Hill & Smith Holdings PLC

Annual Report and Financial Statements 1999

Contents

Results at a glance

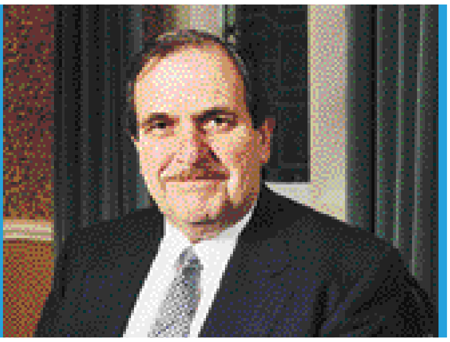
	1999 £000	1998 £000
Turnover	**61,940**	76,497
Operating profit	**4,778**	3,628
Profit/(loss) before taxation	**3,562**	(1,566)
Profit/(loss) after taxation	**2,293**	(1,944)
Ordinary dividends		
Interim	**2.10p**	2.10p
Final	**2.10p**	2.10p
	4.20p	4.20p
Earnings/(loss) per ordinary share — basic	**5.82p**	(4.92p)
— diluted	**5.81p**	(4.92p)
— IIMR	**7.01p**	3.46p
Net assets per ordinary share	**59.28p**	59.61p
Operating cash flow per ordinary share	**22.47p**	19.49p

Financial calendar

Annual General Meeting 2000	23 March 2000
Payment of final dividend for the year to 30 September 1999 (ex dividend date 7 February 2000)	7 April 2000
Announcement of results for half year to 31 March 2000	May 2000
Payment of interim dividend	Early October 2000
Preliminary announcement of results to 30 September 2000	Late November 2000

Chairman's Statement

progress achieved, has been . . .



I am delighted to confirm to you that the situation I reported in my interim statement for the half year, outlining the progress achieved, has been sustained for the full trading year. Our operating profits for the year to 30 September 1999 increased by 31.7% to £4.78 million (1998: £3.63 million). We are, of course, now required to adopt the new financial reporting standard FRS12, to which I made reference at the half year. This changes the presentation of our full year accounts and has the effect of reducing the displayed profits on ordinary activities before tax to £3.56 million (1998: loss £1.57 million).

These adjustments due to FRS12 must be confusing to the reader of the report and accounts, but net assets at 30 September 1999 and earnings before exceptional items remain unaffected by these changes.

The effect of the various adjustments is that the tax charge is 36% for the year and this leaves the IIMR EPS at 7.01p per share (1998: 3.46p per share).

The Board has continued to concentrate on cash management within the Group. Operating cash flow per share was 22.47p, an increase on last year's 19.49p, and we achieved net borrowings of £4.43 million at the year end (1998: £11.26 million). This was after expending £3 million to acquire Berry Safety Systems Limited.

The major reorganisation of the Group's businesses is now completed and the Board is concentrating on organic growth with the introduction of new products. Additionally, we continue to look for appropriate acquisitions in line with our core strategy. Mindful of the above, and recognising the need to consolidate and build

. . . sustained for the full trading year

on the good health of the Company, the Board is recommending a final dividend for the year of 2.1p per share (1998: 2.1p per share), making a total for the year of 4.2p per share (1998: 4.2p per share).

At the AGM in March, Mr John Silk retired from the Board and following the shareholders' approval, John was appointed Life President of the Company — a position which he will hold with distinction. Mr David Grove, following the AGM, was confirmed as Deputy Chairman and Group Chief Executive.

Our systems have been checked and cleared for Year 2000 compatibility, although our operations are not highly microprocessor dependent. Contingency plans are in place to ensure that senior management are available to make any urgent decisions in the first days of the new year.

May I thank all employees for their sustained efforts and success through yet another year of change. Our greatest asset is our people and we must never forget that in dictating how we deal with corporate situations from time to time.

Finally I come to current and future trading. Conditions continue to be difficult for the engineering sector; however, given the usual caveat about no further adverse change in economic conditions, I look forward to a satisfactory outcome to the current trading year.

DAVID S. WINTERBOTTOM

Chairman

30 November 1999

Directors, President, Advisers and Committees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DIRECTORS

1 D.S. WINTERBOTTOM FCA, FCT

Chairman (Non-Executive)

David, aged 63, a Chartered Accountant, joined the Board on 1 October 1997. He is also Chairman of CPL Industries Limited, Wightlink Group Limited and TJ Hughes PLC. Additionally, he is Chairman of a number of institutionally owned companies, and Non-Executive Director of Electrocomponents PLC.

2 D.L. GROVE BA, FCA

Deputy Chairman and Chief Executive

David, aged 51, joined the Board on 20 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.

3 H.C. EVERETT BSc, CA

Group Finance Director and Company Secretary

Howard is 55, and joined the Group from Rapid Metal Developments Limited, an RM Douglas PLC subsidiary, in 1990. He speaks French and the Scandinavian languages. He is a Pension Fund Trustee.

4 S.H.J.A. KNOTT BA (Econ)

Non-Executive Director

Simon, aged 68, 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.

