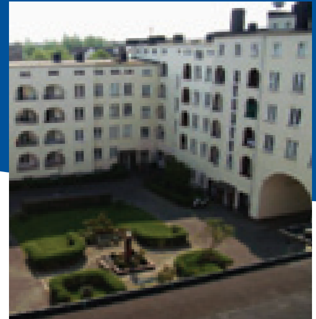
Real estate investment, construction and property management



Interim Report 2007

Welcome to SPEYMILL

Speymill's objective is to develop a property services business which encompasses real estate investment management, construction and property management in the UK and internationally which will bring significant returns for all stakeholders.

Financial Highlights

- Turnover up 225% to £22.03m (2006: £6.78m) — 2006 full year turnover of £22.31m.
- Contracting turnover up 221% to £17.04m (2006: £5.31m).
- Investment Management turnover up 239% to £4.98m (2006: £1.47m).
- Operating profit, before share based payment charges, of £1.85m (2006: loss of £0.05m).
- Pre-tax profit of £1.41m (2006: loss £0.24m).
- Basic Earning per share of 2.1p (2006: loss 0.43p).
- Basic Earnings per share, before share based payment charges, of 2.9p (2006: loss 0.11p).
- Net cash balances of £0.74m.

Operating Highlights

- Over US$2.1bn of assets under management, anticipated to rise to around US$3.5bn in 2008 when the current assets under management are fully leveraged and invested.
- Epicure Berlin Property Company reached fully invested value of €342m.
- Speymill Deutsche Immobilien Company (SDIC) fully invested, fully leveraged value of €925m.
- Speymill Macau Property Company plc (MCAU) initial US$80m fully committed for investment with investment of second tranche (US$70m) under way.
- GOAL Construction GmbH contracts for the Epicure and SDIC refurbishment programme expected to be around €60m.
- Speymill Contracts improves profitability, with considerably higher turnover.
- Speymill Contracts forward order prospects exceed £120m.
- Retirement village joint venture with The Goodman Group announced.
- Senior appointments to Investment management team.

Chairman's Statement

Introduction

As previously indicated, the Board's strategy continues to be focused on the further development of our existing businesses. I am therefore very pleased to report that the Group's results for the first half of 2007 reflect a substantial increase in the levels of turnover and profitability of both our investment management and our contracting activities.

The two AIM listed public funds that we manage, Speymill Deutsche Immobilien Company plc (SDIC) and Speymill Macau Property Company plc (MCAU) both raised additional equity for investment during the period and full investment was completed for the original ordinary share class of SDIC. Our contracting business achieved first half turnover at almost the full year figure for 2006 with profitability ahead of the 2006 full year result. It has also further increased the value of its pipeline of order prospects.

Following the announcement made and circulars sent to shareholders in July this year, the reincorporation of the Company on the Isle of Man became effective on 19 September 2007.

Results

As from 2007 the Group's financial statements are prepared under International Financial Reporting Standards (IFRS). Our interim results to 30 June 2007 are therefore presented in the new format and contain disclosures of changes arising from the first time adoption of IFRS.

Group turnover for the half year was £22.03m (2006: £6.78m), an increase of 225% and virtually equal to 2006 full year turnover of £22.31m. The volume increase arose largely from our contracting business where turnover rose to £17.04m (2006: £5.31m), an increase of 221%. Investment management turnover rose by an even higher 239% and benefited from the increased invested values for each of the German property funds under management as well as income from the Macau fund which launched in November 2006.

General administrative expenses rose to £4.14m (2006: £1.88m), reflecting the increases in resources and establishment costs required during the second half of 2006 and first half of 2007 to support the substantial increase in turnover and ongoing business development.

The share based payments charge for the half year was £0.44m (2006: £0.18m), which included a final charge of £0.26m relating to shares issued to an employee, the major element of which was charged in the second half of 2006.

Before share based payment charges the Group achieved a Profit from Operations of £1.85m (2006: loss £0.05m), highlighting the substantial performance improvements realised over the last twelve months. After share based payment charges, Profit from Operations was £1.40m (2006: loss £0.23m).

The return to profitability has resulted in a tax provision arising on the first half year's results. Although brought forward losses are still available to cover contracting profits, there is a charge on Speymill Property Managers as a UK controlled foreign company, plus German tax on GOAL. The net tax provision is £0.21m (2006: £0.01m).

