

# MONTPELLIER GROUP Plc

# MONTPELLIER GROUP Plc

## Directors and Administrators

### **Directors**

R Harrison (executive Chairman)  
J Gaffney (executive)  
P Underwood (executive)  
A Wagner OBE (non-executive)  
J Biles TD, BSc, FCA (non-executive)

### **Company Secretary**

C J Wright LLB ACIS

### **Registered Office**

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### **Registered Number**

650447 England

### **Auditors**

RSM Robson Rhodes LLP

### **Stockbrokers**

Rowan Dartington

### **Registrars**

Capita Registrars plc  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield  
HD8 0LA

Interim Statement 2004

- **Group turnover of £212m (2003: £211.5m)**
- **Group operating loss after tax of £20.7m (2003: operating profit after tax of £3.4m)**
- **Group loss per share of 33.68p (2003: earnings per share of 4.3p)**
- **Positive cash balance of £7m**
- **Focused construction business following sale of Investment Division**

## Chairman's Statement

The Montpellier Group has now been reconfigured as a focused construction business following the sale of its Investment Division, completed in October last year. The newly reconstituted Board has in the last two months undertaken a comprehensive business review which has revealed a number of problematic contracts primarily in YJL Construction and part of Allenbuild, the full extent of which has only come to light during this review and therefore underlying losses had not been fully recognised. Additional provisions to cover these losses, combined with one off costs connected to necessary reorganisation, have resulted in a considerable loss for the half-year.

We are, however, satisfied that this review has now identified all material contract exposures in the Group and we have provided for outstanding contract claims and for expected losses on contracts to the extent considered necessary. We expect the second half of the year will see a return to more normal trading results. The cash cost of these contract problems has already been taken and the Group cash position remains strong.

The recent Board and management changes ensure there is a clear focus on the diligent operation of our specialised businesses. The Board intends to focus its business on margin improvement. The Group's chosen market sectors are robust and we are confident that we will be able to achieve overall margin growth and acceptable returns. The majority of our businesses are performing strongly and in line with our expectations. This underlying strength of performance, and the management actions now in place to ensure proper contract controls at YJL Construction and Allenbuild, taken together with necessary cost reductions, give us confidence in a rapid improvement in performance.

### Operating review

The Group comprises a number of niche businesses with long-established brand names operating in both the public and private sectors. The Group's broad spread of expertise includes infrastructure, social housing, design and build, nuclear engineering, land remediation, high quality residential, retail and specialist refurbishment.

The Group has increasingly worked on publicly funded projects in the education, health, and infrastructure sectors as well as more specialist areas such as prisons and remand centres. The Group has improved its client service capabilities with a growing and significant proportion of all new contract wins now selected through client partnering and negotiated arrangements.

The Group's business specialisations are tabulated below:

Company	Market Sector	Contract Methodology	Geographical Focuses
<b>Allenbuild</b>	Social housing, public sector, limited commercial	Partnering, negotiation, selective tendering	Midlands, South East, North West & North East
<b>Britannia Construction</b>	Commercial, retail, public sector	Partnering, selective tendering	West Midlands, South West
<b>Britannia Interiors</b>	Shopfitting	Selective tendering	South & Midlands
<b>Bullock Construction</b>	Social housing, pharmaceutical	Partnering negotiation	Midlands & North
<b>Shepley Engineers</b>	Nuclear process services, restoration	Framework agreements, selective tendering partnerships	UK wide
<b>VHE</b>	Land redevelopment, remediation	Framework agreements, partnerships, selective tendering	UK wide
<b>Walter Lilly</b>	Commercial, private, education	Negotiation, 2 stage tendering	London, South East
<b>YJL Construction</b>	Commercial, residential, health/custodial	PFI partnerships, selective tendering	Southern England
<b>YJL Infrastructure</b>	Rail infrastructure	Partnering	London
<b>YJL London</b>	Commercial, health, education	Selective tendering	London

The Group's order book at 31 March 2004 was £430 million (2003: £531 million) having written down last year's reported infrastructure work bank to a realistic level. This remains very encouraging, with a full year's work currently secured.