5 R.E. RICHARDSON

Non-Executive Director

Dick, aged 60, 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.

LIFE PRESIDENT

6 JOHN G. SILK LLB (Lond.)

John, aged 75, joined the Board in 1981 and was Chairman from 1983 to 1995. He retired from the Board and was appointed Life President on 19 March 1999. He is also Deputy Chairman of Hampson Industries PLC and the Senior Partner of Silks, Solicitors. He is Chairman of the Pension Fund Trustees.

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Audit Committee

Messrs Winterbottom, Knott, and

Richardson (Chairman)

Remuneration Committee

Messrs Winterbottom, Knott (Chairman),

and Richardson

Executive Committee

D.L. Grove (Chief Executive)

H.C. Everett (Finance Director and Company Secretary)

A.J. Pensom

R.W. Simpson

D. Muir

R.G. Jones

Registered Office

Springvale Industrial and Business Park

Bilston

West Midlands

WV14 0QL

Company Number

671474

Advisers

Registrars

Computershare Services PLC,

PO Box 82, The Pavilions, Bristol, BS99 7NH

Auditors

KPMG Audit Plc,

2 Cornwall Street, Birmingham, B3 2DL

Bankers

HSBC 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

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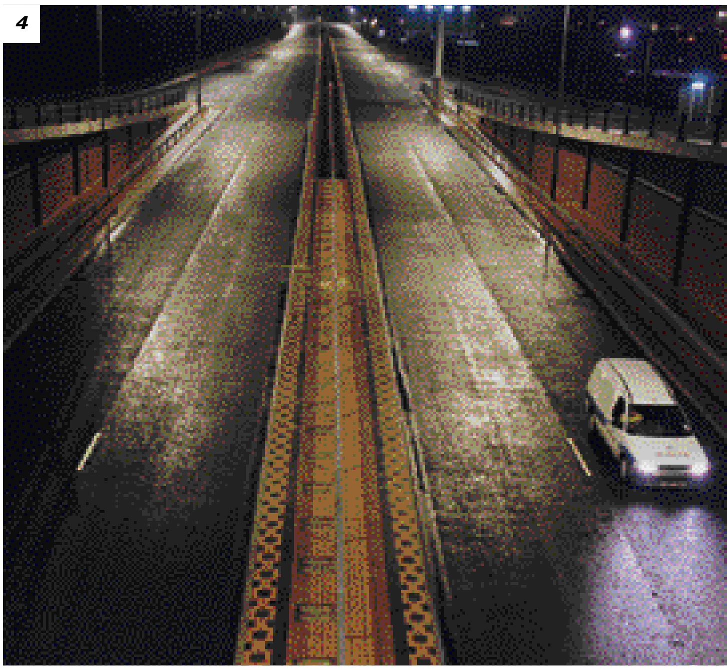

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Operational Review

. . . financial performance clearly vindicates the action taken

1999 was a year of delivery. The financial performance clearly vindicates the action taken last year to establish a new streamlined strategy for the Group's future development.

The disposal programme for non-core activities continued during the year. Our drop forging interests, British & Midland Forgings Limited and Criterion Stampings Limited, were sold to Brockhouse, which has a substantial forging activity in West Bromwich in the West Midlands. We have retained a minority equity stake in this enlarged forging group, which will be rationalised onto a single site in West Bromwich. I am pleased to report that the properties previously occupied by British & Midland and Criterion Stampings are expected to be sold in the near future.

Tipton Steel Stockholders, which had suffered significant losses recently, was sold to a management buy-in team and the property occupied by Tipton, which was initially retained by Hill & Smith, will be sold in the current financial year.

As stated, the Group's strategy is to develop its core businesses both organically and, where appropriate, by acquisition. In May 1999 the Group acquired Berry Systems for £3m. This business sells and erects barrier and protection systems for buildings, car parks and other off-highway areas where vehicular movements take place. This is the first major acquisition the Group has made since 1993 and it has been successfully integrated into the Hill & Smith portfolio.

Hill & Smith Limited had another successful year. Although the new road building programme is to decline, the road maintenance programme is growing steadily. The acquisition of Berry Systems increased our product range and customer base.

Varley & Gulliver Limited had a satisfactory year, but market conditions were not as buoyant as the previous year.

The Group's galvanising activities continued to expand during the year with the tonnage processed increasing by over 10% on the previous year.

Pictures

1 Pre-curved steel parapet, Black Country Route, Varley & Gulliver.
2 Crash cushion protecting end of concrete barrier, Hill & Smith.
3 Double sided tensioned barrier system, Hill & Smith.
4 Central reservation barrier on Dudley southern by-pass, Hill & Smith.
5 High containment barrier at sign gantry, Hill & Smith.
6 Birmingham canal side parapet, Varley & Gulliver.
7 Transition between tensioned and open box beam barrier systems, Hill & Smith.

