Hill & Smith Holdings PLC

Annual Report and Financial Statements

1998

Contents

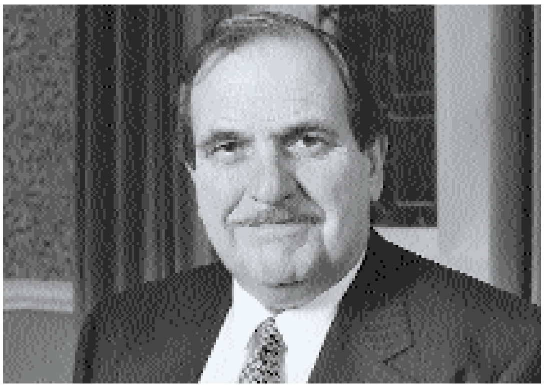
Results at a glance

		1998 £000	1997 £000
Turnover		**76,497**	81,281
Operating profit		**3,628**	2,698
(Loss)/profit before taxation		**(2,466)**	1,216
(Loss)/profit after taxation		**(2,844)**	1,011
Ordinary dividends			
Interim		**2.10p**	2.10p
Final		**2.10p**	2.10p
		4.20p	4.20p
(Loss)/earnings per ordinary share	— net basis FRS3	**(7.20p)**	2.56p
	— IIMR	**3.46p**	3.57p
Net assets per ordinary share		**57.34p**	66.14p
Operating cash flow per share		**19.49p**	14.84p

Financial Calendar

Payment of final dividend for the year to 30th September 1998 (ex dividend date 25th January 1999)	7th April 1999
Announcement of results for half year to 31st March 1999	Mid-June 1999
Payment of interim dividend	Late September 1999
Preliminary announcement of results to 30th September 1999	Mid-December 1999
Annual General Meeting 2000	24th March 2000

Chairman's Statement



I am pleased to be reporting to you again this year after a year of considerable change and reorganisation within the Group.

There have been a number of changes in the composition of the Board of Directors during the year. In June, Mr Mike Sara, our Group Chief Executive, resigned and I would like to thank Mike for his dedicated and loyal service to the Group over a 16-year period. In March, Mr David Grove joined the Board as Development Director with a brief to review the Group's future strategy and make recommendations to the Board. Following the departure of Mike Sara, David was appointed Acting Chief Executive and he will continue in this role until a suitable replacement is found. In September, we decided to eliminate divisional reporting and replace it with a flatter operational structure. As a result of this reorganisation, Tony Pensom (Building Products) and Roger Simpson (Construction Products) stepped down from the PLC Board but continue to have executive roles within the Group.

Having reached the age of 74, John Silk has decided to retire from the Board at the AGM after completing 18 years' service, of which 12 (1983–95) were as Chairman. The Board is proposing that John be appointed Life President and I am delighted that he has accepted this appointment, subject to shareholders' approval. On John Silk's retirement David Grove will be appointed Deputy Chairman.

After an initial strategic review of the Group's activities, an ongoing programme of disposals was deemed necessary and the first stage of this process was the sale of Tatham Miller Limited and the assets of Spirel and Duct & Access earlier this year. Total net cash receipts after costs from these disposals will amount to £3.2m, compared with a book value of £4.6m. In addition to this shortfall, there is an aggregate restatement of goodwill already written off to reserves of £2.2m, which appears in the profit and loss account but has no effect on the net asset value in the Balance Sheet. A property disposal relating to the above businesses is expected to be completed in the current year.

As there are further divestments to be made, the financial results for the year under review classify our continuing businesses as either retaining or discontinuing. I am pleased to report that, as far as the retaining activities are concerned, a creditable performance was achieved in the year to September 1998,

I am pleased to report that, as far as the retaining activities are concerned, a creditable performance was achieved in the year to September 1998, whereby operating profit before exceptionals increased by 22% to £4.4m on an increase in sales of 9% to £55.8m.

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In respect of the discontinuing activities, a provision of £1.6m has been made for the loss on sale of the businesses earmarked for disposal. Certain properties have been revalued during the year, resulting in a net deficit charged to the profit and loss account of £257,000. At 30th September 1998 the net assets of the Group were 57.34p per share.

The overall results for the Group have been severely affected by the restructuring during the year and a loss after tax of £2.8m has been incurred. However, following the significant changes implemented during the year, the Board has reviewed the future prospects and the improvement in the Group's ability to generate a positive cash flow. As a result, a final dividend of 2.1p per share is proposed, making 4.2p for the full year which is the same as last year. Despite the changes during the year, earnings at the IIMR level were 3.46p per share (1997 — 3.57p per share). Operating cash flow was 19.49p per share (1997 — 14.84p), which the Board regards as very acceptable for the year.

At the beginning of the financial year, the Group's gearing was 58% and although there had been a small reduction to 56.7% at the half year, expenditure shortly thereafter sent the gearing well above this level. Plans were subsequently implemented to reduce the gearing significantly until the cash generating qualities of the Group's businesses were more robust. At the year end, total net indebtedness had been reduced to £11.3m (£15.1m at September 1997) representing gearing of 50%.

Since the year end, a Sale and Lease-Back transaction has been completed in respect of the newly built premises at Coseley, which accommodate the Hill & Smith road barrier and galvanising activities. These premises have been sold for £3.85m which represents a small surplus against cost (£3.8m). Gearing has therefore been reduced by a further 17%. With improved financial controls and more focus on returns on capital employed, I expect to see a continuation of the strong operating cash flow during the current financial year from our trading activities, particularly as our major capital investment projects are now complete.

The continuing businesses are maintaining the progress made in the past year and current trading is in line with the Board's expectations. The discontinuing activities are trading at around the break-even level but market conditions for these businesses remain uncertain. Following on from the material improvement in the Group's anticipated cash flow in the current year, the Board is evaluating selective bolt-on acquisitions to further strengthen and develop our core activities. The Group is approaching a situation whereby it is not constrained by high debt and loss-making businesses and therefore our strategy will need to be fine-tuned so that we have an overall plan for the Group's future profitable growth and development.

The action taken in 1998 has paved the way for a recovery in the Group's prospects and an enhancement of shareholder value, subject as always to the economic environment within which we operate.

After 33 years John W Hinks & Co. will be standing down as our auditors; it is proposed they are replaced by KPMG Audit Plc. I would like to take this opportunity to thank them for their efforts on behalf of the Company and shareholders over three decades.

The Board will convene an Extraordinary General Meeting at which you will be asked to vote in favour of Resolutions authorising the Company to purchase its own shares, renewing the existing authority of the Board to allot shares for cash, amending the Articles of Association, appointing a life President, amending the 1995 executive share option scheme and adopting a new executive share option scheme. The Meeting will be held immediately after the conclusion of the Annual General Meeting and you will find enclosed with the Annual Report a separate Notice convening the Meeting together with a letter from me explaining the proposals.

Finally, I would like to express my thanks to all the Group's employees for their hard work and loyal support during a year of change.

DAVID S. WINTERBOTTOM
Chairman
9th December 1998

Directors, Advisers and Committees

D.S. WINTERBOTTOM F.C.A., F.C.T.
Chairman

David, aged 62, a Chartered Accountant, joined the Board on 1st October 1997. He is also Chairman of CPL Industries Limited, Wightlink Group Limited, and Deputy Chairman of T J Hughes PLC. Additionally, he is Chairman of a number of institutionally owned companies, and Non-Executive Director of Electrocomponents PLC, and other public and private companies.

JOHN G. SILK LL.B. (London)
Non-Executive Director and Deputy Chairman

John, aged 74, joined the Board in 1981 and was Chairman from 1983 to 1995. He is also Deputy Chairman of Hampson Industries PLC and the Senior Partner of Silks, Solicitors. He is Chairman of the Pension Fund Trustees.

D.L. GROVE B.A., F.C.A.
Acting Chief Executive

David, aged 50, joined the Board on 20th March 1998. He is a chartered accountant and Chairman of a number of private companies involving steel, plastics and consumer products. He is a Pension Fund Trustee.

Registered Office

Springvale Industrial and Business Park, Bilston,
West Midlands, WV14 0QL

Advisers

Registrars

Computershare Services PLC,
Caxton House, Redcliffe Way, Bristol, BS99 7NH

Auditors

John W. Hinks & Co.,
Smethwick, West Midlands, B67 7BH

Bankers

Midland Bank plc,
Willenhall, West Midlands, WV13 2AF

Barclays Bank PLC,
Dudley, West Midlands, DY1 1PP

Credit Lyonnais,
London, EC2A 2JP

Solicitors

Silks,
Oldbury, West Midlands, B69 4EZ

Stockbrokers

Albert E Sharp Securities,
Birmingham, B4 6ES

H.C. EVERETT B.Sc., C.A.
Group Financial Director and Company Secretary

Howard is 54, and joined the Group from Rapid Metal Developments Limited, an R.M. Douglas PLC subsidiary, in 1990. He speaks French and the Scandinavian languages. He is a Pension Fund Trustee.

S.H.J.A. KNOTT B.A. (Econ)
Non-Executive Director

Simon, aged 67, was responsible for the flotation of Hill & Smith in 1969 and joined the Board in 1981. He is a Non-Executive Director of other PLCs including Rights & Issues I.T. PLC, of which he is Chairman. He is a Pension Fund Trustee.

R.E. RICHARDSON
Non-Executive Director

Dick, aged 59, was Chairman and Chief Executive of Graystone PLC from 1992 to 1997, and was previously Deputy Chairman and Managing Director of Goring Kerr PLC and Managing Director of Tace PLC. He is a Mechanical and Electrical Engineer, and was appointed Non-Executive in May 1997.

Audit Committee
Messrs Silk (Chairman), Winterbottom,
Knott and Richardson

Remuneration Committee
Messrs Silk (Chairman), Winterbottom,
Knott and Richardson

Executive Committee
D.L. Grove (Acting Chief Executive)
H.C. Everett (Financial Director and Company Secretary)
A.J. Pensom
R.W. Simpson
D. Muir

Company Number
671474
Incorporated in England and Wales

Operations and Financial Review

With the above disposals and the amalgamation of our other business units in our large portfolio, we have now reduced the number of profit centres to 9 . . .