### Financial Review

The Group operating loss for the period after tax was £20.7 million (2003: profit £3.4 million) on turnover of £212.3 million (2003: £211.5 million).

As noted in the 2003 report and accounts the Board at that time was aware that there were issues in contract acceptance and pricing at YJL Construction and Allenbuild and that these issues had adversely affected the profitability of these companies. However, it had been considered that appropriate provisions had been made against problem contracts at the year-end.

The lack of progress in the settlement of contract claims and variations and the general performance of certain contracts in the period caused this Board to implement a full review of all

its businesses which took place during April and May of this year. This review brought to light information that indicated that the position on contracts at YJL Construction and parts of Allenbuild was considerably worse than previous expectations and that contract provisions were significantly understated. Additional provisions of some £15.1 million are necessary to reflect contract exposures and the expected profitability of contracts, and these provisions form the major component of the loss for this half-year period.

The Board consider that the level of provisions within the Group is now appropriate. We emphasise that these contract problems were isolated within YJL Construction and Allenbuild and that the other operating companies within the Group continue to apply sensible and prudent procedures in respect of contract acceptance, pricing and provisioning. The cash cost of these contract problems has already been taken and is reflected in the half-year cash position. The Group's cash position remains strong.

A loss of £0.6 million on contracts was sustained in order to facilitate the disposal of three of the Group's smaller construction subsidiaries, which was completed in the early part of this year. A provision of £1.6 million has been made against the £8.5 million purchase value of two properties (part of YJL Construction) to reflect their market value as at 31 March 2004; these properties were taken in November 2003 as part payment for account settlement.

Exceptional costs of £0.8 million have been incurred in the reorganisation of the business during the first half and the Group pension charge, which is considered further below, amounted to £2.2 million.

The total of these "exceptional" costs incurred in the half-year as noted above amounts to £20.3 million which, combined with the loss of £0.4 million incurred in the first half generate the overall loss for the half-year shown in the profit and loss account.

The underlying performance of the majority of the Group's businesses remains robust with strong cash generation and profit margins in Britannia Construction, Bullock Construction, Shepley Engineers, VHE, Walter Lilly, YJL Infrastructure and YJL London. The Board is confident that YJL Construction and Allenbuild will begin to show an improvement in operating performance in the second half, benefiting from closer control and direction from the executive directors and a more diligent application of risk management.

The Board intends to focus its businesses on margin improvement in our specialised market sectors. Overheads will be adjusted appropriately in support of this objective. Those businesses, that are performing well, will secure additional resource to expand their operations profitably.

## Dividends

Given the performance for this half-year the Board is not declaring an interim dividend (2003: 0.5p per share). The Board will review its dividend policy at the full year after considering the underlying profit position at that time.

## Board and management

Cedric Scroggs retired as non-executive Chairman and Peter Gyllenhammar resigned as a non-executive Director on 11 March 2004. Paul Sellars resigned as Group Managing Director and left the Board on 31 March 2004. I was appointed Executive Chairman on 31 March 2004 and my intention is to continue in this role for as long as is necessary during what is a difficult period for the Group. The Board has been strengthened by the appointment on 2 June 2004 of John Biles,

as a non-executive Director. John is currently Finance Director of FKI Group. His considerable expertise will provide the Board with valuable support in particular in dealing with the management of financial risk.

In the coming months, senior executive management will be reinforced. This will include the appointment of a Group Commercial Director.

## Property

Apart from the two investment properties noted above, the Group's UK and US property assets are residual estates that have been within the Group for many years. Property management is not a core activity of the Group but we believe that these residual property assets will contribute significant cashflow and a reasonable, albeit fluctuating, level of profits for the Group in the years ahead. The Board remain focused on generating cash from these important assets.