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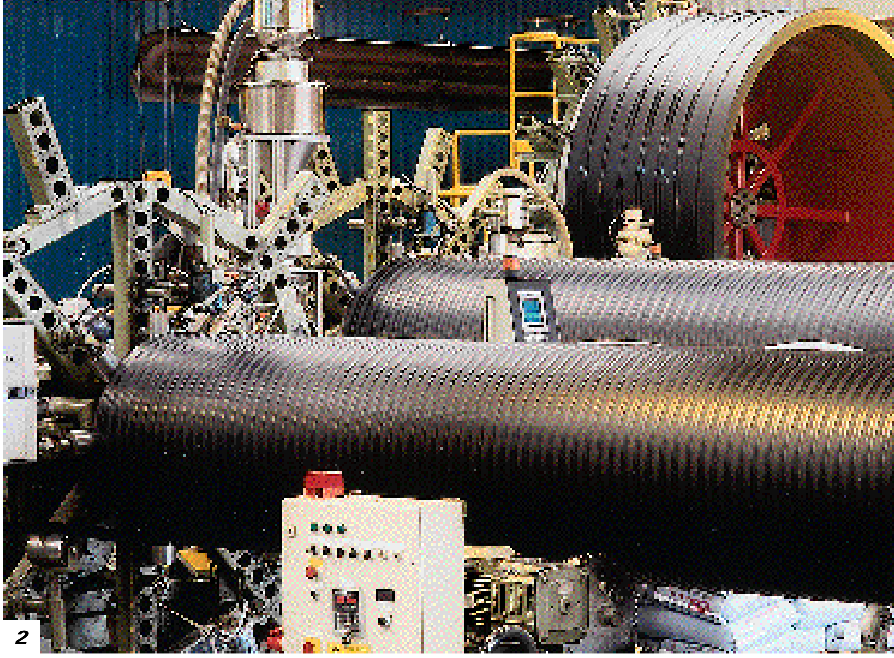

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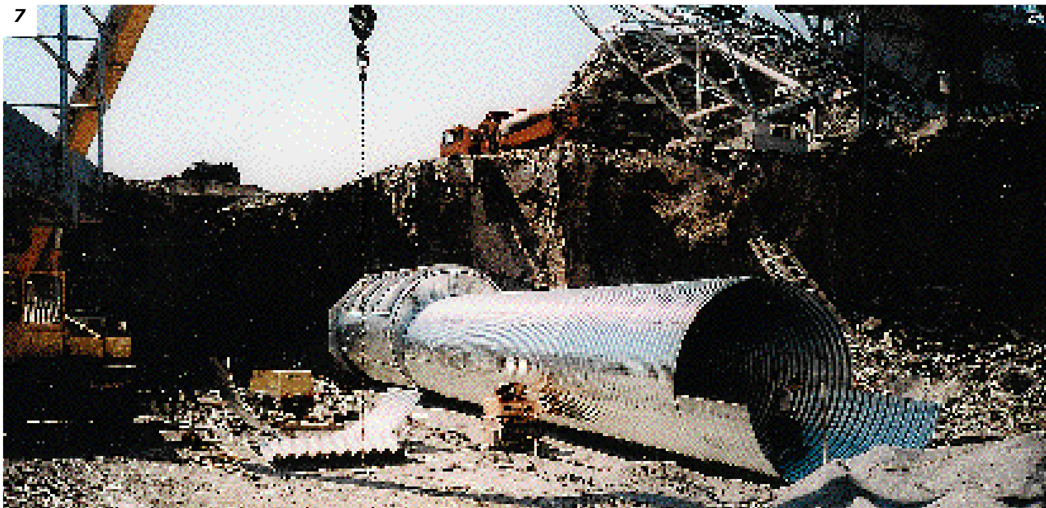

. . . we opened a manufacturing facility in New Orleans

Asset International continues to make progress and, following the success of the Weholite plastic pipe, a third extrusion line was commissioned during 1999 at a cost of £600,000. During the year Varioguard was launched into the UK market. This product is a temporary barrier system, which can be speedily delivered and erected to protect work zones relating to road maintenance. The enthusiastic response from consulting engineers and contractors has given us the confidence to invest substantially in this product to increase our hire stock, as this product is usually rented for the duration of roadworks schemes.

Birtley Building Products Limited achieved a creditable performance despite the price competition in the traditional lintels market. A cost-cutting programme was initiated in 1999 and this will continue in the current financial year, thus improving our competitive position in the marketplace.

Pictures

1 Birtley lintels, high corrosion protection, Brighton Marina.
2 "Weholite" line production at Asset International factory.
3 Contract galvanising from Birtley.
4 "Varioguard" providing protection on the A1(M) at Hertford, Asset International.
5 Special curve profile Birtley lintel on Barratt development.
6 Steel residential door and factory built GRP canopy from Bainbridge.
7 "Multiplate" aggregate tunnel assembly in Ireland, Asset International.

Pipe Supports Limited expanded significantly during 1999 in response to its strategy as a global supplier of pipe support systems on major projects. During the year we opened a manufacturing facility in New Orleans to service the American market. Anticipated losses were incurred in 1999, resulting from the normal start-up costs associated with such a venture. Demand for our products in the USA is buoyant at present and this activity should make a positive contribution in the current financial year. In order to consolidate our position in south east Asia, we acquired an 80% interest in a pipe supports business in Thailand in October 1999. This is a very small business and currently has sales of £500,000 per annum.