Profit after tax of £1.20m (2006: loss £0.25m) gave basic earnings per share of 2.10p (2006: loss per share 0.43p) and fully diluted earnings per share of 1.90p (2006: loss per share 0.43p). Excluding share based payment charges earnings per share were: basic 2.90p (2006: loss per share 0.11p) and fully diluted 2.60p (2006: loss per share 0.11p).

The profit for the period boosted Group net assets at the period end to £3.86m (2006: £1.53m), with the share based payments reserve comprising £1.24m (2006: £0.29m) of the total. Under IFRS goodwill is not amortised and is therefore being carried in the balance sheet at cost less any impairment provision.

Operational cash inflow for the period was £0.79m (2006: Outflow £0.84m), with net positive cash balances at 30 June 2007 of £0.74m (2006: £0.01m). Since the period end, new banking arrangements have been agreed with Lloyds TSB which provide considerably increased and more flexible borrowing facilities in keeping with our improved balance sheet position and our increased activity levels.

Chairman's Statement (continued)

Trading in the second half of the year is so far progressing as planned and the Board currently anticipates that a dividend payment will be made for the 2007 full year.

Operations

Following the Macau fund second tranche (US$70m) and the SDIC 'C' share (€250m) fundraisings, both in May this year, we now have over US$2.1 billion of assets under management. Excluding any further new fund launches, this is anticipated to rise to around US$3.5 billion once the SDIC 'C' share fund and the Macau funds are fully leveraged and invested, which should be by the second quarter of 2008. Loan facilities of over €500m have already been agreed at competitive rates which will fix the borrowing cost on these funds at below 5%, which is an excellent performance in current market conditions.

The original SDIC funds were fully invested by the end of the first quarter of 2007, giving a fully leveraged value of €925m. The Epicure Berlin Property Company fund (Epicure) reached an initial fully invested value of €342m by the end of 2006, though some refinancing within the current portfolio may enable this value to be increased.

Investment of the second tranche of the Macau fund is under way and we hope to have these funds fully committed for investment in the near future.

During 2007 the investment management senior team has been further strengthened by two key appointments. Peter Warren joined in January as Head of Capital Markets and Product Development and in July Thomas Sipos was appointed as head of our operations in Asia, where we see considerable opportunity for additional activity. Thomas is now based in Hong Kong strengthening our presence there and further developing our local network.

Although the recent turmoil in real estate markets may affect our ability to raise new funds in the very near term, we remain confident that our access to new investment opportunities will continue to drive the increase in assets under management for Speymill Property Managers.

Our Berlin-based joint venture, GOAL Service GmbH, has continued to invest in the staffing and IT resources needed to maintain effective management of the ever increasing German property portfolios. The company now has a total of around 25,000 units under management, which should rise to around 42,000 once SDIC 'C' funds are fully invested. Work on the Epicure and SDIC refurbishment contracts commenced during the second quarter of 2007 and will continue through to the middle of 2008. The total value of these works is currently expected to be around €60m, with GOAL Construction earning a fee for managing the projects. There is also synergy with our UK Contracting business, with key personnel assisting with the development of this strand of our operations.

As already highlighted in our 2006 annual report, Speymill Contracts significantly increased its level of business during the second half of 2006 and has continued this growth into 2007. The strategic move into larger design and build contracts in addition to the company's established new build and refurbishment business should see 2007 full year turnover reach more than double the 2006 level of £18m.

To support continuation of that growth, the company's pipeline of order prospects has now reached over £120m, a figure representing committed and likely business at the win rate achieved for new contracts. Orders recently won have included 11 Premier Travel Inn extensions of between 15 and 50 beds, a 115 bed Park Inn Hotel and a 131 bed Ramada Encore Hotel. The company is currently on site with 14 contracts.

Last month we announced the formation of a joint venture with The Goodman Group LLC of the USA. The purpose of this joint venture is to investigate the potential development of retirement villages in the UK. These communities provide 4/5 star apartment accommodation and facilities and care for elderly people.

Goodman is a highly successful private company that develops, owns and operates senior living and healthcare communities throughout the USA. They operate

over 60 communities in 10 States and serve over 11,000 residents. Goodman has been an innovator in the development and management of these communities in the USA and is recognised as a market leader in the sector.

This opportunity provides a clear synergy between all parts of the Speymill business model. Speymill Contracts will manage the real estate issues by the identification and acquisition of potential sites and will build and maintain the facilities. Speymill Property Managers will take charge of the purchase process and the identification of potential funding sources. The Goodman Group will provide the expertise in site selection criteria, facility design and marketing, and will operate the new villages in the UK.