## Lovell Pension Scheme

The Group currently accounts for pension costs in accordance with SSAP24. The administrative expenses in the Profit and Loss Account includes a pension charge of £2.2 million (2003: £nil) which relates to the amortisation of the £34 million pensions deficit, as required by SSAP24, and which was explained in detail in the 2003 annual report and accounts. The Group continues to make payments to the scheme in accordance with the Minimum Funding Requirements, under the guidance of an independent actuary. The Group also continues to make proposals to the scheme trustees and beneficiaries in order to reduce the liabilities under the scheme. These proposals include the buying out of deferred benefits and of pension increases. The latest such initiative, which was completed in May 2004, is expected to reduce the deficit by some £5.7 million and this will be reflected in the accounts for the year ended 30 September 2004. The scheme's deficit is a significant issue for the Group and we will continue to work proactively to limit and reduce the scheme's liabilities.

## Outlook

The review undertaken in the last two months has now been completed. Although this has revealed some unpalatable facts the Board believes it is essential, not only to set out these facts, but also to chart a path back to profitability and the creation of enhanced shareholder value. As a result, the Board has acted swiftly to ensure effective controls and procedures are in place to prevent a repetition of the contract problems that have been revealed. In addition, cost reductions and other controls are in place to ensure all the Group's businesses contribute to margin improvement and that those that can grow profitably receive the investment that they need. Finally, the Group's management is being strengthened.

Trading in the majority of our operating subsidiaries remains profitable and the Group retains a strong cash position. Whilst the results for the year will still show a significant loss, the Board believes that trading will be profitable in the second half and is confident that the Group will return to profit for the 2004/2005 financial year.

**Roy Harrison**

**Executive Chairman**  
**3 June 2004**

# Group Profit and Loss Account

for the six months ended 31 March 2004

MONTPELLIER  
GROUP Plc

Notes	Six months ended		Year ended
	31 March		30 Sept
	2004	2003	2003
	£000	£000	£000
Turnover: Group and share of joint ventures	<b>212,603</b>	212,841	436,529
Less share of joint ventures' turnover	<b>(258)</b>	(1,310)	(2,473)
<b>Group turnover - continuing</b>	<b>212,345</b>	211,531	434,056
Cost of sales	<b>(210,521)</b>	(191,606)	(399,776)
<b>Gross profit</b>	<b>1,824</b>	19,925	34,280
Administrative expenses	<b>(22,650)</b>	(19,659)	(36,675)
Other operating income	<b>584</b>	574	5,477
<b>Group operating (loss)/profit - continuing</b>	<b>(20,242)</b>	840	3,082
Income from joint ventures	-	-	-
Share of associates' operating profit	-	1,255	521
Amortisation of goodwill on associates	-	638	1,191
<b>Total operating (loss)/profit - continuing</b>	<b>(20,242)</b>	2,733	4,794
Loss on disposal of businesses	5 <b>(495)</b>	-	-
Share of associates' profit on disposal of subsidiary	-	788	887
<b>(Loss)/profit on ordinary activities before interest and taxation</b>	<b>(20,737)</b>	3,521	5,681
Net interest receivable/(payable)	<b>66</b>	(245)	(437)
Share of associates' net interest payable	-	(328)	(561)
<b>(Loss)/profit on ordinary activities before taxation</b>	<b>(20,671)</b>	2,948	4,683
Taxation receivable on ordinary activities	1 -	403	1,123
Share of associates' taxation receivable/(payable)	1 -	22	(93)
<b>(Loss)/profit for the period</b>	<b>(20,671)</b>	3,373	5,713
Dividends	2 -	(393)	(1,077)
<b>Retained (loss)/profit for the period</b>	<b>(20,671)</b>	2,980	4,636

<b>Basic (loss)/earnings per Ordinary Share</b>	3	<b>(33.68p)</b>	4.30p	7.27p
<b>Diluted earnings per Ordinary Share</b>	3	<b>(33.68p)</b>	4.25p	7.19p

# Group Statement of Total Recognised Gains and Losses

	Six months ended		Year ended
	31 March		30 Sept
	2004	2003	2003
	£000	£000	£000
(Loss)/profit for the period	<b>(20,671)</b>	3,373	5,713
Exchange movements in reserves	<b>(461)</b>	55	(96)
<b>Total recognised (losses)/gains since last annual report</b>	<b>(21,132)</b>	3,428	5,617