W.H. Barker & Sons Limited continues to make less than satisfactory returns in a very competitive marketplace.

D & J Steels Limited continues to trade profitably but against the background of falling demand in the forging market.

We are continuing to invest in our core businesses where we have significant market share and are constantly appraising opportunities which will consolidate the growth and development of the Group.

D.L. GROVE
Chief Executive
30 November 1999

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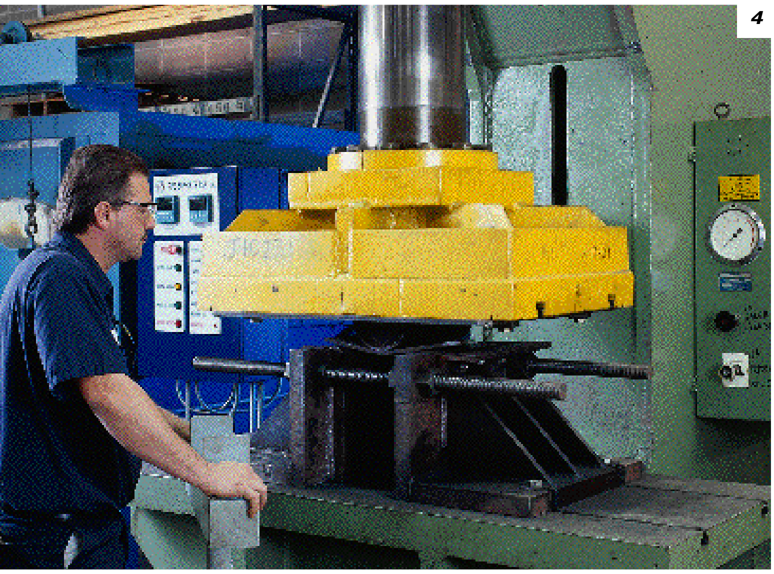

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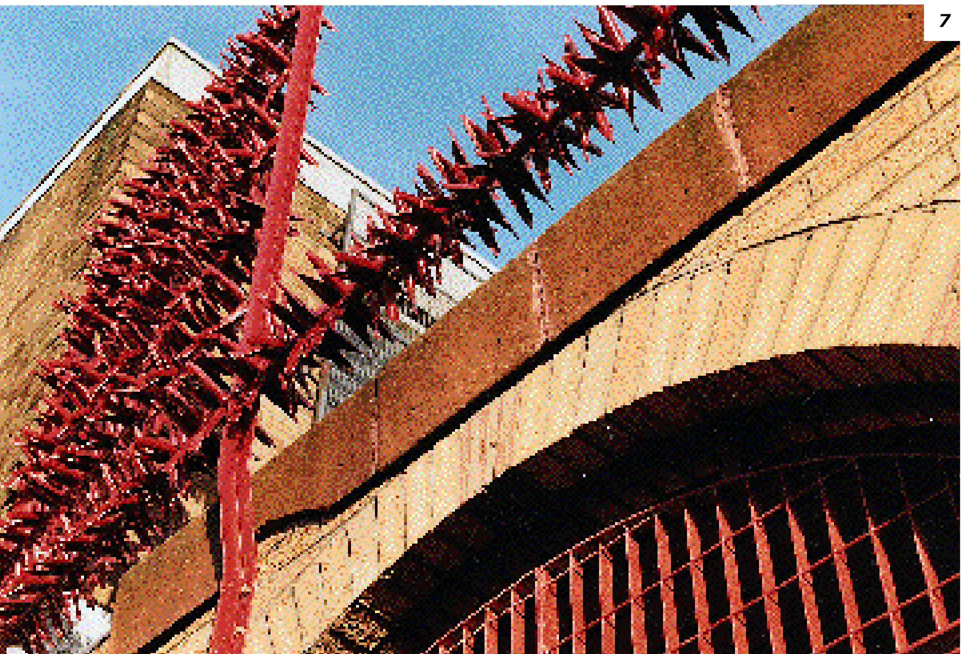

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Financial Review

Operating profit from continuing activities was £4.82m . . .

Operating profit from continuing activities was £4.82m (1998: £4.21m), despite the impact of the sale and leaseback of the Bilston site in November 1998, which increased overheads but reduced interest costs. The discontinued activities resulted in losses at the operating level of £0.04m (1998: £0.58m), and exceptional losses on disposal of £0.54m (1998: restated £3.90m). The 1998 figures were restated due to the impact of FRS12; this meant that £0.90m previously provided in 1998 was written back to the 1998 figures and the actual loss written off to the 1999 figures. This adjustment of £0.90m has had no impact on the net assets of the business.

Interest charges of £0.68m (1998: £1.44m) are covered 7 times (1998: 2.5 times) by operating profit, and were reduced due to the strong cash inflow from operating activities and net capital divestment during the year. Tax at £1.27m (1998: £0.38m) was more than the standard percentage rate expected due to an adjustment relating to earlier years.