In March I was initially appointed to the Board to spearhead a strategic review of the Group's operations and this was followed in June 1998 with my appointment as Acting Chief Executive. My brief was to implement a reorganisation and streamline the Group's activities as agreed with the Board. At the time the Group had a turnover approaching £80m per annum which was spread across 15 profit centres. The Group was dissipating its managerial and financial resources over too wide a spectrum and was operating in areas where it has no significant market position or unique selling features. The overall effect of this was that the financial returns were inadequate and our gearing of nearly 70% was causing concern.

During the year, three business units were disposed of. Duct & Access Covers Limited and Spirel S.A. were both loss making and had no critical mass or niche market features. Tatham Miller Limited, although profitable, needed to have a wider distribution network in order to take full advantage of the economies of scale. Therefore, we disinvested.

With the above disposals and the amalgamation of our other business units in our large portfolio, we have now reduced the number of profit centres to 9 and a further reduction can be anticipated in 1999. Following these changes, the divisional structure was deemed inappropriate and therefore this has been dismantled with all operating Managing

Airport baggage handling trolley in steel galvanised by Hill & Smith.

Sign gantry and bridge parapet supplied by Varley & Gulliver and motorway barrier supplied by Hill & Smith on the new A1/M1 link in Yorkshire

Asset Weholite HDPE pipe chosen for 650 m long sea outfall in Scotland.

Directors now reporting direct to the Chief Executive. I would like to report on the individual operating units as follows.

Hill & Smith Limited performed very well during the year with turnover from its traditional market up 12% and profits ahead of last year. During the year, the company relocated from its old Brierley Hill factory to a purpose-built facility at Bilston near Wolverhampton. The annual size of the crash barrier market is mainly determined by government spending. The government has recently published its latest policy document “A New Deal for Trunk Roads in England and Wales” in which a further reduction in the new roads programme was outlined. This negative factor will be partly compensated by increased spending on the maintenance of current roads and further spending on safety improvements. In 1997, 3,599 people were killed on roads in the UK with related injuries totalling 323,945. Hill & Smith Limited intend to develop and introduce more products into the market to further improve road safety in the future.

Asset International Limited’s new management team have turned the company round from the loss-making situation in 1997. Suitable progress was made during the year in increasing operating margins and cash flow management. We are continuing to invest in the Weholite plastic pipe activity and sales increased by 150% in 1998 due to the use of this product by several water companies in their own capital sewerage schemes and other infrastructure developments in both the public and private sectors. During the year, we supplied the largest diameter plastic pipe sea outfall ever built in the UK for the North of Scotland Water PFI Scheme. Asset’s Scottish and Irish depots continue to make progress.

Pedestrian underpass in Carmarthen connecting residential area with superstore. Multiplate supplied by Asset with anti-graffiti paint system.

Operations and Financial Review

A considerable investment has been made in the Group's galvanising facilities in 1996 and 1997.

In order to reduce operating costs and co-ordinate our production, marketing and product development resources, the Asset and Hill & Smith operations were combined under one management team after the year end. This unit becomes the largest profit centre in our Group representing 30% of the Group's turnover.

The operations at Birtley Building Products Limited and Bainbridge Engineering Limited have also been combined for similar reasons to the above. Bainbridge barely broke even during the year and management changes have taken place, thus leaving only the production unit at Bury, with all other functions being organised at the Birtley site. At Birtley, sales and profits declined during the year mainly as a result of flat demand and increased competition in the margin-sensitive lintels market. Further management changes and rationalisation improvements are being implemented together with initiatives to reduce capital employed.

At Varley & Gulliver Limited it is pleasing to report that both sales and profits are ahead of the previous year with a particularly strong performance in the last quarter resulting from work related to the new A1/M1 link road.

Pipe Supports Limited continues to develop its presence in the global market for the design and supply of pipe support systems and installations for major capital projects such as power stations on a world-wide basis. Sales were ahead of last year by 15% although profits declined because of high

Birtley range of Supergalv lintels are designed for use in a wide variety of shapes, dimensions and loadings.

Part of the UK's first fully automated hot-dip galvanising plant at Birtley.

Garage doors supplied by Birtley.

exports and the problems of a strong pound plus a large loss on one major contract. As a business of this type expands, systems need to be more robust and action is being taken in this area. Further opportunities exist for the development of this business as a global supplier, particularly in South-East Asia and the USA.

W.H. Barker & Son (Engineers) Limited had a disappointing year with profits declining on an increased turnover. The main reason for this shortfall was margin pressure in the palisade fencing market whereas our new products made some progress.

A considerable investment has been made in the Group's galvanising facilities in 1996 and 1997. In the current year our throughput increased by 15% to 57,000 tonnes and capacity is available to expand this volume further, although the external galvanising market is currently showing a slowdown in line with general economic activity.

The steel stockholding companies had a difficult year. D & J (Steels) Limited managed to increase market share against falling volumes in the forging market but its profits fell against last year. Tipton Steel Stockholders Limited fell into heavy losses because of the surplus of steel plate and the resultant collapse in prices together with a fall in demand from our traditional engineering customers. Badly timed forward purchasing in 1997 exacerbated this problem. A major de-stocking

Residential door and canopies manufactured by Bainbridge Engineering.

Aluminium Sign Gantry supplied and installed by Varley and Gulliver.

Cash inflow before financing was £3,851,000, compared with an outflow last year of £3,799,000.

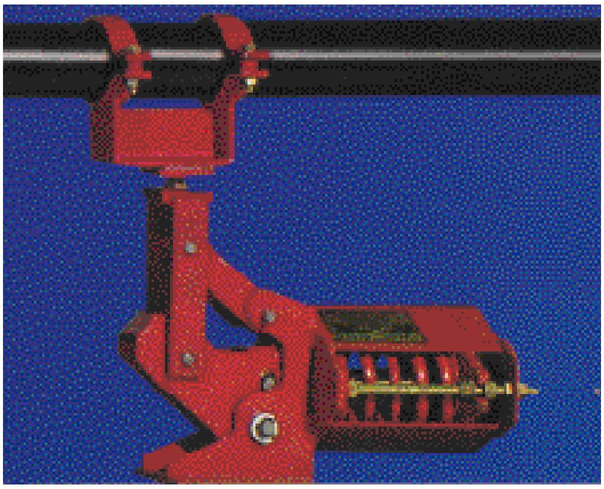
exercise has been carried out and our stock will be at a sensible level by the end of the calendar year 1998.

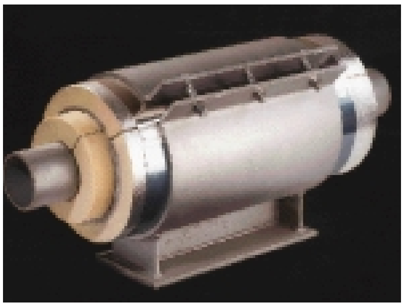
The forging business also had a difficult year with a fall in demand from our major customers and increased price competition for new business. Significant costs have been eliminated by reducing our operation to a single shift and further rationalisation measures between our two sites are being examined. The drop forging market is currently in some difficulty and further rationalisation across the market is no doubt required in future.

In the recent past the returns on capital employed of our business units and their ability to generate cash have been inadequate. The current management teams are well aware of what is expected in order to deliver improved overall returns. We have the challenge of some exciting new developments in the Group as well as the problems of how to achieve the best returns from some of our commodity products and supplies into declining markets.

Results

Trading results for the year show operating profit at £3,628,000 compared with £2,698,000 in 1997. Of this profit, £4,208,000 (1997 — £1,997,000) is due to continuing retaining activities. Substantial provisions for losses on disposal and actual losses on disposal result in a loss before interest of £1,022,000 (1997 — £2,298,000 profit).





Above: HDPUF cold support manufactured as part of a joint partnership by Pipe Supports Limited.

Left: Constant effort supports and Easi-Slide bearing from Pipe Supports

Decorative fencing from Barker in use round the Mary Rose, Portsmouth and above, King George Park, London.

Cash

Our approach to cash management was reviewed during the year and new requirements and controls have been put in place. During the year the operating cash flow per share improved to 19.5p (1997 — 14.8p). The operating profit was £3,628,000 (1997 — £2,698,000) and operating cash flow was £7,703,000 (1997 — £5,858,000). Cash inflow before financing was £3,851,000, compared with an outflow last year of £3,799,000. As part of this cash-conscious approach the level of stock has been reduced to £9,614,000 at the year end (1997 — £14,564,000). This reduction of £4,950,000 included £2,086,000 from activities disposed of during the year whereas £2,864,000 related to businesses held at both year ends.

Gearing

At the year end our total borrowings amounted to £11,255,000 (1997 — £15,140,000) which represents gearing of 50% (1997 — 58%). Following the year end, a sale for £3,850,000 and leaseback of the newly constructed premises at Bilston for Hill & Smith Limited has resulted in a further substantial fall in our gearing.

Balance Sheet

Following the disposals, provisions made, and an overall loss for the year, the net asset per share has declined to 57.34p (1997 — 66.14p).

Taxation

The taxation charge during the year was £378,000 (1997 — £205,000). It is to be expected that the charge will rise in future as the impact of our disposal of loss-making activities takes effect.

Dividend

A final dividend of 2.1p (1997 — 2.1p) is proposed to be paid on 7th April 1999. The total dividend payable for the year will cost £1,661,000 (1997 — £1,658,000) which is covered by operational cash flow of £7,703,000 (1997 — £5,858,000).

D.L. GROVE

Acting Chief Executive

9th December 1998

Report of the Directors

The Directors present their 38th annual report together with the financial statements for the year ended 30th September 1998.

Trading results

The Group loss for the year, before taxation, amounted to £2.466m compared with a profit of £1.216m for the previous year. This figure is arrived at after substantial losses on sale and provisions for losses on sale of operations.