# Group Balance Sheet

at 31 March 2004

MONTPELLIER  
GROUP Plc

Notes	31 March		30 September
	2004	2003	2003
	£000	£000	£000
<b>Fixed assets</b>			
Intangible assets: Goodwill	<b>5,057</b>	5,606	5,209
Tangible assets:			
Investment Properties	<b>7,110</b>	-	-
Other Tangible Fixed Assets	<b>16,674</b>	18,665	18,963
Investments	<b>31</b>	30	32
Investments in joint ventures:			
Loans to joint ventures	<b>2,058</b>	580	1,811
Share of gross assets	<b>18,661</b>	16,006	17,983
Share of gross liabilities	<b>(12,713)</b>	(9,366)	(11,469)
	<b>8,006</b>	7,220	8,325
Investments in associates	-	18,459	-
Negative goodwill	-	(4,984)	-
	-	13,475	-
	<b>36,878</b>	44,996	32,529
<b>Current assets</b>			
Stocks and work in progress	<b>10,928</b>	15,850	13,460
Debtors: due after more than one year	<b>16,632</b>	13,968	14,297
due within one year	<b>83,298</b>	84,804	85,020
Current asset investments	-	4,773	17,283
Cash at bank and in hand	<b>7,011</b>	836	20,144
	<b>117,869</b>	120,231	150,204
<b>Creditors: amounts falling due within one year</b>	<b>(128,564)</b>	(118,676)	(129,255)
<b>Net current (liabilities)/assets</b>	<b>(10,695)</b>	1,555	20,949
<b>Total assets less current liabilities</b>	<b>26,183</b>	46,551	53,478
<b>Creditors: amounts falling due after more than one year</b>			
Long term debt	<b>(8,363)</b>	(8,798)	(8,363)
Other creditors	<b>(4,999)</b>	(349)	(4,685)
Creditors: amounts falling due after more than one year	<b>(13,362)</b>	(9,147)	(13,048)
<b>Provision for liabilities and charges</b>	<b>(3,041)</b>	-	(1,500)
	<b>(16,403)</b>	(9,147)	(14,548)
<b>Net assets</b>	<b>9,780</b>	37,404	38,930
Share capital	4 <b>5,939</b>	7,860	7,881
Share premium account	<b>5,862</b>	5,795	5,795
Revaluation reserve	<b>73</b>	73	73
Capital reserve	<b>3,896</b>	1,846	1,846
Profit and loss account	<b>(5,990)</b>	21,830	23,335
<b>Equity shareholders' funds</b>	<b>9,780</b>	37,404	38,930

# Group Statement of Cash Flow

for the six months ended 31 March 2004

MONTPELLIER  
GROUP Plc

Notes	Six months ended		Year ended	
	31 March		30 September	
	2004	2003	2003	
	£000	£000	£000	
Net cash (outflow)/inflow from operating activities	6	(5,384)	(6,432)	4,700
<b>Returns on investments and servicing of finance</b>				
Net Interest received/(paid)		66	(127)	(236)
<b>Taxation</b>				
Net corporation tax received		380	596	569
<b>Capital expenditure and financial investment</b>				
Payments to acquire tangible fixed assets		(9,525)	(297)	(1,840)
Proceeds on sale of tangible fixed assets		2,572	-	285
Payments to acquire current asset investments		-	-	(6,084)
Proceeds on sale of current asset investments		150	40	2,196
Loans repaid by joint venture		(392)	(59)	(212)
		(7,195)	(316)	(5,655)
<b>Acquisitions and disposals</b>				
Cash disposed on disposal of subsidiaries		(1,076)	-	-
Payments to acquire associated undertakings		-	-	(251)
Receipt from sale of associate		-	-	9,467
Receipt from sale of business		2,000	-	-
		924	-	9,216
<b>Equity dividends paid to shareholders</b>				
		(682)	(470)	(865)
<b>Cash (outflow)/inflow before use of liquid resources and financing</b>				
		(11,891)	(6,749)	7,729
<b>Management of liquid resources</b>				
Decrease in liquid resources		-	563	1,890
<b>Financing</b>				
Issue of share capital		174	35	56
Acquisition of own shares		(192)	-	-
Movement in short-term borrowings		(1,104)	657	6,110
Movement in long-term borrowings		-	435	-
Finance lease payments		(120)	(110)	(197)
		(1,242)	1,017	5,969
<b>(Decrease)/increase in cash during the year</b>				
		(13,133)	(5,169)	15,588

