

**Hill Station Plc (the “Company” or the “Group”)
Half yearly report to 30 April 2007**

CHAIRMAN’S STATEMENT

This report is being written in the middle of difficult period for the Company and comes hard on the heels of a number of recent announcements to shareholders regarding the current state of trading, refinancing and future prospects.

Financial Results and Operational Review

The Group’s financial results for the six month period to 30 April 2007 are very disappointing but reflect the turmoil the Group had gone through during the period, notably:

- Failure to complete the integration into Cwmbran of the Cheadle production and close the factory there until 31 December 2006, some 4 months late, with the consequent negative financial effects;
- Significant refinancing activity during the period from October to the end of January 2007, which took management effort and focus away from the key task of running an efficient production facility and building a sales platform;
- Wholesale senior management changes with the resignation in January of the Chairman, Group Managing Director, Group Marketing Director and one Non Executive, followed in early February by the departure of the Operations Director. The appointment of myself as Executive Chairman on 31 January 2007 represented a new beginning for the Group and the culmination of the first stage refinancing of some £2.5 million of new equity, loan stock and asset finance.

Since January 2007 much effort has been directed at increasing the efficiency within the factory, reducing and rationalising the number of products and weeding out those with small, and even negative, margin. However the spectre of a worsening cash flow has been ever present, and the gap in cash flow identified in January 2007 continued to widen as our key raw material costs almost doubled from January through April 2007 and the negative effects of the poor financial state of the Group started to be felt by suppliers and customers alike.

The Group recorded a post tax loss of £2.05 million for the six months against a loss of £1.15 million in the comparable 2006 period.

Total direct and indirect costs were greater than 2006, but lower than anticipated sales and continuing poor margins were the main cause of the poor result.

Net assets at 30 April were £1.5 million. Net debt increased to £3.2 million.

Trading Update

In the Notice of EGM dated 27 July I commented as follows:

'As reported in the announcement of 10 July 2007, sales in April 2007 were above expectations due to the warm weather experienced in that month; however since then the extremely poor, inclement weather over the months of May, June and July 2007 has had a seriously adverse affect on ice cream sales for all producers, and the Company is no exception with sales now running at some 25% below target. This of course represents a serious reduction in the Company's ability to draw from the debtor finance facility.

The Company reacted swiftly to try to recover the significant increase in the raw material prices of key ingredients, also reported in the 10 July 2007 announcement, by passing this on in part to customers but this is a slow process and has been met with resistance from customers and some further loss of sales. Competitors are in the same position and the Directors believe that there will be an across the board price increase over coming months. However the squeeze in margins can only lead to a further cash drain.

Work continues apace on reducing the number of product lines, eliminating low/negative margin sales and on seeking alternatives to the raw materials subject to the price inflation, which should show benefit in the future. In addition improvement in factory efficiency continue to be forced through and plans are in place for the rapid integration of the So Real Ice manufacture into the Company's Cwmbran operation.

The addition of the So Real Ice products is eagerly anticipated and, through recent strengthening at the top of the sales team, strategies for building on their products/brands are being advanced, as part of the overall strategy for the group.

The board believe that the Company has a viable future and is capable of creating shareholder value in the medium term if it can overcome its current funding needs and grow by acquisition'

In the event that the minimum subscription pursuant to the placing announced in the circular posted to shareholders 27 July 2007 is not raised, the EGM will be adjourned and the board of the Company will consider its position in respect of its current trading and working capital position.

Looking ahead

The Board still believe that the Company is capable of producing the returns that were envisaged when the acquisitions took place in November 2005. The problems of integration in 2006, significant raw material inflation and the unprecedented weather during May, June and July 2007 have all been very difficult hurdles to negotiate, but with the support of shareholders and loan stock holders in relation to the current fundraising and thereby completion of the acquisition of So Real Ice, the business will be on an even sounder basis for the future.

It is intended in coming months to continue the review of all aspects of the Group, including the sales platform/strategy, product mix, factory performance, distribution and personnel at all levels to enhance the quality of performance across the business.

Bill Mapstone
Chairman

CONSOLIDATED PROFIT AND LOSS ACCOUNT
(unaudited)
For the six months ended 30 April 2007

	Six months 30 April 2007	<i>Six months 30 April 2006</i>
	£	£
TURNOVER	5,145,280	5,715,738
Cost of sales	5,046,199	4,733,701
GROSS PROFIT	99,081	982,037
Selling and distribution costs	782,105	994,623
Administrative expenses	1,162,141	978,988
OPERATING LOSS	(1,845,165)	(991,574)
EXCEPTIONAL ITEMS		
Costs of fundamental reorganisation	-	(162,826)
LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST	(1,845,165)	(1,154,400)
Interest receivable	10,184	609
Interest payable	(220,559)	(77,016)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	(2,055,541)	(1,230,807)
Tax on loss on Ordinary Activities	-	77,775
RETAINED (LOSS)/PROFIT FOR THE PERIOD	(2,055,541)	(1,153,032)
Basic and diluted losses per share	0.61p	0.37p