Principal activities

The principal activities of the Group companies are:

Galvanising services.

Steel lintels, garage doors and ancillary building products.

Motorway barrier, bridge parapet, security and all other types of steel fencing.

Steel and plastic drainage pipes, tunnel and culvert structures.

Steel stockholding.

Pipe supports.

Drop and upset forging.

The Chairman's Statement on page 2 and 3and the Operations and Financial Review on pages 6 to 11 contain a review of the trading for the year, a statement as to the current trading position and an indication of the outlook for the future.

Fixed assets

The Directors have reduced the value of certain of the Group's properties, to reflect their opinion of current market conditions.

Dividends

The Directors recommend a final dividend of 2.10p per share to be paid, making the total distribution for the year 4.20p per share (1997 — 4.20p per share).

Share capital

Particulars of changes in share capital are set out in Note 16 to the financial statements.

Employees

Group policy is to encourage employees to become shareholders in the Company and all employees with at least six months' continuous service qualify for invitations to join the 1995 Savings Related Share Option Scheme.

The Group has a consistent policy which ensures equal consideration to applications for employment from any persons including disabled persons. The same equal consideration for training and career development is maintained within the Group.

Directors and Directors' interests

The names and biographical details of the Directors holding office at the date of this report are shown on pages 4 and 5. In addition, Mr M.E. Sara served as a Director of the Company until 9th June 1998 and Messrs A.J. Pensom and R.W. Simpson until 30th September 1998.

Mr D.L. Grove was appointed to the Board on 20th March 1998. As he was appointed to the Board since the date of the last Annual General Meeting, he retires in accordance with the Company's Articles of Association and a Resolution proposing his election will be submitted at the Annual General Meeting.

The Directors retiring by rotation are Mr H.C. Everett and Mr S.H.J.A. Knott who, being eligible, offer themselves for re-election. Mr Everett has a service contract with the Company, details of which are contained in the Report of the Remuneration Committee. Mr Knott, being a non-executive Director, does not have a service contract.

The interests of the Directors in office at the year end and their families in the ordinary shares of the Company according to the register required to be kept by the Companies Act 1985, and their options, are disclosed in note 21 to the financial statements.

The Directors and their families have no interest in the 14 per cent first mortgage debenture stock 2000/2003.

Except as disclosed in Note 21 to the financial statements, no Director had any interest in any material contract or arrangement in relation to the business of the Company or any of its subsidiaries during the year.

The Company has purchased and maintained insurance to cover its Directors and Officers against liabilities in relation to their duties to the Company.

Corporate Governance

The Board is pleased to report that the Company complies with the Code of Best Practice ("the Code") incorporated in the Report of the Committee on the Financial Aspects of Corporate Governance, and has done so in all material respects throughout the year. As reported in Note 21 to the financial statements, Mr John G. Silk is a partner in a firm which advises the Group. The Board is of the opinion, however, that this relationship does not materially interfere with the exercise of his independent judgement with regard to the affairs of the Group.

Board Committees

The Board has established an Audit Committee and a Remuneration Committee.

The Board of Directors, presently comprising the Chairman, the Acting Chief Executive, one executive Director and three non-executive Directors, meets at least nine times a year and has a list of matters specifically reserved for its decision.

The Audit Committee meets at least three times a year and comprises the non-executive Directors, with written terms of reference. Meetings may also be attended by the Acting Chief Executive and Finance Director, and the Company's auditors are normally invited.

The Remuneration Committee comprises the non-executive Directors and meets as and when required. It is responsible for determining the remuneration packages of the executive Directors and for advising on remuneration policy for senior executives. In addition, it also administers the 1997 Executive Share Option Scheme. A report by the Remuneration Committee is set out on pages 16 to 18.

Executive Committee

The Executive Committee meets at least six times a year and comprises three senior Directors from subsidiary companies, the Financial Director and is chaired by the Chief Executive. Its role is to assist the Chief Executive and to advise the Board on day-to-day executive matters.

Non-executive Directors

The Company has experienced non-executive Directors who represent a source of strong independent advice and judgement.

The remuneration of non-executive Directors is set by the Board in line with market levels.

Internal Financial Control

The Board of Directors has overall responsibility for the Group's system of internal financial control. In order to discharge that responsibility in a manner which ensures compliance with laws and regulations and promotes effective and efficient operations, the Directors have established an organisational structure with clear operating procedures, lines of responsibility, and delegated authority.

In particular, there are clear procedures for:

— capital investment, with detailed appraisal, authorisation and post-investment review;

— financial reporting, within a comprehensive financial planning and accounting framework;

— monitoring of business risks, with key risks identified and reported to the Board and Audit Committee.

There are also clear procedures for monitoring the system of internal financial control, supplemented by reports from the external auditors.

The Board has reviewed the effectiveness of the system of internal financial control in operation during the financial year through the monitoring process set out in the above paragraph. It must be recognised that such a system can provide only reasonable and not absolute assurance and in that context, the review revealed nothing which, in the opinion of the Board, indicated that the system was inappropriate or unsatisfactory.

Going Concern

The Directors are satisfied that the Group is a going concern. In forming this view, the Directors have reviewed current internal financial projections and the facilities available to meet the Group's cash requirements.

Year 2000 Compliance

Each individual subsidiary, under the control of the finance director, has been reviewing this issue. Each subsidiary is at present completing a detailed survey which includes contacting the suppliers and/or manufacturers of equipment and providers of services to establish whether the equipment is year 2000 compliant. The Board will review the results of the survey and take action where necessary. Costs to date amount to £43,000 and currently future costs are expected to be £112,000.

Given the complexity of the problem, it is not possible for any organisation to guarantee that no Year 2000 problems will remain, because at least some level of failure may still occur.

Donations

Charitable donations amounting to £1,883 were made in the year.

There were no political contributions.

Supplier payment policy

Individual operating companies within the Group are responsible for establishing appropriate policies with regard to the payment of their suppliers. The companies agree terms and conditions under which business transactions with suppliers are conducted. The Group does not follow any code or standard on payment practice but it is the Group's policy that, provided a supplier is complying with the relevant terms and conditions, including the prompt and complete submission of all specified documentation, payment will be made in accordance with agreed terms. It is Group policy to ensure that suppliers know the terms on which payment will take place when business is agreed. The average credit period is 74 days (1997 — 74 days). The Holding Company does not have trade creditors.

Company status

The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company and there has been no change in this respect since the end of the financial year.

Auditors

Messrs John W. Hinks & Co. will not be seeking reappointment as auditors of the Company. The Company has received notice that a Resolution to appoint KPMG Audit Plc as auditor of the Company is to be proposed at the Annual General Meeting.

By order of the Board

H.C. EVERETT
Secretary
9th December 1998

Other Information

Interests of Directors and substantial shareholders

Directors acquired the following ordinary shares in the Company, between 30th September 1998 and 29th January 1999.

	Date of acquisition	No. of shares
S.H.J.A. Knott	14.12.98	10,000
H.C. Everett	10.12.98	3,225
H.C. Everett	11.12.98	19,712
D. Grove	15.01.99	100,000

The Company has been notified of the following substantial shareholdings on 29th January 1999.

	Ordinary shares	% of issued share capital
G. Hampson Silk	4,100,636	10.4
P.J. Hampson Silk	4,100,638	10.4
Managed by: Friends Provident Asset Management Group	1,867,510	4.7
Britannic	1,550,000	3.9
Close Investment 1997 Fund	7,376,733	18.6

Of G. Hampson Silk's ordinary shares, 3,316,427 are either registered in his own name or his wife's name. Of the remaining ordinary shares, 730,876 are registered in the name of a private limited company of which he is a Director and in which he has control of more than one-third of the voting power at general meetings of that company and 53,333 are held in a discretionary trust of which he is a trustee.

Of P.J. Hampson Silk's ordinary shares, 3,316,429 are either registered in his own name or his wife's name. Of the remaining ordinary shares, 730,876 are registered in the name of a private limited company of which he is a Director and in which he has control of more than one-third of the voting power at general meetings of that company and 53,333 are held in a discretionary trust of which he is a trustee.

As far as the Directors are aware, there were no other notifiable shareholdings according to the Company's share register on 29th January 1999.

Statement of Directors' Responsibilities

The Directors are required by company law to prepare financial statements which give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year and of the profit of the Company and the Group for that year. The financial statements must be prepared in compliance with the required formats and disclosures of the Companies Act 1985 and with applicable accounting standards. In addition, the Directors are required:

i) to select suitable accounting policies and then apply them consistently;

ii) to make judgements and estimates that are reasonable and prudent;

iii) to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that the financial statements comply with the above requirements, and that applicable accounting standards have been followed.

The Directors are also responsible for maintaining adequate accounting records so as to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985, for safeguarding the assets of the Company, and for preventing and detecting fraud and other irregularities.

Report of the Auditors to the Members of Hill & Smith Holdings PLC

We have audited the financial statements on pages 19 to 38 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on page 24.

Respective responsibilities of Directors and auditors

As described on page 14, the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 30th September 1998 and of the loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

John W. Hinks & Co.
Chartered Accountants and
Registered Auditor
UK 200 Group Member Firm
Church House,
5–14 South Road,
Smethwick,
West Midlands,
B67 7BH

9th December 1998

Report of the Auditors to Hill & Smith Holdings PLC on Corporate Governance Matters

In addition to our audit of the financial statements, we have reviewed the Directors' statements on pages 12 and 13 concerning the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to any non-compliance with the September 1997 Listing Rules 12.43(j) and 12.43(v).

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or its corporate governance procedures nor on the ability of the Group or Company to continue in operational existence.

Opinion

With respect to the Directors' statement on internal financial control and going concern on pages 12 and 13, in our opinion the Directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain Directors and officers of the Company, and examination of relevant documents, in our opinion the Directors' statements on pages 12 and 13 appropriately reflect the Company's compliance with the other aspects of the Code specified for our review by the September 1997 Listing Rule 12.43(j).