We believe that the opportunity for Retirement Village Communities in the UK is significant as the population ages and the demand for the provision of facilities and communities for the elderly increases.

Restructuring

The proposed transfer of the holding company to a new AIM listed company registered on the Isle of Man was approved by shareholders at the EGM on 1 August 2007 and received final High Court approval on 11 September. The reincorporation subsequently became effective on Wednesday 19 September.

As part of the restructuring, some changes to the composition and titles of Main Board directors have been implemented. I have been appointed as Non Executive Chairman of the new Speymill Group plc, with Bob MacDonald moving to the position of Group Chief Executive and Andrew Latham to Group Managing Director. From an operational perspective, Bob will continue to have overall operational responsibility for the management of the Group, and Bob and Andrew will still be heading our investment management and contracting businesses respectively. Keith Lees continues as Group Finance Director and he will be based at our new Group head office on the Isle of Man. Other than Howard Flight, the non-executive directors remain unchanged. Howard has not joined the new Board but will continue in his valuable role as chairman of Speymill Property Managers Limited.

Future Prospects

The Group has now reached a position of consolidated expansion in the levels of activity and profitability in each of our main businesses, and the recently completed corporate restructuring gives us a broader international platform from which to continue and accelerate that expansion.

Our strong and experienced investment management team, together with our now established business model provides us with the ability and flexibility to develop and launch new and creative products and services in different geographical areas, in addition to potential further expansion of our existing funds under management.

Speymill Contracts is now executing three times the annual value of orders it did in 2005 and based on its improved market position is continuing to experience increasing demand from both new and existing customers.

We are therefore very well positioned to move the Group on to further significant increases in the levels of business achieved, together with the associated improvement in shareholder returns.

Jim Mellon
Chairman

24 September 2007

Consolidated Income Statement

For the six months ended 30 June 2007

Continuing operations	Notes	**6 months to 30 June 2007 (unaudited) £'000**	6 months to 30 June 2006 (unaudited) £'000	12 months to 31 December 2006 (audited) £'000
Turnover	2,3	**22,025**	6,776	22,305
Cost of sales		**(16,036)**	(4,953)	(16,838)
Gross profit		**5,989**	1,823	5,467
Administrative expenses:				
— General administrative expenses		**(4,144)**	(1,875)	(5,077)
— Share based payments	4	**(443)**	(182)	(906)
Profits/(loss) from operations		**1,402**	(234)	(516)
Net finance income/(costs)	5	**3**	(6)	(9)
Profit/(loss) before taxation		**1,405**	(240)	(525)
Taxation	6	**(205)**	(5)	217
Profit/(loss) after taxation		**1,200**	(245)	(308)
Earnings/(loss) per share (pence)				
Basic	7	**2.10**	(0.43)	(0.55)
Diluted	7	**1.90**	(0.43)	(0.55)

Consolidated Balance Sheet

As at 30 June 2007

	Notes	**30 June 2007 (unaudited) £'000**	30 June 2006 (unaudited) £'000	31 December 2006 (audited) £'000
Non-current assets				
Intangible assets — Goodwill		**944**	944	944
Property, plant and equipment		**230**	125	197
Investment	8	**637**	—	—
Deferred tax assets		**251**	—	255
		2,062	1,069	1,396
Current assets				
Inventories		**60**	61	33
Due from customers for contract work		**5,351**	2,548	3,607
Trade and other receivables		**5,759**	1,069	3,824
Cash and cash equivalents		**743**	237	647
		11,913	3,915	8,111
Total assets		**13,975**	4,984	9,507
Current liabilities				
Bank overdraft		**—**	179	—
Trade and other payables		**5,322**	1,244	3,710
Due to suppliers for contract work		**4,671**	1,854	3,466
Redeemable loan notes		**39**	131	39
Obligations under finance leases		**11**	12	10
Current tax liabilities		**38**	—	38
		10,081	3,420	7,263
Non-current liabilities				
Redeemable loan notes		**—**	39	—
Obligations under finance leases		**34**	—	39
Total liabilities		**10,115**	3,459	7,302
Net assets		**3,860**	1,525	2,205
Equity				
Called up share capital		**578**	565	571
Share premium account		**7,852**	7,834	7,847
Capital redemption reserve		**2,294**	2,294	2,294
Share based payment reserve		**1,237**	292	794
Retained earnings		**(8,101)**	(9,460)	(9,301)
Total equity		**3,860**	1,525	2,205

The previously reported UK GAAP figures have been restated to take account of any presentational changes required by IFRS adoption, where for instance items are required to be shown on the face of the primary statements rather than in the notes and where existing items are now split or shown on different lines (e.g. due from/to customers/suppliers for contract work as a separate line item).