Profit after tax of £2.29m compares to a restated loss in 1998 of £1.94m. The dividend is 1.4 times covered and IIMR earnings per share is 7.01p (1998: restated 3.46p).

Balance Sheet

The balance sheet shows the goodwill of £2.83m due to the purchase of the Berry operation, tangible assets of £17.05m (1998: £24.09m) reflecting the reduction in assets due to disposals during the year and investments of £1.4m, which represent the continued investment in Brockhouse Forgings Limited and Tipton Steel Stockholders Limited.

Properties held for realisation are the three sites at Tipton, Bescot and Willenhall. At the time of writing this report, it is expected that all three sites will be sold prior to 31 March 2000, for at least book value.

Overall stock reductions were due in part, £2.26m, to continuing activities and in part, £0.88m, to disposals. Likewise, debtor reductions of £1.64m were due to continuing activities and £2.35m were due to disposals.

Creditors have been reduced mainly due to a reduction in borrowings of £6.82m, coupled with trade creditors at £1.5m lower on continuing activities and £1.83m lower due to disposals.

Share capital has been reduced due to the buy-back of 625,000 ordinary shares at a total price of £406,000.

Cash

Cash flow for the year was strong with net cash inflow due to operating activities of £8.85m (1998: £7.70m): this represents 22.47p per share (1998: 19.49p). This enabled net debt to be reduced during the year by £6.82m (1998: £3.88m), to £4.43m.

Gearing

Net gearing at 30 September 1999 was 19% compared with 50% at 30 September 1998.

H.C. EVERETT
Financial Director
30 November 1999

Pictures

1. Heavy duty pipe supports for Texas.
2. Barker's fencing at Hansworths Park, London.
3. Pipe Supports factory in New Orleans, Louisiana.
4. Press and furnace in our Louisiana factory.
5. Blooms Field Estate, Birmingham, Barker fencing.
6. Fencing at Kelloggs, Manchester, Barker.
7. High security for NHS Trust, Coventry, Barker.
8. CNC profile machine in the USA at Pipe Supports.

Directors' Report

The Directors present their thirty-ninth annual report together with the financial statements for the year ended 30 September 1999.

Trading review

The Chairman's Statement on page 2 and the Operational and Financial Reviews on pages 7 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.

Principal activities

The principal activities of the Group companies are:

Galvanising services.

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

Pipe supports.

Steel lintels, garage doors and ancillary building products.

Steel and plastic drainage pipes, tunnel and culvert structures.

Steel stockholding.

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 (1998: 4.20p per share).

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 aims to give autonomy to all its subsidiary undertakings and to make its employees aware of the financial and economic factors affecting the performance of the employing company. This is achieved by consultative policies such as the issue of newsletters and management briefings.

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 page 4.

The Directors retiring by rotation are Mr Richardson and Mr Winterbottom who, being eligible, offer themselves for re-election.

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 22 to the financial statements.

Except as disclosed in note 22 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.

Purchase of own shares

On 24 June 1999 the Company purchased 625,000 of its own 25p shares at a cost of 65p per share (£406,250 in total). This represented 1.58% of the called up share capital in issue at the time. All of these shares were subsequently cancelled on 10 August 1999. These were the only shares purchased and held by the Company during the year.

Year 2000

The Directors are aware of the importance of the Year 2000 issue and the impact it could have on many areas of the business, both internally and with regard to its relationship with the outside world.

The Group has completed its project to review millennium related issues and has updated all its key systems as required. However, given the complexity of the problem, no set of measures can absolutely guarantee coverage of all issues involved. The estimated total cost of specific Year 2000 work undertaken and for the work still required is not material.

Discussions have also been held to consider contingency planning and management are confident that reasonable steps have been taken.

Donations

Charitable donations amounting to £1,200 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 75 days (1998: 74 days). The Holding Company does not have trade creditors.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the reappointment of KPMG Audit Plc as auditor of the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board

H.C. EVERETT
Company Secretary
30 November 1999

Corporate Governance Statement

The Board is pleased to report that the Company complies, except where stated otherwise, 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 22 to the financial statements, Mr John G. Silk, who retired from the board in March 1999, is a partner in a firm which advises the Group. The Board is of the opinion, however, that this relationship did 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, Remuneration Committee and an Executive Committee.

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

A procedure is in place to allow Directors to take independent professional advice if necessary at the Company's expense. All Directors have free access to the advice and services of the company secretary.

Owing to the small size of the Board a Nomination Committee, as required by the Code, is not deemed appropriate.

The Audit Committee meets at least three times a year and comprises the Chairman and the two non-executive Directors, with written terms of reference. The Chief Executive and Finance Director may also be invited to attend meetings. The Company's auditors are invited to attend at least two meetings during the year.

The Remuneration Committee comprises the Chairman and the two 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 Company's 1995 and 1999 executive share option schemes.

All Directors are required to stand for re-election at the first Annual General Meeting following their appointment and at least every three years by rotation thereafter.

Executive Committee

The Executive Committee meets at least six times a year, comprises four 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.

Non-executive Directors are not appointed for specified terms as required by the Code.

