

LONDON STOCK EXCHANGE - ANNOUNCEMENT

16 June 2006
Abbeycrest plc

Further to the announcement of Monday 8 May, Abbeycrest plc is pleased to update shareholders on the refinancing of its business and sale & leaseback ("the Disposal") of its Leeds headquarters.

The company has completed the Disposal of the Group's Leeds headquarters and UK distribution centre to Moorgarth Investments Limited for a gross consideration of £3.3m (£3.1m net of rent bond and costs) payable in cash. The net book value of the property is £2.5m. The proceeds resulting from the sale were used towards repaying the Group's existing facilities with HSBC. The Group has entered into a 15 year lease securing the Group's continuing tenancy at the property. Following a six-month rent free period the company will be paying an initial rental of £350,000 per annum with reviews every five years.

The refinancing referred to below was contingent upon the Disposal taking place. The company has repaid its existing facilities to HSBC. Burdale Financial Limited ("Burdale") has been appointed as the Group's ongoing bankers. Burdale have provided a £33m facility which will be available for the Group's UK operations and is secured on the Group's debtors and inventory. Burdale has confirmed that the facility would only be made available on the condition that the Disposal was completed. In addition, HSBC has agreed to provide new facilities of £2.5m (together the "Refinancing").

As noted in the announcement of 8 May, Abbeycrest has sought and subsequently been granted a waiver by the UK Listing Authority of the requirement to prepare a Class 1 circular for shareholder approval in relation to the Disposal. The waiver was sought because the level of the company's existing facilities were insufficient to cope with the seasonal working capital requirements of the business and HSBC refused to extend the facilities (in size). Consequently, in order to meet its ongoing working capital requirements, the company had no option but to pursue the Disposal and Refinancing and had insufficient time to prepare a circular as a result. The Disposal and Refinancing agreements entered into by the Group were subject to a waiver from the UK Listing Authority being granted.

The waiver was granted because the Company met the conditions and gave the following confirmations:

- negotiation does not allow time for shareholder approval;
- all alternative methods of financing have been exhausted and the only option remaining is the Disposal in accordance with the timetable which does not allow sufficient time to seek shareholder approval;
- by taking the decision to effect the Disposal to raise cash, the directors are acting in the best interests of the Company and shareholders as a whole and unless the Disposal is completed, in accordance with the timetable which does not allow sufficient time to seek shareholder approval, Administrators are likely to be appointed; and

The Directors believe that the Disposal is in the best interests of the company and shareholders as a whole.

By taking the decision to dispose of this property to raise cash, the Directors are acting in the best interests of the company and shareholders as a whole. If the Refinancing and Disposal had not been completed within the current timetable, which did not allow time for seeking shareholder approval, the Directors believe that the company would have been unable to meet its financial commitments as they fell due and consequently would have been unable to continue to trade resulting in the appointment of administrators to the company.

The Directors confirm that further negotiation with HSBC, the company's existing bankers, would not have allowed time for shareholder approval. All alternative methods of financing

had been exhausted and the only option remaining was the Disposal of a substantial part of the business. HSBC confirmed that further finance would not have been made available and, unless the Disposal and Refinancing was effected, facilities would have been withdrawn.

The company's sponsor, Hoare Govett, has confirmed that, in its opinion and on the basis of the information available to it, the company was in severe financial difficulty and that it would not have been in a position to meet its obligations as they fell due unless the Disposal took place according to the proposed timetable.

The overall state of the jewellery market in the UK has been, and remains, extremely challenging. The UK Assay Office statistics (detailing volumes of jewellery hallmarked) which were referenced in the half-year statement have not improved. The weight of gold hallmarked in the calendar year 2005 was 25% lower than 2004.

As well as the general downturn in discretionary spending in the UK retail sector, a major factor on demand has undoubtedly been the extraordinary rises in gold price experienced over the last twelve months. At the time of writing, this has risen 50% in the last year. Whilst this obviously makes stockholding more expensive to fund, it also has a negative impact on demand as retailers and end customers scale back spending. In order to counteract this, the Group is focusing product development and sourcing on gemset product, rather than gold, and also alternatives such as gold plated silver and fashion jewellery.

The Group has been successful in reducing inventory levels over recent years and this process is continuing to mitigate raw material price increases. It is worth noting, however, that if gold prices continue to rise materially month-on-month more aggressive action on inventory levels may have to be adopted across the Group, potentially to the detriment of profitability to the extent that write-offs are required on disposal.

The interim Chairman's statement noted that a substantive cost saving program had been actioned to counteract the market downturn and set the size of the business to reflect prevailing market conditions. This exercise is now substantially complete with progress since the half-year being:-

- In January 2006 the Group transferred the business of DRT Jewellery Limited ("DRT") to its management by way of a sale of fixed assets and stock and transfer of personnel. DRT has suffered commercially since the collapse in the market for its principal style of light-weight wristwear, and has not made a meaningful profit contribution for some time. A supply agreement has been agreed for any current sales lines carried by Group customers.
- The sales force covering the UK independent sector was reduced by half in January 2006 and complemented by the introduction of a commercial web-site together with enhanced telesales systems and customer relationship management software.
- Production of 18ct jewellery in Leeds ceased in March 2006, with the workforce being made redundant. The overhead to service the seasonal peak was inappropriate for much of the year and the product had little in the way of unique selling points. That range has been replaced by design-led product sourced principally from Thailand.

The only major restructure item remaining to be completed is the movement of elements of Dynamic Creations Limited ("DCL") production from Chinese mainland sub-contractors to our own manufacturing plant based in Thailand. This has been held up by a legal dispute with the 25% shareholder in DCL which has now been settled.

Sales levels since the time of the half-year statement are broadly in line with internal expectations. As noted above, trading conditions are challenging, though it is pleasing to report that the jewellery trial with a major UK retailer has progressed to a roll-out phase. The Group is now much leaner and is operating on the substantially lower cost base target identified prior to the Restructuring.

The Company confirms that, in its opinion, the working capital available to the continuing Group is sufficient for the Group's present requirements, that is, for at least 12 months from the date of this announcement.

END.

MICHAEL LEVER
CHAIRMAN
16.06.06