GROUP BALANCE SHEET
(unaudited)

As at 30 April 2007

	30 April 2007		30 April 2006	
	£	£	£	£
FIXED ASSETS				
Intangible assets	4,487,838		5,298,359	
Tangible assets	<u>4,290,743</u>		<u>4,472,013</u>	
		8,778,581		9,770,372
CURRENT ASSETS				
Stock	1,258,743		1,765,180	
Debtors	2,585,161		3,855,924	
Cash at bank and in hand	<u>182,198</u>		<u>139,109</u>	
		4,026,102		5,760,213
CREDITORS:				
Amounts falling due within one year		4,274,973		5,846,215
NET CURRENT ASSETS/(LIABILITIES)		(248,871)		(86,002)
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>8,529,713</u>		<u>9,684,370</u>
CREDITORS:				
Amounts falling due after one year		6,990,240		3,300,652
NET ASSETS		<u><u>1,539,473</u></u>		<u><u>6,383,718</u></u>
CAPITAL AND RESERVES				
Called up share capital		972,970		789,345
Share premium account		8,477,218		7,460,168
Merger reserve		931,952		931,952
Profit and loss account		(8,842,667)		(2,797,747)
SHAREHOLDERS' FUNDS		<u><u>1,539,473</u></u>		<u><u>6,383,718</u></u>

GROUP CASH FLOW STATEMENT
(unaudited)
For the six months ended 30 April 2007

**30 April
2007**

**30 April
2006**

Cash flow statement	£	£
Cash outflow from operating activities	364,275	(1,037,791)
Returns on investment and servicing of finance	-	(93,518)
Capital expenditure and financial investment	(199,253)	(558,793)
Acquisitions and disposals	-	(7,666,148)
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Cash outflow before financing	165,022	(9,356,250)
Financing	1,200,675	6,744,327
Decrease in cash	<u>1,365,697</u>	<u>(2,611,923)</u>

Reconciliation of net cash flow to movement in net funds/(debt) (note 3)

	30 April 2007	<i>30 April 2006</i>
	£	£
Movement in cash in the period	1,365,697	(2,611,923)
Loans acquired with subsidiary	-	(483,500)
Finance leases	(1,052,462)	(190,979)
Cash outflow from repayment of finance leases		39,989
Movement in net funds/(debt) in the year	<u>313,235</u>	<u>(3,246,413)</u>
Net funds at 1 November 2006	(3,233,467)	12,946
Net funds/(debt) at 30 April 2007	<u>(2,920,232)</u>	<u>(3,233,467)</u>

NOTES TO THE INTERIM ACCOUNTS

1. Basis of Accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards and on the basis that the company will continue as a going concern.

The Group has an excess of net current liabilities at the balance sheet date which indicates that the Group may not be able to meet all its debts as they fall due. Also, the group has continued to make significant losses during the period. However, the directors are in the final stages of fundraising which they believe

will provide the cash necessary to support the immediate working capital requirements of the group and to allow it to continuing trading.

There was an issue of £720,000 of loan stock in July 2007 which can be converted into ordinary shares at a 100% premium. A further share placing will be made on the 20 August for up to £3.5m with a minimum £3.0 m required at 0.25p per share.

The directors have assessed the current working capital requirements of the group on the foregoing basis and believe that subject to successful fundraising the group has sufficient resources to meet its debts as and when they fall due and to continue trading as a going concern for at least the next 12 months.

The financial statements do not include any of the adjustments which would be required if the going concern assumption should prove not to be appropriate. Those adjustments would include possibly restating the carrying value of assets to their recoverable amounts, providing for any further liabilities which may arise, and to re-classify liabilities according to when they may then fall due. These matters may have consequent effects on the profit and loss account.

2. Losses per Share

The weighted average number of shares during the period was calculated as follows:

Date	Event	No. of shares	Days	Average
01/11/06	Opening balance	315,738,070	91	158,741,240
31/01/07	Issue of share capital	357,738,070	90	177,880,808
30/04/07	Closing balance	357,738,070	-	-
			181	336,622,048

The weighted average number of shares in issue during the prior period was 290,876,192 based on the number of shares issued at the beginning and end of the period.

3. Analysis of net funds/(debt)

At the balance sheet date the company's net funds/(debt) comprised the following:

	30 April 2007	<i>30 April 2006</i>
Cash at bank and in hand	182,198	139,106
Bank loans and overdrafts	(1,850,862)	(3,173,467)
Amounts payable under hire purchase agreements	(1,251,568)	(199,106)
NET FUNDS/(DEBT)	<u>(2,920,232)</u>	<u>(3,233,467)</u>

Contact

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