Statement of Changes in Shareholders' Equity

For the period ended 30 June 2007

	Ordinary share capital £'000	Capital redemption reserve £'000	Share based payment reserve £'000	Share premium £'000	Retained income £'000	Total equity £'000
Balance at 31 December 2005 (audited)	**559**	**2,294**	**110**	**7,814**	**(9,215)**	**1,562**
Issue of ordinary shares	6	—	—	20	—	26
Share based payments						
— share options	—	—	182	—	—	182
Loss for the period	—	—	—	—	(245)	(245)
Balance at 30 June 2006 (unaudited)	**565**	**2,294**	**292**	**7,834**	**(9,460)**	**1,525**
Issue of ordinary shares	3	—	—	19	—	22
Share based payments						
— share issue	—	—	527	—	—	527
— share options	3	—	197	2	—	202
Transfers relating to share based payments	—	—	(222)	—	222	—
Issue costs	—	—	—	(8)	—	(8)
Loss for the period	—	—	—	—	(63)	(63)
Balance at 31 December 2006 (audited)	**571**	**2,294**	**794**	**7,847**	**(9,301)**	**2,205**
Share based payments						
— share issue	7	—	264	5	—	276
— share options	—	—	179	—	—	179
Profit for the period	—	—	—	—	1,200	1,200
Balance at 30 June 2007 (unaudited)	**578**	**2,294**	**1,237**	**7,852**	**(8,101)**	**3,860**

Consolidated Statement of Cash Flows

For the 6 months ended 30 June 2007

	6 months to 30 June 2007 (unaudited) £'000	6 months to 30 June 2006 (unaudited) £'000	12 months to 31 December 2006 (audited) £'000
Cash flows from operating activities			
Cash generated from operations	**789**	(844)	(8)
Income taxes (paid)/received	**—**	(5)	1
Net cash inflow/(outflow) from operating activities	**789**	(849)	(7)
Cash flows from investing activities			
Interest received	**3**	—	—
Acquisition of investment	**(637)**	—	—
Purchase of property, plant and equipment	**(77)**	(81)	(203)
Net cash outflow from investing activities	**(711)**	(81)	(203)
Cash flows from financing activities			
Issue of equity shares	**11**	26	45
Repayments of convertible loans	**—**	(150)	(150)
Repayments of redeemable loan notes	**—**	—	(131)
Finance lease principal repayments	**(5)**	(12)	(28)
Interest paid	**—**	(6)	(9)
Net cash inflow/(outflow) from financing activities	**6**	(142)	(273)
Net increase/(decrease) in cash and cash equivalents	**84**	(1,072)	(483)
Translation	**12**	—	4
Cash and cash equivalents at beginning of year	**647**	1,130	1,126
Net cash and cash equivalents at end of year	**743**	58	647
Cash and cash equivalent comprise			
Cash and deposits	**743**	237	647
Bank overdraft	**—**	(179)	—
	743	58	647
Cash generated from operations			
Profit/(loss) from operation	**1,402**	(234)	(516)
Adjusted for:			
Depreciation of tangible assets	**43**	37	86
Share based payments charge	**443**	182	906
Increase in inventories	**(27)**	(897)	(22)
(Increase)/decrease in debtors	**(3,672)**	518	(4,059)
Increase/(decrease) in creditors	**2,600**	(450)	3,597
Net cash inflow/(outflow) from operating activities	**789**	(844)	(8)

Notes to the Interim Financial Statements

For the period ended 30 June 2007

1 ACCOUNTING POLICIES

The Group's consolidated financial statements consolidate those of the Company and its subsidiaries (together referred to as the Group) plus proportionately consolidating the Group's interest in joint ventures.

The consolidated interim financial statements were authorised for issuance on 24 September 2007.

Statement of compliance

The consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards for interim financial statements, (IFRSs).

