June 2005 (unaudited) £'000	Year to 31 December 2005 (audited) as restated £'000
Operating loss	**(262)**	(419)	(1,615)
Depreciation of tangible assets	**37**	61	89
Amortisation of goodwill	**27**	27	56
Share options provision	**182**	—	110
Decrease/(increase) in stocks and work in progress	**(896)**	(398)	(545)
Decrease/(increase) in debtors	**518**	(219)	(592)
(Decrease)/increase in creditors	**(450)**	(410)	183
Net cash outflow from operating activities	**(844)**	(1,358)	(2,314)

2. Analysis of cash flows from financing

Issue of equity shares	**26**	1,008	4,001
Expenses of issue	**—**	—	(74)
	26	1,008	3,927
Issue of convertible loan notes	**—**	300	300
Repayment of convertible loan notes	**(150)**	—	—
Repayment of redeemable loan notes	**—**	(139)	(139)
Capital element of finance leases repaid	**(12)**	(44)	(58)
	(136)	1,125	4,030

3. Analysis of net (debt)/funds

	At 1 Jan 2006 £'000	Cash Flow £'000	Other non-cash changes £'000	**At 30 June 2006 £'000**
Cash at bank and in hand	1,130	(893)	—	**237**
Overdraft	—	(179)	—	**(179)**
	1,130	(1,072)	—	**58**
Debt due within one year:				
finance leases	(24)	12	—	**(12)**
redeemable loan notes	(131)	—	—	**(131)**
Debt due after more than one year:				
finance leases	(1)	1	—	**—**
convertible loan notes	(150)	150	—	**—**
redeemable loan notes	(39)	—	—	**(39)**
	(345)	163	—	**(182)**
Movement in net debt	785	(909)	—	**(124)**

Notes

4. **Basis of preparation**

   This Report was approved by the directors on 19 September 2006.

   The interim financial statements have been prepared using accounting policies and practices consistent with those adopted in the accounts for the year ended 31 December 2005 with the exception of the application of FRS 20 (see below) and are also consistent with those which will be adopted in the 2006 Annual Report and Accounts.

   The interim financial statements are unaudited.

   The financial information contained in this Report does not constitute statutory accounts as defined by Section 240 of the Companies Act 1985.

   The figures for the year ended 31 December 2005 have been extracted from the statutory accounts which have been filed with the Registrar of Companies but have been restated for the impact of FRS 20. The auditors' report for 2005 accounts was unqualified and did not contain a statement under s237(2) or (3) of the Companies Act 1985.

5. **Adoption of new accounting policies**

   The adoption of FRS 20 – share-based payments, which is effective for accounting periods ending on or after 1 January 2006, requires a prior period adjustment to be made. This has created a share option reserve at 30 June 2006 of £0.29m and reduced the retained profits by £0.29m. Of this amount, £0.11m is attributable to the year ended 31 December 2005.

6. During the period the following movements occurred on share capital:

   a) In May 2006 warrants were exercised over a total of 450,000 ordinary shares of 1 pence at par, raising £4,500.

   b) In June 2006 warrants were exercised over 200,000 ordinary shares of 1 pence at 11 pence per share, raising £22,000.

7. In February 2006 the £150,000 convertible redeemable loan notes were fully redeemed at par.

8. Post-Balance Sheet Event:

   In July 2006 the Company made repayment instalments of £130,500 on the redeemable loan notes.

9. Loss per ordinary share has been calculated using the weighted average number of shares in issue during the period of 56,403,048 (2005: 30,090,606). The comparative figure has been restated following the 1 for 100 share consolidation in July 2005.

10. The directors do not propose to pay a dividend for the period.

11. 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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