John W. Hinks & Co.
Chartered Accountants and
Registered Auditor
UK 200 Group Member Firm
Church House,
5–14 South Road,
Smethwick,
West Midlands,
B67 7BH

9th December 1998

Report of the Remuneration Committee

The Remuneration Committee

The Remuneration Committee comprises all the non-executive Directors of the Company and is chaired by Mr John G. Silk. It is responsible for determining all aspects of the remuneration packages of executive Directors and key senior executives. The members of the Committee have no personal financial interest, other than as shareholders, in the matters to be decided, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the business.

Compliance

The Remuneration Committee has complied throughout the period with Section A of the Best Practice Provisions attached to the September 1997 Listing Rules of the London Stock Exchange and, in framing its remuneration policy, has given full consideration to Section B thereto. The Auditors' Report on the Financial Statements set out on page 15 confirms that the scope of their Report covers the disclosures contained in this Report that are specified for audit by the London Stock Exchange.

Remuneration Policy

The basic object of the policy of the Remuneration Committee is to ensure that the remuneration packages offered are designed to attract and retain executive Directors and key senior executives of the right calibre and motivate them to make the maximum possible contribution to the Group. The remuneration packages consist of a basic salary and certain benefits in kind, performance related cash bonuses, share options and pension benefits.

Basic salary and benefits in kind

Basic salaries are determined by the Remuneration Committee, taking into account the performance of each individual and the rates of salary for similar positions in comparable companies. The salaries are reviewed annually as at 1st October or when a change of responsibilities occurs. Benefits in kind provided are in the main a company car and fuel and private health care insurance.

Performance related cash bonuses

Currently, there are two performance related cash bonus schemes in operation for the Group Finance Director, H.C. Everett, and for key senior executives. These two Schemes do not apply to the acting Chief Executive, D.L. Grove, but are intended to be part of the remuneration package of the new Chief Executive when appointed.

Under the first bonus scheme a cash bonus expressed in terms of a percentage of basic salary is awarded annually on the achievement of specific financial and other targets set at the beginning of each financial year by the Remuneration Committee and the maximum bonus under this scheme is capped at 40 per cent of basic salary.

The second scheme is based upon remunerating the executive responsible for the return on capital employed in the business unit which he controls. The Remuneration Committee specifies in percentage terms the returns on capital employed which should be achieved in each year of a two year period. If those returns are achieved, the Executive will at the end of the second year of the two year period be awarded a cash bonus equal to 10 per cent of the difference in amount between the total of the profits before interest and tax and the specified returns on capital employed for the two year period. The bonus under this scheme is capped at 30 per cent of the basic salary received by the Executive in the second year.

D.L. Grove's services as a Director are provided by Grove Industries Limited ("GIL"), a company controlled by D.L. Grove, and under the agreement between the Company and GIL providing for his services the Company, in addition to paying an annual fee to GIL for such services, may be liable to pay GIL an annual bonus/reward linked to any increase in the Group operating profit (as therein defined) in accordance with a formula set out in the agreement. That bonus/reward is capped at $1^1/_2$ times the annual fee.

Share options

In March 1995 the Company, in general meeting, adopted two share option schemes under which options can be granted to executive Directors and senior executives, the one scheme being known as The Hill & Smith Holdings 1995 Executive Share Option Scheme ("the 1995 Executive Share Option Scheme") and the other as the Hill & Smith Holdings 1995 Savings Related Share Option Scheme ("the 1995 Savings Related Share Option Scheme"). Both these schemes are Inland Revenue approved schemes.

Under the 1995 Executive Share Option Scheme, which is administered by the Remuneration

Committee, options can only be granted at market value, are subject to specified performance criteria and can only be exercised between 3 and 10 years after the date granted if such criteria are met. The performance criteria currently set by the Remuneration Committee are that options may only be exercised if the growth in earnings per share of the Company calculated on an IIMR basis over a 3 year period is not less than the increase in the Retail Price Index plus 6 per cent over the same period. Options were granted under this Scheme on that basis in February 1996.

The rules of the scheme provide that as at the date any option is granted to an individual under the scheme, the market value of that option and of all subsisting options under the scheme and any other approved executive share option scheme within the 10 years prior to that date shall not exceed four times his then yearly remuneration. However, the Finance Act 1996 has enacted that for a scheme such as this to retain its Inland Revenue approved status the total market value of such options shall not exceed £30,000, thus restricting considerably the number of options which now may be granted to any individual under this scheme.

In granting options under this scheme the Remuneration Committee has followed the practice adopted by the Company when granting options under a similar previous scheme in that the number of options awarded to an individual has reflected the salary grade of that individual.

The 1995 Savings Related Share Option Scheme is open to all employees, including executive Directors, who have completed 6 months' continuous service. Under this scheme the Company can, if it thinks fit, grant options at a price up to 20 per cent below the market price. Options under this scheme at 20 per cent below the market price were granted in February 1997 and on 15th December 1998 further options under the scheme will be offered at market price.

H.C. Everett is the only Director holding options granted by the company and details of those options are set out in note 21 on page 34.

Executive Directors' pension entitlement

The executive Directors, other than D.L. Grove, participate in the Hill & Smith Group Pension and Assurance Scheme which provides pensions and other benefits within the Inland Revenue limits. The scheme provides them, at normal retirement age, 65, with a pension of two-thirds of their final pensionable salary, subject to completion of a sufficient number of years service. In accordance with policy formulated many years ago, pensionable salary includes an annual performance related bonus. The Remuneration Committee is of the opinion that as such bonus forms an integral part of an executive Director's overall package, it is appropriate for it to continue to be pensionable. Dependants of executive Directors are eligible for a pension of two-thirds of the pension entitlement and the payment of a lump sum in the event of the death of the Director whilst in service.

Service Agreements

The service agreement of H.C. Everett with the Company provides that either party to the agreement may determine the same on giving to the other not less than 24 months' prior notice in writing but after discussions between H.C. Everett and the Company the period of notice has been varied by deed of variation. Under the terms of the deed of variation the service agreement may be terminated by H.C. Everett on giving not less than 6 months' notice and by the Company on giving not less than 12 months' notice unless such notice is given in the 12 months immediately following a Change in control (as that expression is therein defined) of the Company in which case the notice to be given by the Company must be not less than 18 months. On termination of the service agreement by the Company H.C. Everett is under a duty to mitigate any loss unless the notice terminating the service agreement is given by the Company within 12 months following a Change in Control.

D.L. Grove does not have a service agreement with the Company but the agreement under which the Company pays GIL for his services can be terminated by either the Company or GIL by 3 months' notice.

Non-Executive Directors

Non-executive Directors do not have service agreements with the Company and receive fees for their services. These fees are decided by the Board as a whole and reviewed annually.

Report of the Remuneration Committee

Directors' Remuneration Details — Year ended 30th September 1998

The remuneration in respect of each Director for the year ended 30th September 1998 was as follows:

	Fees/ Salary £000	Benefits £000	Performance related bonus £000	Compensation for loss of office £000	Total for 1998 £000	Total for 1997 £000
Chairman:						
(Non-executive)						
D.S. Winterbottom	30	—	—	—	**30**	—
Executive:						
M.E. Sara*	57	6	—	122	**185**	99
D.L. Grove†	39	—	—	—	**39**	—
H.C. Everett	55	9	5	—	**69**	60
A.J. Pensom‡	65	5	1	—	**71**	69
R.W. Simpson‡	65	6	15	—	**86**	69
Non-executive:						
John G. Silk	21	—	—	—	**21**	21
S.H.J.A. Knott	15	—	—	—	**15**	14
R. E. Richardson	15	—	—	—	**15**	6
	362	26	21	122	**531**	338

* M.E. Sara (the former Chief Executive) ceased to be employed by the Company on 9th June 1998 and on his resignation as a Director the Company paid to him £122,000, before deduction of income tax, as compensation for termination of his employment.

† D.L. Grove was appointed to the Board as Development Director on 20th March 1998 but on the resignation of M.E. Sara on 9th June 1998 took on the role of acting Chief Executive pending the appointment of a new Chief Executive. The Company has an agreement with Grove Industries Limited, a company controlled by D.L. Grove, for the provision of his services as a Director under which fees for such services and an annual bonus/reward calculated as therein mentioned are payable to Grove Industries Limited.

‡ Both A.J. Pensom and R.W. Simpson retired from the Board on 30th September 1998 but continue to be employed as key senior executives within the Group.

Directors' pensions

Pension benefits earned by the Directors

	Age at year end	Directors contributions in year £000	Increase in accrued pension during the year £000	Accumulated total accrued pension at year end £000
M.E. Sara	57	3	2	41
H.C. Everett	54	2	2	15
A.J. Pensom	47	3	4	18
R.W. Simpson	57	3	3	16

Notes to pension benefits

1. The pension entitlement is that which would be paid annually on retirement based on service to the year end.
2. The increase in accrued pension during the year excludes any increase for inflation.
3. The Directors' contributions are the contributions paid in the year by the Directors under the terms of the scheme.
4. The pensions shown above are subject to a guaranteed annual increase of 3%.
5. The pension entitlement of M. E. Sara at his age on 9th June 1998, the date he ceased to be employed by the Company, was £31,170 p.a. and the Company and the pension trustees made provision for his pension to be £41,310 p.a. with immediate effect.