These are the Group's first IFRS interim financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1 'First-time adoption of International Financial Reporting Standards' has been applied. The consolidated interim financial statements do not include all the information required for the full annual financial statements.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in note 9. This note includes reconciliation of equity and profit or loss for the comparative periods reported under UK GAAP to those reported for periods under IFRS.

1.1 Basis for preparation

The Group consolidated interim financial statements are presented in pounds sterling, rounded to the nearest thousand. They have been prepared on the historical cost basis except where assets and liabilities are required to be stated at their fair value.

The preparation of Group consolidated interim financial statements in conformity with IAS 34 "Interim Financial Reporting" requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience, current and expected economic conditions, and in some cases actuarial techniques and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and/or in future periods if applicable.

The more significant areas requiring the use of management estimates and assumptions relate to the basis of future cash flow estimates, asset impairments and the fair value and accounting treatment of financial instruments and contingent liabilities.

These consolidated interim financial statements have been prepared on the basis of IFRSs in issue that are effective or available for early adoption at the Group's first IFRS annual reporting date, 31 December 2007.

Based on these IFRSs, the Board of Directors have made assumptions about the accounting policies expected to be adopted when the first IFRS annual financial statements are prepared for the year ended 31 December 2007.

1 ACCOUNTING POLICIES

1.1 Basis for preparation (continued)

The IFRSs that will be effective or available for first time adoption in the annual financial statements for the period ended 31 December 2007 are still subject to change and the issue of additional interpretations and therefore cannot be determined with certainty.

Accordingly, the accounting policies for that annual period that are relevant to this interim information will be determined only when the first IFRS financial statements are prepared at 31 December 2007.

The preparation of the consolidated interim financial statements in accordance with IAS 34 resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under UK GAAP.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated interim financial statements. They have also been applied in preparing an opening IFRS balance sheet at 1 January 2006 for the purposes of the transition to IFRS as required by IFRS 1. The impact of the transition from UK GAAP is explained in note 9.

The accounting policies have been applied consistently throughout the Group for the purposes of these interim financial statements.

Bases of consolidation

a) Subsidiaries

The consolidated financial statements incorporate the results of Speymill Group plc and its subsidiaries. Subsidiaries are fully consolidated using the purchase method of accounting from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date such control ceases.

The cost of an acquisition is measured at the fair value of the consideration plus costs directly attributable to the acquisition. The assets and liabilities of a subsidiary are measured at their fair value at the date of acquisition. Any excess of costs of acquisition over the fair values of identifiable assets and liabilities are recognised as goodwill.

b) Joint Ventures

Joint ventures are those entities over which the Group has joint control, established by contractual agreement. The consolidated interim financial statements include the Group's proportionate share of the joint venture entities' assets, liabilities, revenue and expenses with items of a similar nature on a line by line basis, from the date that joint control commences until the date that joint control ceases.

c) Transactions eliminated on consolidation

Intra-group balances and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Notes to the Interim Financial Statements (continued)

For the period ended 30 June 2007

1 ACCOUNTING POLICIES

1.2 Summary of significant accounting policies

Foreign currency translation

Foreign Currency

Foreign currency transactions are translated into the functional currency using the approximate exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at the year-end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except where hedge accounting is applied.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of their fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in other comprehensive income in equity.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, generally are translated into pounds sterling at foreign exchange ruling at the balance sheet date.

The revenues and expenses of foreign operations, excluding foreign operations in hyper inflationary economies, generally are translated to pounds sterling at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided to customers outside the Group in the normal course of business net of Value Added Tax.

The Group revenue comprises the following:

- Fee income due on fund and property management services is accrued based on funds invested and rents received.
- Performance fees arising upon the achievement of specified targets are recognised at the respective fund's year end, when such performance fees are confirmed as receivable, or when there is a crystallising event.
- Interest is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.
- Revenue from construction is recognised in accordance with the policy on construction contracts below.

Construction contracts

As soon as the outcome of a contract can be estimated reliably, contract revenue and costs are recognised over the period of the contract. Where it is probable that total costs will exceed contract revenue, the expected loss is recognised as an expense immediately.

1 ACCOUNTING POLICIES

1.2 Summary of significant accounting policies (continued)

Construction contracts (continued)

The Group uses the "percentage completion method" to determine the appropriate amount to recognize in the given period.The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of the total estimated costs for the contract.

The Group presents as an asset the gross amount due from customers for all work in progress for which costs incurred plus recognised profit less recognised losses exceed progress billings.