Remuneration policy

Details of the Company's remuneration policy is provided in the Board's Report on Remuneration on pages 16 to 18.

Relations with Shareholders

Members of the Board meet regularly with institutional shareholders, mainly in the periods following the announcement of the interim and final results, but also at other times during the year, particularly when proposed transactions would require shareholders' approval.

The Company arranges for the notices of the Annual General Meeting and related papers to be sent to shareholders and gives at least 20 working days' notice in advance of the meeting. At general meetings, the Company counts all proxy votes and, except where a poll is called, indicates the level of proxies lodged on each resolution giving the balance for and against the resolution, after it has been dealt with on a show of hands.

Internal Financial Control

The Board of Directors has overall responsibility for the Group's system of internal controls and for monitoring its effectiveness.

In order to discharge its responsibility in a manner which ensures compliance with laws and regulations and promotes effective and efficient operations, the Board of Directors has established an organisational structure with clear operating procedures, lines of responsibility, and delegated authority.

In particular, there are clear procedures for:

— capital investments, 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.

Formal guidance as to the review of non-financial internal control, as required by the Combined Code, has only recently been published. Consequently, the Directors consider that they are unable to report that they have undertaken during the year a formal review of the effectiveness of the Group's system of non-financial internal controls as envisaged by The Combined Code.

However, the Directors have continued to follow existing guidance and have reviewed the effectiveness of the Group's internal financial controls during the financial year ended 30 September 1999.

It must be recognised, however, 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

After making enquiries, the Directors have a reasonable expectation that the Company and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Board's Report on Remuneration

The Remuneration Committee

The Remuneration Committee comprises the Chairman, Mr D.S. Winterbottom, and the two non-executive Directors, Mr S.H.J.A. Knott, who chairs the Committee, and Mr R.F. Richardson. It is responsible for determining all aspects of the remuneration packages of executive Directors and key senior executives and consults with the Chief Executive on its proposals. 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.

Remuneration Policy

The remuneration policy is set by the Board as a whole with the Remuneration Committee then working within the policy to set individual executive remuneration.

The basic object of the policy 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 and to increase shareholder value. The remuneration packages consist of a basic salary and certain benefits in kind; performance related cash bonuses, share options and pension benefits. In framing its remuneration policies, full consideration has been given to Schedule B of The Combined Code.

The main elements of the remuneration package for executive Directors are:

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 1 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 is a performance related cash bonus scheme in operation for the Group Finance Director, Mr H.C. Everett, and for key senior executives. Under the 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. The maximum bonus under this scheme is capped at 40 per cent of basic salary.

The Chief Executive, Mr D.L. Grove, does not himself receive any bonus but under an agreement between the Company and Grove Industries Limited ("GIL"), a company of which Mr Grove is the chairman, GIL, in addition to receiving an annual fee for permitting Mr Grove to provide his services to the Company may also recieve an annual performance related cash bonus dependent upon the amount of increase in the Group Operating Profit (as therein defined) in accordance with the formula set out in that agreement. That bonus is capped at 1.5 times the sum of the annual salary payable to Mr Grove under his service agreement and the annual fee payable to GIL.

Share options

The Company has three share option schemes under which options can be granted to executive Directors and senior executives. Two of those schemes are executive share option schemes ("the 1995 Executive Share Option Scheme" and "the 1999 Non-Approved Executive Share Option Scheme") which are administered by the Remuneration Committee and the other scheme is a savings related share option scheme ("the 1995 Savings Related Share Option Scheme").

Options granted under the two executive share option schemes cannot be granted at less than market value and, subject to limited exceptions, can only be exercised if specified performance criteria are met. The performance criteria currently set by the Remuneration Committee under both executive share option schemes 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 granted under the 1995 Executive Share Option Scheme must be exercised between 3 and 10 years after the date of grant and options granted under the 1999 Non Approved Executive Share Option Scheme must be exercised between 3 and 7 years after the date of grant.

In granting options under the two executive share option schemes, the Remuneration Committee has continued the practice which was adopted by the Company when granting options under a previous executive share option scheme in that the number of options granted 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. On the last occasion — January 1999 — on which options were granted under this scheme they were granted at market value.

Details of options held by the Directors are shown in note 22 on page 40.

Directors' pension entitlement

Mr H.C. Everett is the only executive Director to participate in the Hill & Smith Group Pension and Assurance Scheme which provides pensions and other benefits within the Inland Revenue limits. The scheme provides an executive Director, at normal retirement age, 65, with a pension of two-thirds of his final pensionable salary, subject to completion of a sufficient number of years' service. In accordance with policy formulated many years ago, pensionable salary includes the 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 Chairman, Mr D.S. Winterbottom, and the two executive Directors, Mr D.L. Grove and Mr H.C. Everett, have service agreements with the Company and, as mentioned above, GIL also has an agreement with the Company whereby in consideration of GIL permitting Mr Grove to provide his services to the Company it receives from the Company an annual fee and a performance related cash bonus.