## NOTE 1 TAXATION

MONTPELLIER  
GROUP Plc

	Six months ended		Year ended
	31 March		30 September
	2004	2003	2003
	£000	£000	£000
Current tax:			
UK corporation tax on (losses)/profits for the period	-	-	-
Adjustments in respect of previous periods	-	403	369
	-	403	369
Foreign tax	-	-	10
Total current tax	-	403	379
Deferred tax	-	-	744
<b>Group taxation</b>	-	403	1,123
Share of associates' tax receivable/(payable)	-	22	(93)
Taxation receivable on profit on ordinary activities	-	425	1,030

The Group has significant unused tax losses available to carry forward against future taxable profits. A significant element of these losses relate to activities which are not forecast to generate the level of profits needed to utilise these losses. At this stage the Directors have maintained a deferred tax asset in respect of these losses at £600,000 being the level provided at 30 September 2003. The Directors consider that this allowance is reasonable in the expectation of the future profitability of the Group but will continue to monitor the position.

## NOTE 2 DIVIDENDS

	Six months ended		Year ended
	31 March		30 September
	2004	2003	2003
	Pence	Pence	Pence
Interim	-	0.50	0.50
Final	-	-	1.15
	-	0.50	1.65
	£000	£000	£000
Interim	-	395	395
Final	-	-	682
	-	395	1,077

## NOTE 3 EARNINGS PER ORDINARY SHARE

	2004			2003			2003		
	31 March			31 March			30 September		
	Earnings	Weighted	EPS	Earnings	Weighted	EPS	Earnings	Weighted	EPS
	£000	average	Pence	£000	average	Pence	£000	average	Pence
		number			number			number	
		of shares			of shares			of shares	
Basic earnings per share	(20,671)	61,381	(33.68)	3,373	78,443	4.30	5,713	78,590	7.27
Dilutive effect of options	-	0	0.00	-	975	(0.05)	-	891	(0.08)
Diluted earnings per share	(20,671)	61,381	(33.68)	3,373	79,418	4.25	5,713	79,481	7.19

## NOTE 4 SHARE CAPITAL

## MONTPELLIER GROUP Plc

Group	Six months ended 31 March		Year ended 30 September
	2004 £000	2003 £000	2003 £000
Authorised: 100,000,000 Ordinary Shares of 10p each	<b>10,000</b>	10,000	10,000
	<b>10,000</b>	10,000	10,000
Allotted, called up and fully paid: 59,388,757 (2003:March 78,604,877 and September 78,812,777) Ordinary Shares of 10p each	<b>5,939</b>	7,860	7,881
	<b>5,939</b>	7,860	7,881

### Changes in share capital

A total of 1,068,575 10p Ordinary Shares have been issued since 1 October 2003. All shares were issued through the exercises of the Employee Sharesave Scheme ("SAYE"). 20,492,595 shares were bought back, resulting in a share capital figure of 59,388,757.

20,000,000 shares were repurchased as part of the consideration for the sale of Union Discount Company to Browallia International BV (see note 5).

The remaining 492,595 shares were repurchased from individuals participating in the Employee Sharesave Scheme ("SAYE").

## NOTE 5 DISPOSALS

1. On 16 September 2003 the Group announced that it had entered into an agreement with Browallia Discount Company Limited (Browallia) and Browallia International BV (BBV) under which the Group would agree to sell all the shares of The Union Discount Company Limited (UDC) to Browallia for a consideration of £12.1m and BBV would sell 20,000,000 Ordinary Shares to Montpellier for a consideration of £8m. In the circular to shareholders dated 24 September 2003 it was noted that Mr P Gyllenhammar, a director of Montpellier, had a material interest in Browallia and BBV and therefore, as the transaction was a related party transaction, all negotiations of the transaction on behalf of the Group were undertaken by the independent directors of the Group and that shareholders approval would be required to complete the transaction. The transaction was formally approved by shareholders on 20 October 2003.