JOHN G. SILK
Chairman, Remuneration Committee
9th December 1998

Consolidated Profit and Loss Account

for the year ended 30th September 1998

		1998	1998	1998	1998	1997
		Continuing				
			Dis-	**Dis-**		Total
		Retaining	**continuing**	**continued**	**Total**	Restated
	Notes	**£000**	**£000**	**£000**	**£000**	£000
Turnover	1	**55,811**	**12,011**	**8,675**	**76,497**	81,281
Cost of sales	2a	**(39,742)**	**(10,475)**	**(6,396)**	**(56,613)**	(60,845)
Gross profit		**16,069**	**1,536**	**2,279**	**19,884**	20,436
Distribution cost	2a	**(2,268)**	**(455)**	**(771)**	**(3,494)**	(3,661)
Administrative expenses	2a	**(9,593)**	**(1,296)**	**(1,873)**	**(12,762)**	(14,077)
Operating profit/(loss):						
excluding exceptional items	2a	**4,428**	**(215)**	**(365)**	**3,848**	4,339
exceptional items	2b	**(220)**	**—**	**—**	**(220)**	(1,641)
		4,208	**(215)**	**(365)**	**3,628**	2,698
Profit on sale of property	2c	**153**	**—**	**—**	**153**	—
Provision for loss on sale of operations/loss on sale of operations Based on book value of net assets	2d	**—**	**(1,588)**	**(1,428)**	**(3,016)**	(400)
Less 1997 provision		**—**	**—**	**400**	**400**	—
			(1,588)	**(1,028)**	**(2,616)**	**(400)**
Related goodwill		**—**	**—**	**(2,187)**	**(2,187)**	—
Loss on sale		**—**	**(1,588)**	**(3,215)**	**(4,803)**	(400)
(Loss)/profit on ordinary activities before interest		**4,361**	**(1,803)**	**(3,580)**	**(1,022)**	2,298
Net interest payable	4				**(1,444)**	(1,082)
(Loss)/profit on ordinary activities before tax					**(2,466)**	1,216
Taxation	5				**(378)**	(205)
(Loss)/profit for the financial year					**(2,844)**	1,011
Dividends	6				**(1,661)**	(1,658)
(Loss) for the year	17				**(4,505)**	(647)
(Loss)/earnings per share						
— FRS 3	7				**(7.20p)**	2.56p
— IIMR	7				**3.46p**	3.57p

Consolidated Balance Sheet

as at 30th September 1998

	Notes	1998 £000	1997 £000
Tangible fixed assets	8	**24,093**	25,757
Current assets			
Property held for realisation	9	**460**	645
Stocks	10	**9,614**	14,564
Debtors	11	**18,739**	20,250
Cash at bank and in hand		**23**	10
		28,836	35,469
Creditors (amounts due within one year)	12	**(23,105)**	(26,978)
Net current assets		**5,731**	8,491
Total assets less current liabilities		**29,824**	34,248
Creditors (amounts due after one year)	12	**(5,245)**	(6,785)
Provisions for liabilities and charges	14	**(1,801)**	(1,211)
Accruals and deferred income	15	**(95)**	(140)
Net assets		**22,683**	26,112
Capital and reserves			
Called up share capital	16	**9,890**	9,869
Share premium	17a	**133**	108
Revaluation reserves	17b	**2,290**	3,509
Profit and loss account	17c	**10,370**	12,626
Equity shareholders' funds		**22,683**	26,112
Net assets per share		**57.34p**	66.14p

These financial statements were approved by the Board on 9th December 1998 and signed on its behalf by:

D.S. WINTERBOTTOM

D.L. GROVE

Directors

Consolidated Cash Flow Statement

for the year ended 30th September 1998

	Notes	**1998 £000**	**1998 £000**	1997 £000	1997 £000
Net cash inflow from operating activities	1		**7,703**		5,858
Returns on investment and servicing of finance					
Interest received		**223**		211	
Interest paid		**(1,608)**		(1,236)	
Interest element of finance lease rental payments		**(59)**	**(1,444)**	(57)	(1,082)
Taxation					
Corporation tax paid			**(462)**		(671)
Capital expenditure					
Purchase of tangible fixed assets		**(3,927)**		(5,873)	
Grants received		**—**		25	
Sale of tangible fixed assets		**1,122**	**(2,805)**	391	(5,457)
Acquisitions and disposals					
Sale of businesses	3		**2,518**		—
Equity dividends paid			**(1,659)**		(2,447)
Cash inflow/(outflow) before financing			**3,851**		(3,799)
Financing					
Issue of share capital		**46**		1	
Capital element of finance lease rental payments net of advances		**(278)**		(287)	
Loan advances		**—**		4,500	
Repayment of loans		**(3,224)**	**(3,456)**	(1,008)	3,206
Increase/(decrease) in cash			**395**		(593)
Reconciliation of net cash flow to movement in net debt					
Movement in cash			**395**		(593)
Decrease/(increase) in debt and lease financing			**3,502**		(3,205)
Changes in net debt from cash flows			**3,897**		(3,798)
New finance leases			**(12)**		(7)
Movement in net debt in year			**3,885**		(3,805)
Net debt as at 30th September 1997			**(15,140)**		(11,335)
Net debt as at 30th September 1998			**(11,255)**		(15,140)

Notes to the Consolidated Cash Flow Statement

1. Reconciliation of operating profit to net cash inflows from operating activities

	1998 £000	1997 £000
Operating profit	**3,628**	2,698
Depreciation less grants and profit on disposal	**2,097**	2,001
Stock	**2,864**	179
Debtors	**(935)**	314
Creditors	**1,286**	(47)
Pension provisions	**198**	219
Reorganisation costs	**(1,435)**	494
	7,703	5,858
Operating cash flow per share	**19.49p**	14.84p

2. Analysis of net debt

	1998 £000	Cash flow £000	Disposal of business £000	Other non-cash £000	1997 £000
Cash at bank and in hand	**23**	13	—	—	10
Bank overdrafts	**(4,135)**	(104)	486	—	(4,517)
	(4,112)	(91)	486	—	(4,507)
Debt due after one year	**(4,875)**	153	—	1,109	(6,137)
Debt due within one year	**(1,608)**	3,071	—	(1,109)	(3,570)
Finance leases	**(660)**	278	—	(12)	(926)
	(7,143)	3,502	—	(12)	(10,633)
	(11,255)	3,411	486	(12)	(15,140)

3. Effect of disposal of business

	1998 £000	1997 £000
Tangible fixed assets	**1,249**	—
Stocks	**2,086**	—
Debtors	**2,648**	—
Bank overdraft	**(486)**	—
Creditors	**(2,588)**	—
Taxation	**(97)**	—
Deferred tax	**(9)**	—
Net assets	**2,803**	—
Loss on disposal	**(771)**	—
Consideration	**2,032**	—
Satisfied by:		
Cash	**2,032**	—
Net cash inflow		
Net consideration	**2,032**	—
Disposal of bank overdraft	**486**	—
Cash inflow	**2,518**	—

The operating cash flows in respect of the disposed businesses are not significant in relation to Group activity.

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 30th September 1998

	1998 £000	1997 £000
(Loss)/profit for the financial year	**(2,844)**	1,011
Revaluation deficit	**(1,164)**	(1,183)
Exchange differences	**7**	(25)
Prior year adjustment	**—**	(148)
Total recognised gains and losses relating to the year	**(4,001)**	(345)

Consolidated Note of Historical Cost Profits and Losses

for the year ended 30th September 1998

	1998 £000	1997 £000
Reported (loss)/profit on ordinary activities before tax	**(2,466)**	1,216
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	**31**	67
Historical cost (loss)/profit on ordinary activities before taxation	**(2,435)**	1,283
Historical cost loss for the year retained after taxation and dividends	**(4,474)**	(580)

Consolidated Reconciliation of Movement in Shareholders' Funds

for the year ended 30th September 1998

	1998 £000	1997 £000
(Loss)/profit for the financial year	**(2,844)**	1,011
Dividends	**(1,661)**	(1,658)
	(4,505)	(647)
New share capital subscribed	**46**	1
Revaluation deficit	**(1,164)**	(1,183)
Goodwill taken to profit and loss account on disposal	**2,187**	—
Exchange difference	**7**	(25)
Net movement in shareholders' funds	**(3,429)**	(1,854)
Opening shareholders' funds	**26,112**	27,966
Closing shareholders' funds	**22,683**	26,112

Principal Accounting Policies

The financial statements are prepared under the historical cost convention, as modified by the revaluation of land and buildings and in accordance with applicable accounting standards.

Basis of consolidation and accounting for acquisitions and disposals
The consolidated financial statements include the Company and its subsidiaries. Intra-Group sales and profits are eliminated on consolidation and all sales and profit figures relate to external transactions only. The trading results of subsidiaries acquired or sold are included in the consolidated profit and loss account from or until the effective date of acquisition or disposal respectively.

Fair values are ascribed to tangible assets and liabilities of subsidiaries at dates of acquisition and any surplus or deficiency between such values and the purchase consideration is dealt with through reserves.

When a business is sold any goodwill dealt with through reserves at the time the business was purchased is added back to the book value in determining the profit or loss on disposal.

Fixed assets
Interests in land and buildings are stated at valuation or historical cost. The cost of other fixed assets is their purchase cost, together with any incidental expenses of acquisition.

Depreciation is calculated so as to write off the cost or valuation of fixed assets over the expected useful and economic lives of the assets concerned.

Freehold buildings are depreciated at 2% per annum. Leasehold property is depreciated over the term of the lease. Freehold land is not depreciated.

Plant, equipment and vehicles are depreciated in accordance with prudent commercial bases, at rates calculated on the assumed lives which vary between 4 and 20 years.

Stocks and work in progress
These are valued on a “first-in, first-out” basis at the lower of cost and net realisable value. In respect of work in progress and finished goods, cost includes all production overheads and the attributable proportion of indirect overhead expenses.

Deferred taxation
The charge for taxation is based on the result for the year and takes into account taxation deferred or accelerated because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Advance corporation tax recoverable by deduction from future corporation tax is carried forward within deferred taxation or as ACT recoverable within debtors as appropriate.

No provision is made for any possible liabilities on the future sales of properties at their revalued book figures as it is intended that such properties will be retained for use in the business. Provision is made for liabilities arising in respect of properties held for resale.

Turnover
Turnover, which excludes value added tax, sales between Group companies and trade discount, represents the invoiced value of goods and services supplied.

Foreign currency
Assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rate ruling at the balance sheet date. The results of overseas operations are also translated into sterling, at the exchange rate ruling at the balance sheet date. Exchange differences arising from the retranslation of opening net assets denominated in foreign currencies are taken direct to reserves.