Progress billings not yet paid by customers are included within trade and other receivables. The Group presents as a liability the gross amounts due to customers for contract work for all contracts in progress for which progress billings exceed cost incurred plus recognised profits less recognised losses.

Segmental reporting

Segmental reporting is based on a two segment format, of which the primary format is the business areas in accordance with the Group's internal reporting structure and the secondary format is for geographical areas.

Further information on the business activities of each segment is set out on page 16.

Segment results represent the contribution directly attributable for the various segments to corporate overheads and the profit of the Group. Segment assets and liabilities comprise those assets and liabilities directly attributable to segments.

Financing costs

Interest payable on borrowings is calculated using the effective interest rate method. Other charges include bank charges and commission costs. The interest expense component of finance lease payments is recognised in the income statement using the constant periodic rate of return.

Taxation

The tax charge is composed of current tax and deferred tax, calculated using tax rates that have been enacted or subsequently enacted by the balance sheet date. Current tax and deferred tax are charged or credited to the income statement except where it relates directly to equity in which case the relevant tax is also dealt with in equity.

Current tax is based on the profit for the year. Deferred tax is provided in full, using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax on assets and liabilities is not recognised if the temporary difference arises from the initial recognition of goodwill, or from the initial recognition of other assets or liabilities in a transaction that affect neither accounting or taxable profits and differences relating to investments in subsidiaries to the extent that they will probably reverse in future.

Notes to the Interim Financial Statements (continued)

For the period ended 30 June 2007

1 ACCOUNTING POLICIES

1.2 Summary of significant accounting policies (continued)

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Intangible assets — Goodwill

Goodwill represents the excess of fair value consideration over the fair value of the identifiable assets and liabilities acquired, arising on the acquisition of subsidiaries and other business entities, joint ventures and associates.

Goodwill on acquisition of subsidiaries and other business entities is included in non-current assets. Goodwill on acquisition of joint ventures and associates is included in investments in joint ventures and associates.

Goodwill is reviewed annually for impairment and is carried at costs less accumulated impairment losses. Goodwill is included when determining the profit or loss on subsequent disposal of the business to which it relates.

Goodwill arising on acquisitions before the date of transition 1 January 2006 has been retained at the previous UK GAAP value and is no longer amortised but is tested annually for impairment. Negative goodwill arising on acquisition is recognised directly in profit and loss.

Property, plant and equipment

Property, plant and equipment are stated at costs less accumulated depreciation and any recognised impairment losses. Costs include purchase costs together with any incidental expenses associated with bringing the asset to its operating location and condition. Property plant and equipment are depreciated over their expected useful lives as follows:

Short leasehold improvements	— over the period of the lease
Fixtures and fittings	— 3–5 years
Motor vehicles	— 4 years

The carrying value of property, plant and equipment is reviewed for impairment when events and circumstances indicate that it is not recoverable. Any impairment is charged to the income statement immediately.

Impairment of assets

Goodwill arising on acquisitions and other assets that have an indefinite useful life and are not subject to amortisation are reviewed at least annually for impairment.

Other intangible assets, and property, plant and equipment are reviewed for impairment whenever there is an indication that the carrying amount of the asset may not be recoverable. If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised. Recoverable amount is the higher of fair value less costs to sell and value in use.

1 ACCOUNTING POLICIES
1.2 Summary of significant accounting policies (continued)

Impairment of assets (continued)
Value in use is assessed by discounting the estimated future cash flows that the asset is expected to generate. For this purpose assets including goodwill are grouped in cash generating units representing the lowest levels for which there is separately identifiable cash flow. Impairment losses for goodwill are not reversed in subsequent periods. Reversal of other impairment losses are recognised in income as they arise

Inventories
Inventories are valued at lower of cost or net realisable value. Cost comprises material and direct labour appropriate to the relevant stage of completion. Net realisable value is based on the estimated contract price less all further costs to completion.

Retirement benefit costs
The Group operates a defined contribution scheme. Contributions to the scheme are charged to the income statement as they become payable according to the scheme rules.

Share based payments
Employee services received in exchange for the grant of share options, performance share plan awards and deferred bonus plan awards are charged in the income statement over the vesting period based on the fair values of the options or awards at the date of grant.

For share options the fair value is calculated using the Black-Scholes model and the vesting period is 0–3 years. For share issues, the fair value is the market value of the shares issued. The corresponding credits in respect of amounts charged to the income statement are included in a separate reserve in equity until such time that the option or awards are exercised.