The Chairman's service agreement is terminable by either party giving to the other 12 months' notice to terminate the same but if a Change in Control (as that expression is defined in the service agreement) of the Company takes place the Group Chairman may at any time within the 12 month period immediately following such Change in Control terminate the agreement by 90 days' notice instead of 12 months' notice. In the event of the service agreement being terminated by either party within the 12 month period immediately following such Change in Control the terms of the contract are payable in full without mitigation.

Mr Everett may terminate his service agreement with the Company by giving 6 months' notice to the Company to terminate the same. The Company may terminate this service agreement by giving Mr Everett 12 months' notice to terminate the same but if the notice is given within the period of 12 months immediately following a Change in Control the Notice to be given by the Company must not be less than 18 months. On termination of the service agreement by the Company without proper notice, Mr Everett is under a duty to mitigate any loss unless such termination is effected within the period of 12 months following a Change in Control.

Mr D.L. Grove's service agreement is terminable by either party giving to the other 12 months' notice to terminate the same but during the period of 90 days following a Change in Control the period of notice required to be given by the Company to Mr Grove is increased from 12 months to 18 months and the period of notice required to be given by Mr Grove to the Company is reduced from 12 months to 90 days. If, during the period of 90 days immediately following a Change in Control, the service agreement is terminated by Mr Grove or is terminated by the Company without proper notice, Mr Grove is entitled to a sum equal to 18 months' salary.

The agreement between the Company and GIL referred to under the heading *Performance related cash bonuses* contains similar termination arrangements to those contained in the service agreement between the Company and Mr Grove.

Remuneration of Chairman and non-executive Directors

The remuneration of the Chairman of the Board is determined by the Board after recommendations duly made to it by the other members of the Remuneration Committee.

The two non-executive Directors each receive an annual fee which is agreed by the other members of the Board following a recommendation by the Chairman.

Board's Report on Remuneration

Directors' Remuneration Details — Year ended 30 September 1999

The remuneration in respect of each Director for the year ended 30 September 1999 was as follows:

	Fees/ Salary £000	Benefits £000	Performance related bonus £000	Total for 1999 £000	Total for 1998 £000
Chairman:					
(Non-executive)					
D.S. Winterbottom	33	—	—	33	30
Executive:					
D.L. Grove	93	—	135	228	39
H.C. Everett	63	11	10	84	69
Non-executive:					
John G. Silk	11	—	—	11	21
S.H.J.A. Knott	15	—	—	15	15
R.E. Richardson	15	—	—	15	15
	230	11	145	386	189
Former Directors:					
M.E. Sara	—	—	—	—	185
A.J. Pensom	—	—	—	—	71
R.W. Simpson	—	—	—	—	86
	230	11	145	386	531

D.L. Grove was appointed to the Board as Development Director on 20 March 1998 and on the resignation of M.E. Sara on 9 June 1998 took on the role of acting Chief Executive until 12 April 1999 when his appointment was made permanent.

John G. Silk retired from the Board at the AGM held on 19 March 1999 and now holds the office of Life President.

Directors' pensions

Pension benefits earned by the Directors

	Age at year end	Director's contributions in year £000	Increase in accrued pension during the year £000	Accumulated total accrued pension at year end £000
H.C.Everett	55	3	1	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 Director's contributions are the contributions paid in the year by the Director under the terms of the scheme.
3. The pensions shown above are subject to a guaranteed annual increase of 3%.

This report was approved by the Board and signed on its behalf by:

D.S. WINTERBOTTOM
Chairman
30 November 1999

Other Information

Interests of Directors and substantial shareholders

There were no changes in the interests of Directors and their families in the ordinary shares of the Company between 30 September 1999 and 21 January 2000.

The Company has been notified of the following substantial shareholdings on 21 January 2000.

	Ordinary shares	% of issued share capital
G. Hampson Silk	4,100,636	10.5
P.J. Hampson Silk	4,100,638	10.5
Funds Managed by:		
Close Investment 1997 Fund	7,376,733*	18.9
Friends Ivory & Sime Asset Management	1,867,510	4.8
Britannic Assurance plc	1,550,000	4.0
Framlington	1,320,000	3.4

* Close Securities Limited has granted an option to D.L. Grove, see note 22.

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 21 January 2000.

Year 2000

There have been no material problems reported up to 21 January 2000 by the holding company or any of the Group's subsidiaries.

Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Auditor's report to the members of Hill & Smith Holdings PLC

We have audited the financial statements on pages 22 to 45.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Report including, as described on page 20, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the statement on pages 14 and 15 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implication for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit 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 Group'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 the 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 as at 30 September 1999 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