All other exchange differences are taken to the profit and loss account.

Government grants
Capital grants received are included as a deferred credit and are being written off to revenue over the life of the assets concerned.

Leased assets
With respect to finance leases, the relevant assets are capitalised and the corresponding liability is included as an obligation. The depreciation policy shown above is adopted in respect of such assets and the interest content of the agreements is charged to the profit and loss account. Rental payments in respect of assets on operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

Pension scheme arrangements
Contributions to defined benefit schemes are charged to the profit and loss account so as to spread the cost of pension provisions evenly over the members’ working lives with the Group.

Contributions to defined contribution schemes are charged to the profit and loss account as incurred.

Notes to the Financial Statements

1. Analysis by activity

a. i) Analysis of turnover and profit before taxation

		Turnover		Profit	
		1998	1997	**1998**	1997
		£000	£000	**£000**	£000
Galvanising services	— UK	**8,188**	7,183	**957**	571
	— Less intra-group	**(3,329)**	(3,043)	**—**	—
		4,859	4,140	**957**	571
Engineering Products	— UK	**70,267**	74,162	**3,786**	4,429
	— Rest of Europe	**1,371**	2,979	**(248)**	62
		71,638	77,141	**3,538**	4,491
Sales to third parties		**76,497**	81,281		
				4,495	5,062
Central costs				**(647)**	(723)
Operating profit before exceptional items				**3,848**	4,339
Less: Exceptional items	— operating			**(220)**	(1,641)
	— non-operating			**(4,650)**	(400)
(Loss)/profit before interest and taxation				**(1,022)**	2,298

The segmental information has been restructured to show the separate contributions made by services, and manufacturing and supply of product.

a. ii) Analysis of net operating assets

		1998	1997
		£000	£000
Galvanising	— UK	**8,750**	8,645
Other activities	— UK	**24,509**	31,702
	— Rest of Europe	**19**	(21)
Common interest-bearing liabilities		**(10,595)**	(14,214)
Total net assets		**22,683**	26,112

b. Turnover by geographical destination is as follows:

	1998	1997
	£000	£000
UK	**68,009**	73,153
Rest of Europe	**4,206**	4,894
North America	**557**	725
Africa	**135**	347
Asia	**3,323**	2,133
Middle East	**228**	—
Far East	**39**	29
	76,497	81,281

Notes to the Financial Statements

2. Profit and loss account

a. The results for the two years have been analysed between discontinued and continuing activities. Continuing activities have been further analysed between activities to be retained and those to be discontinued.

The comparative figures adjusted to reflect the analysis of activities in 1998 are shown below.

	Notes	1997 Continuing Retaining £000	1997 Continuing Discontinuing £000	1997 Discontinued £000	1997 Total Restated £000
Turnover	1	51,358	14,438	15,485	81,281
Cost of sales		(37,877)	(12,067)	(10,901)	(60,845)
Gross profit		13,481	2,371	4,584	20,436
Distribution costs		(2,127)	(433)	(1,101)	(3,661)
Administrative expenses		(9,357)	(1,401)	(3,319)	(14,077)
Operating profit					
before exceptional items		3,638	537	164	4,339
Exceptional items		(1,641)	—	—	(1,641)
Operating profit		1,997	537	164	2,698
Provision for loss on sale of operations	2d	—	—	(400)	(400)
Profit on ordinary activities before interest		1,997	537	(236)	2,298

Exceptional costs including reorganisation costs have been reclassified within the appropriate headings used in 1998.

b. Exceptional item

	1998 £000	1997 £000
i) Bad debt provision	**—**	1,000
ii) Reorganisation costs	**220**	641
	220	1,641

These items are included in administrative expenses except for £197,000 in 1997 which is in the cost of sales.

c. Profit on sale of property

	1998 £000	1997 £000
Profit on disposal of property held for realisation	**153**	—

d. Loss on disposal of operations

	1998 £000	1997 £000
Provision for loss on disposal	**1,588**	400
Loss on disposal including goodwill	**3,215**	—
	4,803	400

3. Operating profit

	1998 £000	1997 £000
After charging:		
Depreciation		
— on tangible fixed assets owned	**2,084**	1,963
— on assets held under finance leases and hire-purchase contracts	**144**	139
Hire of equipment	**497**	510
Property rents payable	**95**	93
Auditors' remuneration		
— Audit	**80**	86
— Other services	**40**	65
— In respect of Parent Company	**10**	9
After crediting:		
Net property income	**—**	24
Profit on disposal of fixed assets	**86**	91

4. Interest

	1998 £000	1997 £000
Interest payable and similar charges on bank loans, overdrafts and other loans		
— Repayable within five years not by instalments (Bank overdraft)	**986**	838
— Repayable within five years by instalments (Bank loans)	**482**	258
— Repayable wholly or partly between 2000 and 2003 (Mortgage debenture)	**140**	140
Interest on finance leases and hire-purchase contracts	**59**	57
	1,667	1,293
Interest receivable	**(223)**	(211)
	1,444	1,082

5. Taxation on (loss)/profit on ordinary activities

	1998 £000	1997 £000
UK corporation tax at 31% (1997 — 32%)	**330**	224
Transfer to deferred taxation	**103**	17
	433	241
Prior year — corporation tax	**(55)**	(36)
	378	205

The taxation charge for the year arises because no tax relief is available on goodwill written off on disposals, on certain provisions and on overseas losses.

Notes to the Financial Statements

6. Dividends

	1998 £000	1997 £000
Interim dividend of 2.10p per share paid (1997 — 2.10p per share)	**830**	829
Proposed final dividend of 2.10p per share (1997 — 2.10p per share)	**831**	829
	1,661	1,658

7. (Loss)/earnings per share

The (loss)/earnings per share is arrived at by dividing the loss after tax of £2.844m (1997 — profit £1.011m) by 39,518,286 (1997 — 39,477,555) shares, being the weighted average number of ordinary shares in issue during the year.

A further measure of earnings per share has been recommended by the Institute of Investment Management and Research (IIMR) for adoption by financial analysts to provide useful information on the underlying performance of the Group.

The IIMR earnings per share is calculated by reference to earnings of £1.368m (1997 — £1.411m) divided by 39,518,286 (1997 — 39,477,555) shares, being the weighted average number of ordinary shares in issue during the year.

The reconciliation to basic (loss)/earnings per share is as follows:

	p per share 1998	1997
Basic (loss)/earnings per share	**(7.20)**	2.56
Profit on sale of property	**(0.38)**	—
Provision for losses/loss on sale of operations	**12.15**	1.01
Tax effect on non-operating exceptional items	**(1.11)**	—
IIMR earnings per share	**3.46**	3.57

8. Tangible fixed assets

Cost or valuation	Freehold land and buildings £000	Long leasehold land and buildings £000	Plant, machinery and vehicles £000	Assets in the course of construction £000	Total £000
At 30th September 1997	11,862	1,185	25,640	204	38,891
Additions	2,009	—	1,930	—	3,939
Disposals	—	—	(3,836)	—	(3,836)
Disposals of subsidiaries	(500)	(135)	(988)	—	(1,623)
Exchange movement	—	—	60	—	60
Transfers between categories	(103)	—	307	(204)	—
Transfers to current assets	(460)	—	—	—	(460)
Revaluation	(1,010)	(450)	—	—	(1,460)
At 30th September 1998	**11,798**	**600**	**23,113**	**—**	**35,511**
Depreciation					
At 30th September 1997	—	—	13,134	—	13,134
Provision for the year	173	20	2,035	—	2,228
Disposals	—	—	(3,598)	—	(3,598)
Disposals of subsidiaries	(3)	(1)	(370)	—	(374)
Exchange movement	—	—	67	—	67
Revaluation	(28)	(11)	—	—	(39)
At 30th September 1998	**142**	**8**	**11,268**	**—**	**11,418**
Net book value At 30th September 1998	**11,656**	**592**	**11,845**	**—**	**24,093**
Net book value At 30th September 1997	11,862	1,185	12,506	204	25,757

The net book value of assets held under finance leases and hire-purchase contracts amounted to £1,060,000.

Included in the above is freehold land not subject to depreciation of £4,600,000.

Certain of the Group's properties were valued by the Directors at 30th September 1998 at open market value.

a. The cost or valuation figures for land and buildings include:

	Freehold 1998 £000	Freehold 1997 £000	Long Leasehold 1998 £000	Long Leasehold 1997 £000
Valuation made in 1997	**6,325**	10,700	**—**	1,185
Valuation made in 1998	**2,408**	—	**400**	—
Stated at historical cost	**3,065**	1,162	**200**	—
	11,798	11,862	**600**	1,185

b. The amount of revalued land and buildings as determined according to the historical cost accounting rule is:

	Freehold 1998 £000	Freehold 1997 £000	Long Leasehold 1998 £000	Long Leasehold 1997 £000
Cost	**8,254**	8,219	**354**	456
Depreciation	**1,015**	956	**77**	100
	7,239	7,263	**277**	356

c. Capital commitments:

	1998 £000	1997 £000
Contracted for	**128**	2,451

Notes to the Financial Statements

9. Properties held for realisation

	1998 £000	1997 £000
Cost at 30th September 1997	**645**	—
Transfers from fixed assets	**460**	645
Disposals	**(645)**	—
Cost at 30th September 1998	**460**	645

The property held for realisation is available for resale, following the cessation of operations at that subsidiary.