Leasing
Leases which transfer substantially all of the risks and rewards of ownership to the lessee are classified as finance leases. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or if lower, at the present value of the minimum lease payments, each determined at the inception of the lease, and depreciation is provided accordingly.

The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and the reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis.

Notes to the Interim Financial Statements (continued)

For the period ended 30 June 2007

1 ACCOUNTING POLICIES

1.2 Summary of significant accounting policies (continued)

Provisions

Provisions are recognised when the Company has a present obligation, whether legal or constructive, as a result of a past event for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

A contingent liability is not recognised on the balance sheet except in a business combination. A contingent liability is disclosed when the possibility of an outflow of resources embodying economic benefits is not remote.

Dividend distribution

Dividend distribution to shareholders is recognised as a liability in the financial statements in the period in which the dividends are declared and authorised, i.e. no longer at the discretion of the entity.

Financial instruments

Financial instruments recognised on the balance sheet include investments, trade and other receivables, cash and cash equivalents, borrowings, derivatives and trade and other payables.

Financial instruments are initially measured at fair value when the Company becomes a party to their contractual arrangements. Transaction costs are included in the initial measurement of financial instruments, except financial instruments classified as at fair value through profit and loss. The subsequent measurement of financial instruments is dealt with below.

A financial asset is derecognised when the right to receive cash flows from the asset has expired or the Company has transferred its rights to receive cash and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the assets.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

On derecognition of a financial asset, the difference between the proceeds received or receivable and the carrying amount of the asset is included in income.

On derecognition of a financial liability, the difference between the carrying amount of the liability extinguished or transferred to another party and the amount paid for is included in income.

1 ACCOUNTING POLICIES

1.2 Summary of significant accounting policies (continued)

Financial instruments (continued)

Investments

Financial instruments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the profit and loss. The Group has not designated any financial instrument assets or liabilities as measured at fair value through profit and loss.

Other financial instruments held by the Group are classified as available for sale or held to maturity. Available for sale investments are stated at fair value, with any resultant gain or loss recognised directly in equity, until the investment is disposed of, or determined to be impaired at which time the cumulative gain or loss previously recognised directly in equity is recognised in profit and loss.

Held to maturity investments are measured at subsequent reporting dates at amortised costs.

Trade debtors

Trade and other receivables are stated at their fair value on initial recognition and subsequently at costs less impairment loses.

Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value and are subsequently measured at cost as they have a short-term maturity.

Cash which is subject to legal or contractual restrictions on use is classified separately.

Financial liabilities

Financial liabilities, other than derivatives, are subsequently measured at amortised cost, using the effective interest rate method.

Trade payables

Trade payables are non-interest bearing and are stated at nominal value.

Bank borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs are charged to income on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent they are not settled in the period in which they arise.

Notes to the Interim Financial Statements (continued)

For the period ended 30 June 2007

2 Segmental reporting

	6 months to 30 June 2007 £'000	6 months to 30 June 2006 £'000	12 months to 31 December 2006 £'000
Group external turnover			
Fit-out and construction of leisure premises — UK	**17,039**	5,308	18,143
Investment Fund and Property Management Services			
— Continental Europe	**4,606**	1,468	3,854
— Rest of world	**380**	—	308
	22,025	6,776	22,305
Profit/(loss) before tax			
Fit-out and construction of leisure premises — UK	**432**	(361)	236
Investment Fund and Property Management Services	**1,967**	705	434
	2,399	344	670
Unallocated costs	**(994)**	(584)	(1,195)
	1,405	(240)	(525)
Net assets			
Fit-out and construction of leisure premises — UK	**504**	(526)	71
Investment Fund and Property Management Services	**2,795**	741	1,003
	3,299	215	1,074
Unallocated assets	**561**	1,310	1,131
	3,860	1,525	2,205

3 Performance fees

The Group and Avila Capital Limited, property advisers of Speymill Macau Property Company Plc ("SMP"), are jointly entitled to a 20 per cent performance fee based on the increase in Net Asset Value per Ordinary Share of SMP over the stated benchmark of a 10% compound rate increase in Net Asset Values per annum. The performance fee is payable to the extent and only when and if SMP has realised profits from investments. Under the agreement 50% of the performance fees received is required to be applied in acquiring ordinary shares in SMP. The Group has not included a provision for any performance fee receivable in the half year results.