The consideration was satisfied as to £8m by set off against the consideration payable by the Group in respect of the purchase of its own shares at a transaction price of 40p per share with the remaining £4.1m being satisfied by the payment of £2m cash and £2.1m in loan notes.

A summary of the net assets sold is shown below.	£000
Tangible fixed assets	3
Current asset investments	17,133
Bank loan	(5,488)
Other net current assets	433
Net assets	<b>12,081</b>

The turnover and operating profit of UDC is not material to the results for the period and has therefore not been separately shown as discontinued in the profit and loss account.

2. On 22 October 2003 Montpellier announced the disposal of the entire issued share capital of three of its wholly owned loss-making subsidiaries, Cornhill Interiors Limited, Lodge and Sons (Builders) Limited and YJL Facilities Limited (together the "Subsidiaries") as well as its 30% interest in McLaren Construction Limited to Roger Feast, former Chief Executive of the Construction Division. Mr Feast resigned from the Board of Montpellier on 3 October 2003 in order to pursue the acquisition of these businesses. Under the terms of the disposal agreement, each of the Subsidiaries was sold for £1, and Montpellier was required to inject sufficient cash into the subsidiaries to ensure that their overall net asset value equated to £495,000. To achieve this position the Group injected funds of £733,000 into the companies pre-disposal of which £383,000 was subsequently waived.

A summary of the net assets sold is shown below.

	£000
Fixed assets	221
Net current assets	624
Loans from Montpellier	(350)
Net assets	<b>495</b>

The turnover and profitability of these businesses has not been separately disclosed as discontinued within the results for the period, as they do not meet the definition of discontinued activities as set out by FRS 3 "Reporting Financial Performance" and are not material to the Group's results.

## NOTE 6 NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES

	Six months ended 31 March		Year ended 30 September
	2004 £000	2003 £000	2003 £000
Operating (loss)/profit	<b>(20,242)</b>	840	3,082
Depreciation	<b>767</b>	850	1,800
Amortisation of subsidiary goodwill	<b>152</b>	161	314
Exchange losses	<b>250</b>	191	-
Decrease in stocks and work in progress	<b>2,529</b>	6,820	9,408
(Profit)/loss on sale of fixed assets	<b>(473)</b>	-	20
(Profit) on sale of current asset investments	-	(402)	(633)
(Profit) on sale of associate	-	-	(4,673)
Increase in operating debtors and prepayments	<b>(769)</b>	(7,012)	(7,237)
Increase/(decrease) in creditors and accruals	<b>10,786</b>	(7,301)	3,898
Investment (write down reversal)	-	(579)	(579)
Write down of Investment properties and other non-cash movements	<b>1,616</b>	-	(700)
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(5,384)</b>	(6,432)	4,700

## NOTE 7 RECONCILIATION OF MOVEMENT IN GROUP SHAREHOLDERS FUNDS

	£'000
At 1 October 2003	38,930
Loss for the year	(20,671)
Share buyback	(8,192)
Exchange adjustments	(461)
Issue of share capital	174
At 31 March 2004	<b>9,780</b>

## NOTE 8 BASIS OF PREPARATION

a) The accounts for the six months ended 31 March 2004 and the equivalent period in 2003 have not been audited or reviewed by the company's auditors. They have been prepared in accordance with applicable accounting standards consistent with the accounting policies set out in the 2003 Annual Report. The interim report was approved by the directors on 2 June 2004.

b) The abridged information in this statement relating to the year ended 30 September 2003 is derived from full accounts upon which the auditors issued an unqualified opinion and which did not contain a statement under S237(2) of the Companies Act 1985 and which have been delivered to the Registrar of Companies.

This interim statement is being sent to all shareholders and is also available upon request from the Company Secretary, Montpellier Group Plc, 39 Cornhill, London EC3V 3NU.