10. Stocks

	1998 £000	1997 £000
Raw materials and consumables	**4,358**	6,682
Work in progress	**2,097**	3,066
Finished goods and goods for resale	**3,159**	4,816
	9,614	14,564

11. Debtors

	1998 £000	1997 £000
Trade debtors due in less than one year	**16,718**	17,954
Trade debtors due in more than one year	**137**	—
Other debtors	**376**	382
Prepayments	**609**	1,217
Advance corporation tax (ACT) recoverable within one year	**718**	135
Corporation tax	**181**	—
ACT recoverable after one year, less amount deducted from deferred taxation	**—**	562
	18,739	20,250

12. Creditors

	Amounts due within one year		Amounts due after one year	
	1998 £000	1997 £000	**1998 £000**	1997 £000
Loans (note 13)	**1,608**	3,570	**4,875**	6,137
Bank overdraft	**4,135**	4,517	**—**	—
Trade creditors	**12,986**	14,084	**—**	—
Corporation tax	**—**	21	**—**	—
ACT on dividends	**208**	414	**—**	—
Other taxes and social security	**1,540**	1,686	**—**	—
Accruals	**1,507**	1,579	**—**	—
Proposed dividend	**831**	829	**—**	—
Hire-purchase	**290**	278	**370**	648
	23,105	26,978	**5,245**	6,785

Of the obligations under finance leases and hire-purchase commitments, due after one year, £281,000 is due within one to two years and £89,000 between two and five years.

13. Loans

	Amounts due within one year		Amounts due after one year	
	1998 £000	1997 £000	**1998 £000**	1997 £000
14% First mortgage debenture stock	**—**	—	**1,000**	1,000
European Coal and Steel Community loans	**—**	70	**—**	—
Bank loan	**108**	2,000	**—**	137
Treasury loans	**1,500**	1,500	**3,875**	5,000
	1,608	3,570	**4,875**	6,137

The debenture stock is secured on freehold and leasehold properties of certain of the Company's subsidiaries.

The Company has the option to redeem, in whole or in part, the debenture stock at par in any of the years 2000 to 2003, and on 30th September 2003 any debenture stock remaining outstanding will be repaid at par. The debenture stock carries a fixed rate of interest of 14% per annum payable on 31st March and 30th September, and contains no right to convert into share capital in the Company.

The Treasury loans carry a rate of interest of 0.7% above the London Inter-bank Offered Rate. Of the amount of £3,875,000 due after one year, £1,500,000 is due within one to two years and £2,375,000 is due within two to five years.

14. Provisions for liabilities and charges

	1998 £000	1997 £000
Deferred taxation	**337**	98
Pension scheme provision	**417**	219
Provision for reorganisation costs	**47**	494
Provision for loss on disposal	**1,000**	400
	1,801	1,211

	Deferred taxation £000	Pension scheme provision £000	Provision for reorganisation costs £000	Provision for loss on disposal £000
At 30th September 1997	249	219	494	400
Charge in year	103	198	—	1,588
Utilized in year	—	—	(447)	(988)
Disposal of subsidiary	(15)	—	—	—
At 30th September 1998	**337**	**417**	**47**	**1,000**

Deferred taxation

i) Provided in financial statements:

	1998 £000	1997 £000
Accelerated capital allowances	**337**	249
Advance corporation tax recoverable	**—**	(151)
	337	98

ii) If provision had been made for all timing differences, further liability as follows would have appeared in the financial statements:

Accelerated capital allowances	**1,604**	1,703
Other timing differences	**(123)**	(103)
Revaluation of properties	**468**	425
	1,949	2,025

Notes to the Financial Statements

15. Accruals and deferred income

	1998 £000	1997 £000
Government grants		
At 30th September 1997	**140**	168
Amounts written off	**(45)**	(53)
Received in year	**—**	25
At 30th September 1998	**95**	140

16. Share capital

	1998 £000	1997 £000
Authorised		
48,000,000 ordinary shares of 25p each (1997 — 48,000,000)	**12,000**	12,000
Called up and fully paid		
39,559,016 ordinary shares of 25p each (1997 — 39,477,555)	**9,890**	9,869

During the year 81,461 ordinary shares were allotted under the 1985 Savings Related Share Option Scheme at a price of 55.228p each.

Options outstanding at 30th September 1998 were:

	Option price	Date exercisable	Expiry date
1985 Executive Share Option Scheme:			
53,000 ordinary shares	95.063p	01.02.95	01.02.02
126,133 ordinary shares	112.500p	28.01.97	28.01.04
1995 Executive Share Option Scheme:			
354,130 ordinary shares	113.597p	20.02.99	20.02.06
1985 Savings Related Share Option Scheme:			
17,099 ordinary shares	55.228p	01.04.98	01.10.98
40,583 ordinary shares	73.218p	01.04.98	01.10.98
20,300 ordinary shares	73.218p	01.04.00	01.10.00
229,952 ordinary shares	90.000p	01.04.00	01.10.00
35,951 ordinary shares	90.000p	01.04.02	01.10.02
1995 Savings Related Share Option Scheme:			
452,914 ordinary shares	66.000p	01.04.02	01.10.02

17. Reserves

a. Share premium

	1998 £000
At 30th September 1997	**108**
Premium on shares issued	**25**
At 30th September 1998	**133**

b. Revaluation reserves

	1998 £000
At 30th September 1997	**3,509**
Transfer to profit and loss account	**(55)**
Revaluation deficit	**(1,164)**
At 30th September 1998	**2,290**

c. Profit and loss account

	1998 £000
At 30th September 1997	**12,626**
Retained loss for the year	**(4,505)**
Goodwill taken to loss on disposal	**2,187**
Transfer from revaluation reserve	**55**
Exchange difference	**7**
At 30th September 1998	**10,370**

d. Goodwill

The accumulated goodwill written off to reserves in respect of the acquisition of continuing businesses is £1,578,000 (1997 — £3,765,000).

18. Contingent liabilities

a. The Group had guarantees outstanding to a bank in respect of performance bonds of £934,000 (1997 — £1,550,000), Customs and Excise of £91,000 (1997 — £91,000) and to other third parties of £10,000 (1997 — £10,000), at 30th September 1998.

b. The Group also has guarantees arising in the ordinary course of the Group's business and on these no material losses are anticipated.

19. Particulars of employees

	1998	1997
The average number of persons, all of whom were engaged in the principal activities, employed by the Group (including Directors) during the year was:	**959**	1,013

Their total remuneration was:	1998 £000	1997 £000
Wages and salaries	**15,952**	16,232
Social security	**1,513**	1,469
Other pension costs	**331**	284
	17,796	17,985

Notes to the Financial Statements

20. Directors' remuneration

The disclosures required by the Companies Act 1985 and the London Stock Exchange in respect of Directors' emoluments are given in the Report of the Remuneration Committee on page 16 to 18.

21. Directors' interests

The Directors of the Company at the end of the year, and the interest of the Directors and their families in the ordinary shares of the Company according to the register required to be kept by the Companies Act 1985 were as follows:

	30th September 1998	30th September 1997 or later date of appointment
D.S. Winterbottom	**15,690**	—
R.E. Richardson	**—**	—
John G. Silk	**685,572**	685,572
S.H.J.A. Knott	**492,494**	342,494
H.C. Everett	**55,775**	55,095
D.L. Grove (appointed 20th March 1998)	**379,545**	—

Mr Silk has a beneficial interest in 421,159 (1997 — 421,159) shares in an Estate in which he is both an Executor and a Trustee.

John G. Silk is a partner in Silks, Solicitors to the Company, which received fees of £67,000 for services rendered to the Company.

In addition to the Directors listed above, Mr M.E. Sara served as a Director until 9th June 1998 and Messrs A.J. Pensom and R.W. Simpson until 30th September 1998.

Directors' options

	At 30th September 1997	Granted during year	Lapsed during year	**At 30th September 1998**	Exercise price	Date exercisable	Expiry date
H.C. Everett	14,850	—	—	**14,850**	73.218p	01.04.98	01.10.98
	17,600*	—	—	**17,600**	113.597p	20.02.99	20.02.06
	6,181	—	—	**6,181**	66.000p	01.04.02	01.10.02

The options marked * were granted under the 1995 Executive Share Option Scheme; the other options were granted under the 1985 Savings Related Share Option Scheme.

D.L. Grove holds options granted by a third party in respect of 1,844,183 shares at prices between 40p and 47p per share exercisable on or before August 2005.

The market price of the Company's shares at 30th September 1998 was 45.0p. The market price for the year varied between 42.5p and 70.5p.

22. Financial commitments

The Group's annual commitment under non-cancellable operating leases was as follows:

	Land and buildings		Other	
	1998	1997	**1998**	1997
Leases expiring within:	**£000**	£000	**£000**	£000
One to two years	**9**	10	**6**	27
Two to five years	**1**	88	**156**	336
Over five years	**—**	20	**—**	—
	10	118	**162**	363

23. Pension scheme arrangements

The Group contributes into three pension schemes, two of which are defined contribution schemes and one a funded defined benefit scheme. The assets of all schemes are held in trust funds and, therefore, held separately from the Group's assets. The principal scheme is a defined benefit scheme covering the majority of members, the Hill & Smith Group Pension and Assurance Scheme.

Contributions to the principal scheme are charged to the profit and loss account so as to spread the cost of pensions over members' working lives with the Group. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit credit method.

With regard to the principal scheme, the most recent valuation was at 5th April 1997. This showed that the market value of the scheme's assets was £21,514,591 and that the actuarial value of these assets represented 118% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment returns would be 9.5% per annum, and that salary increases would average 8% per annum.

The pension cost for the year was £331,000 (1997 — £284,000). There is a provision for pension costs of £417,000 (1997 — £219,000). This provision will be released to profit in line with actuarial advice.

The next actuarial valuation is at 5th April 2000.

Where beneficial, the other Group schemes are to be merged with the principal scheme in due course. The Group has no significant exposure to any other post-retirement obligations.

24. Post-balance sheet event

On 23rd November 1998 the Group sold its Springvale property for £3,850,000 as part of a sale and leaseback arrangement. The Group has entered into a 25 year lease at an initial annual rental of £339,000.