4 Share based payments

	6 months to 30 June 2007 £'000	6 months to 30 June 2006 £'000	12 months to 31 December 2006 £'000
Share options	**179**	182	379
Provision for share issue	**264**	—	527
	443	182	906

5 Net finance income/(costs)

	6 months to 30 June 2007 £'000	6 months to 30 June 2006 £'000	12 months to 31 December 2006 £'000
Bank interest receivable	**43**	52	97
Other interest receivable	**—**	—	4
	43	52	101
Bank interest payable	**(37)**	(49)	(97)
Loan interest	**(2)**	(1)	(9)
Finance lease charges	**(1)**	(2)	(4)
Other interest payable	**—**	(6)	—
	(40)	(58)	(110)
Net finance income/(costs)	**3**	(6)	(9)

6 Taxation

	6 months to 30 June 2007 £'000	6 months to 30 June 2006 £'000	12 months to 31 December 2006 £'000
UK current tax	**(98)**	—	(16)
Foreign current tax	**(95)**	(5)	(22)
Total current tax	**(193)**	(5)	(38)
Deferred tax	**(12)**	—	255
Total tax (charge)/credit	**(205)**	(5)	217

7 Earnings per ordinary share

	6 months to 30 June 2007 £'000	6 months to 30 June 2006 £'000	12 months to 31 December 2006 £'000
Profit/(loss) for the period	**1,200**	(245)	(308)
	No.	No.	No.
Weighted average number of ordinary shares in issue	**57,106,759**	56,403,048	56,371,951
Diluted number of ordinary share	**63,226,119**	—	—
Basic earnings/(loss) per share	**2.10**	(0.43)	(0.55)
Diluted earnings/(loss) per share	**1.90**	(0.43)	(0.55)

Notes to the Interim Financial Statements (continued)

For the period ended 30 June 2007

8 Investments

During the period the Group received 0.75% of the Placing proceeds as consideration for work in structuring the Placing of C shares in Speymill Deutsche Immobilien Company Plc. The consideration was part paid in cash and part by the issue to the Group of 937,000 C shares in Speymill Deutsche Immobilien Company Plc.

9 Transition to IFRS

The Group previously reported its financial statements under UK GAAP for the year ended 31 December 2006. The analysis below shows a reconciliation of the Company's results and equity reported under UK GAAP to that reported under IFRS for the 6 months to 30 June 2006 and for the year ended 31 December 2006. The transition does not change any of the cash flows.

Reconciliation of net income and equity for the period ended 30 June 2006

INCOME STATEMENT

	UK GAAP £'000	Transition Adjustment £'000	IFRS £'000
Amortisation of Goodwill*	28	(28)	—
Loss for the period after taxation	(273)	28	(245)

BALANCE SHEET ITEMS

	UK GAAP £'000	Transition Adjustment £'000	IFRS £'000
Intangible fixed assets — Goodwill*	916	28	944
Retained earnings	(9,488)	28	(9,460)
Total equity	1,497	28	1,525

* IFRS 3 Business Combinations does not permit the amortisation of goodwill. Instead, goodwill is carried at cost and is subject to regular impairment reviews. The impact in the period to 30 June 2006 is the reversal of the amortisation charge of £28,000. There are no associated tax impacts.

9. Transition to IFRS (continued)

Reconciliation of net income and equity for the year ended 31 December 2006

INCOME STATEMENT

	UK GAAP £'000	Transition Adjustment £'000	IFRS £'000
Amortisation of Goodwill*	56	(56)	—
Loss for the year after taxation	(364)	56	(308)

BALANCE SHEET ITEMS

	UK GAAP £'000	Transition Adjustment £'000	IFRS £'000
Intangible fixed assets — Goodwill*	888	56	944
Retained earnings	(9,357)	56	(9,301)
Total equity	2,149	56	2,205

* IFRS 3 Business Combinations does not permit the amortisation of goodwill. Instead, goodwill is carried at cost and is subject to regular impairment reviews. The impact in the period to 31 December 2006 is the reversal of the amortisation charge of £56,000.There are no associated tax impacts.

There was no equity adjustment at 31 December 2005.

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Head Office

Viking House
Nelson Street
Douglas
Isle of Man
IM1 2AH

Tel: 01624 639396
Fax: 01624 661009
enquiries@speymill.com
www.speymill.com

London Office

15 Stratton Street
London
W1J 8LQ

Tel: 020 7659 0763
Fax: 020 7659 6296