Parent Company Balance Sheet

as at 30th September 1998	Notes	**1998 £000**	Restated 1997 £000
Fixed assets			
Tangible assets	26	**41**	54
Investments	27	**21,001**	23,850
		21,042	23,904
Current assets			
Debtors	28	**4,207**	5,230
Cash at bank and in hand		**474**	1,606
		4,681	6,836
Creditors (amounts due within one year)	29	**3,101**	5,203
Net current assets		**1,580**	1,633
Total assets less current liabilities		**22,622**	25,537
Creditors (amounts due after one year)	29	**2,000**	3,000
Net assets		**20,622**	22,537
Capital and reserves			
Called up share capital	16	**9,890**	9,869
Share premium	31	**133**	108
Profit and loss account	31	**10,599**	12,560
Equity shareholders' funds		**20,622**	22,537

These financial statements were approved by the Board on 9th December 1998 and signed on its behalf by:

D.S. WINTERBOTTOM
D.L. GROVE
Directors

Notes to the Parent Company Balance Sheet

25. Profit and loss account

The Company has taken advantage of the statutory exemption from presenting its own profit and loss account. The loss for the financial year dealt with in the accounts of the Company amounted to £(300,000) (1997 — profit £1,245,000).

26. Tangible fixed assets

	Office equipment and vehicles £000
Cost	
At 30th September 1997	117
Additions	26
Disposals	(81)
At 30th September 1998	**62**
Depreciation	
At 30th September 1997	63
Provision for the year	26
Disposals	(68)
At 30th September 1998	**21**
Net book value at 30th September 1998	**41**
Net book value at 30th September 1997	54

27. Fixed asset investments

	Shares in Group undertakings £000	Loans to Group undertakings £000	Total £000
At 30th September 1997	18,503	5,347	23,850
Increase in loans during the year	—	1,074	1,074
Disposals during the year	(2,656)	(225)	(2,881)
(Increase) in provision during year	(931)	(111)	(1,042)
At 30th September 1998	**14,916**	**6,085**	**21,001**

A list of the Group undertakings is given on page 41.

In addition, the Company acquired 50% of Royston Steel Fencing Limited at a cost of £1 under the terms of a creditors voluntary arrangement dated 23rd December 1997. This investment is temporary and when the assets of the company are realised it will be wound up. Consequently, its results and assets are not included in the consolidated accounts of the Group. The accounts of the company for the years ended 30th September 1997 and 1998 are not available. It is not expected that any further losses will arise to the Group upon the winding up of the company.

All the Group's subsidiaries are wholly owned. Asset International (Ireland) Limited is incorporated in the Republic of Ireland.

28. Debtors

	1998 £000	1997 £000
Amounts owed by Group undertakings	**2,553**	3,424
Other debtors	**86**	89
Prepayments	**868**	717
Advance corporation tax (ACT) recoverable within one year	**283**	46
ACT recoverable after one year	**280**	713
Corporation tax	**137**	241
	4,207	5,230

Notes to the Parent Company Balance Sheet

29. Creditors

	Amounts due within one year		Amounts due after one year	
	1998	1997	**1998**	1997
	£000	£000	**£000**	£000
Loans (note 30)	**1,000**	2,500	**2,000**	3,000
Bank overdraft	**102**	589	**—**	—
Other creditors	**415**	492	**—**	—
Amounts owed to Group undertakings	**—**	342	**—**	—
Corporation tax	**72**	—	**—**	—
ACT on dividends	**—**	354	**—**	—
Other taxes and social security	**21**	23	**—**	—
Accruals	**660**	74	—	—
Proposed dividend	**831**	829	—	—
	3,101	5,203	**2,000**	3,000

30. Loans

	Amounts due within one year		Amounts due after one year	
	1998	1997	**1998**	1997
	£000	£000	**£000**	£000
14% First mortgage debenture stock	**—**	—	**1,000**	1,000
Bank loan	**—**	2,000	**—**	—
Treasury loan	**1,000**	500	**1,000**	2,000
	1,000	2,500	**2,000**	3,000

The debenture stock is secured on freehold and leasehold properties of certain of the Company's subsidiaries.

The Company has the option to redeem, in whole or in part, the debenture stock at par in any of the years 2000 to 2003, and on 30th September 2003 any debenture stock remaining outstanding will be repaid at par. The debenture stock carries a fixed rate of interest of 14% per annum payable on 31st March and 30th September, and contains no right to convert into share capital in the Company.

The Treasury loan carries a rate of interest of 0.7% over the cost of the discount rate in the London market. Of the amount of £1,000,000 due after one year, £500,000 is due within one to two years and £500,000 between two and five years.

31. Reserves

	Share premium £000	Profit and loss account £000
At 30th September 1997	108	12,560
Loss for the year after taxation and dividend	—	(1,961)
Savings related share option scheme	25	—
At 30th September 1998	**133**	**10,599**

32. Contingent Liabilities

a. The Company has guaranteed bank and other short-term borrowings of subsidiaries amounting at 30th September 1998 to £11,101,041 (1997 — £8,982,402).

b. The Company had no guarantees in respect of trade liabilities of subsidiaries at 30th September 1998 (1997 — £50,000).

c. The Company had a guarantee outstanding to a bank in respect of performance bonds of £763,422 (1997 — £1,550,000).

d. The Group has made guarantees on behalf of subsidiaries arising in the course of their businesses and on these no material losses are anticipated.

Five Year Record

	1994	1995	1996 (as restated)	1997 (as restated)	**1998**
	£000	£000	£000	£000	**£000**
Turnover	76,639	87,823	80,683	81,281	**76,497**
Operating profit	5,180	6,235	3,772	2,698	**3,628**
Profit/(loss) before taxation	4,625	5,434	2,922	1,216	**(2,466)**
Taxation	1,549	1,546	622	205	**378**
Profit/(loss) after taxation	3,076	3,888	2,300	1,011	**(2,844)**
Shareholders' funds	27,115	28,173	27,966	26,112	**22,683**
Dividends per ordinary share	6.20p	6.20p	6.20p	4.20p	**4.20p**
Operating cash flow per ordinary share	14.22p	13.08p	15.78p	14.84p	**19.49p**

Equivalent market price at 31st March 1982* of a 25p ordinary share in Hill & Smith Holdings PLC, as adjusted by capitalisation issues to date, is 10.72p.

* At this date a capitalisation issue of 1 for 10 new ordinary shares in the form of renounceable share certificates was in being and these were separately quoted at a price which, adjusted for the further capitalisation issues, would be equivalent to 10.94p.

Notice of Meeting

Notice is hereby given that the 38th Annual General Meeting of Hill & Smith Holdings PLC will be held at **The Copthorne Hotel, The Waterfront, Level Street, Brierley Hill, DY5 1UR** on **19th March 1999** at 12 noon for the following purposes:

1. To receive the Directors' report and the financial statements for the year ended 30th September 1998 together with the Auditors' report thereon.

2. To approve the payment of the proposed final dividend of 2.1p per share on 7th April 1999. (Resolution No. 1)

To elect the following Director appointed to the Board since the date of the last Annual General Meeting:

3. Mr D.L. Grove. (Resolution No. 2)

To re-elect the following Directors who retire by rotation as Directors of the Company:

4. Mr H.C. Everett. (Resolution No. 3)

5. Mr S.H.J.A. Knott. (Resolution No. 4)

6. To appoint KPMG Audit Plc as Auditors and to authorise the Directors to determine their remuneration. (Resolution No. 5)

15th February 1999

Springvale Business & Industrial Park
Bilston, Wolverhampton, West Midlands, WV14 0QL

By order of the Board
H.C. EVERETT
Secretary

Notes:

(1) The Company pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995 specifies that only those Shareholders registered in the Register of members of the Company as at 6.00 p.m. on 17th March 1999 shall be entitled to attend or vote at the above Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the Register after 6.00 p.m. on 17th March 1999 shall be disregarded in determining the rights of any person to attend and vote at the Meeting.

(2) A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy need not be a member of the Company. A form of proxy is enclosed. To be effective, the instrument appointing a proxy must be received at the Company's registered office not less than 48 hours before the time for holding the Meeting.

(3) The following documents will be available for inspection at the Company's registered office on any weekday (except Saturday) during normal business hours for a period of fifteen minutes prior to the Annual General Meeting and during the Meeting:

   (a) a statement of all transactions of each Director and of their family interests in the share capital of the Company;

   (b) copies of contracts of service of the Directors of the Company.

Principal Group Companies

Asset International Limited
Stephenson Street, Newport, Gwent, NP9 0XH
Tel. (01633) 273081 Fax. (01633) 281301
Email: sales@assetint.co.uk
Website: http://www.assetint.co.uk

Netherton Street, Wishaw, Lanarkshire, ML2 0ED
Tel. (01698) 355838 Fax. (01698) 356184

Tallaght Business Park, Tallaght, Dublin 24
Tel. 01 462 0555 Fax. 01 462 2786

W H Barker & Son Engineers Limited
Etna Works, Duke Street, Fenton,
Stoke-on-Trent, Staffs., ST4 3NS
Tel. (01782) 319264 Fax. (01782) 599724

Birtley Building Products Limited
Mary Avenue, Birtley, County Durham, DH3 1JF
Tel. (0191) 410 6631 Fax. (0191) 410 0650
Email: info@birtley-building.co.uk
Website: www.birtley-building.co.uk

Bainbridge Engineering
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Bescot Works, St Paul's Road, Wednesbury,
West Midlands, WS10 9QZ
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Criterion Stampings
Criterion Works, Bilston Lane,
Willenhall, Wolverhampton,
West Midlands, WV13 2LH
Tel. (01902) 366555 Fax. (01902) 634306

D. & J. Steels Limited
Lambert Works, Colliery Road,
Wolverhampton, West Midlands, WV1 2RD
Tel. (01902) 453680 Fax. (01902) 455431

Hill & Smith Limited
Springvale Business and Industrial Park,
Bilston, Wolverhampton,
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Email: barrier@hill-smith.co.uk
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West Midlands Galvanizers
Springvale Business and Industrial Park,
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Pipe Supports Limited
Salwarpe Road, Droitwich,
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Tipton Steel Stockholders Limited
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Varley & Gulliver Limited
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