Chartered Accountants
Registered Auditor
30 November 1999

2 Cornwall Street
Birmingham
B3 2DL

Consolidated Profit and Loss Account

for the year ended 30 September 1999

	Notes	**1999 Continuing £000**	**1999 Discon-tinued £000**	**1999 Total £000**	1998 Continuing £000	1998 Restated Discon-tinued £000	1998 Restated Total £000
Turnover							
Continuing operations	2	**55,651**	**5,435**	**61,086**	55,811	20,686	76,497
Acquisitions		**854**	**—**	**854**	—	—	—
		56,505	**5,435**	**61,940**	55,811	20,686	76,497
Cost of sales	3	**(40,350)**	**(4,389)**	**(44,739)**	(39,742)	(16,871)	(56,613)
Gross profit		**16,155**	**1,046**	**17,201**	16,069	3,815	19,884
Distribution costs	3	**(2,583)**	**(343)**	**(2,926)**	(2,268)	(1,226)	(3,494)
Administrative expenses	3	**(8,752)**	**(745)**	**(9,497)**	(9,593)	(3,169)	(12,762)
Operating profit/(loss)							
Excluding acquisitions and exceptional items		**4,644**	**(42)**	**4,602**	4,428	(580)	3,848
Acquisitions		**176**	**—**	**176**	—	—	—
Exceptional items		**—**	**—**	**—**	(220)	—	(220)
Operating profit/(loss)	**2**	**4,820**	**(42)**	**4,778**	4,208	(580)	3,628
Profit on sale of property		**—**	**—**	**—**	153	—	153
Loss on sale of net assets		**—**	**(925)**	**(925)**	—	(2,116)	(2,116)
Related goodwill		**—**	**386**	**386**	—	(2,187)	(2,187)
Less 1997 provision		**—**	**—**	**—**	—	400	400
Loss on sale of businesses		**—**	**(539)**	**(539)**	—	(3,903)	(3,903)
Profit/(loss) on ordinary activities before interest	2	**4,820**	**(581)**	**4,239**	4,361	(4,483)	(122)
Interest payable and similar charges	4			**(677)**			(1,444)
Profit/(loss) on ordinary activities before tax	5			**3,562**			(1,566)
Tax on profit/(loss) on ordinary activities	8			**(1,269)**			(378)
Profit/(loss) for the financial year				**2,293**			(1,944)
Dividends on equity shares	9			**(1,635)**			(1,661)
Retained profit/(deficit) for the year				**658**			(3,605)
Profit/(loss) per ordinary share:	10						
Basic				**5.82p**			(4.92p)
Diluted				**5.81p**			(4.92p)
IIMR				**7.01p**			3.46p

Consolidated Balance Sheet

as at 30 September 1999

	Notes	1999 £000	1999 £000	1998 Restated £000	1998 Restated £000
Fixed assets					
Intangible assets — goodwill	11		**2,826**		—
Tangible assets	12		**17,054**		24,093
Investments	13		**1,400**		—
			21,280		24,093
Current assets					
Property held for realisation	14	**906**		460	
Stocks	15	**6,624**		9,614	
Debtors	16	**14,841**		18,739	
Cash at bank and in hand		**1,291**		23	
		23,662		28,836	
Creditors: Amounts falling due within one year	17	**(18,488)**		(23,200)	
Net current assets			**5,174**		5,636
Total assets less current liabilities			**26,454**		29,729
Creditors: Amounts falling due after more than one year	18		**(2,843)**		(5,245)
Provisions for liabilities and charges	20		**(531)**		(901)
Net assets			**23,080**		23,583
Capital and reserves					
Called up share capital	21		**9,734**		9,890
Share premium	23		**133**		133
Revaluation reserve	23		**1,907**		2,290
Capital redemption reserve	23		**156**		—
Profit and loss account	23		**11,150**		11,270
Equity shareholders' funds			**23,080**		23,583
Net assets per share			**59.28p**		59.61p

These financial statements were approved by the Board of Directors on 30 November 1999 and were signed on its behalf by:

D.S. WINTERBOTTOM
Director
D.L. GROVE
Director

Company Balance Sheet

as at 30 September 1999	Notes	1999 £000	1999 £000	1998 £000	1998 £000
Fixed assets					
Tangible assets	12		**44**		41
Investments	13		**20,863**		21,001
			20,907		21,042
Current assets					
Property held for realisation	14	**906**		—	
Debtors	16	**1,994**		4,207	
Cash at bank and in hand		**—**		474	
		2,900		4,681	
Creditors: Amounts falling due within one year	17	**(7,943)**		(3,101)	
Net current (liabilities)/assets			**(5,043)**		1,580
Total assets less current liabilities			**15,864**		22,622
Creditors: Amounts falling due after more than one year	18		**(1,000)**		(2,000)
Provisions for liabilities and charges	20		**(313)**		—
Net assets			**14,551**		20,622
Capital and reserves					
Called up share capital	21		**9,734**		9,890
Share premium	23		**133**		133
Capital redemption reserve	23		**156**		—
Profit and loss account	23		**4,528**		10,599
Equity shareholders' funds			**14,551**		20,622

These financial statements were approved by the Board of Directors on 30 November 1999 and were signed on its behalf by:

D.S. WINTERBOTTOM
Director
D.L. GROVE
Director

Consolidated Cash Flow Statement

for the year ended 30 September 1999	Notes	1999 £000	1999 £000	1998 £000	1998 £000
Net cash inflow from operating activities	27		**8,851**		7,703
Returns on investment and servicing of finance					
Interest received		**14**		223	
Interest paid		**(635)**		(1,608)	
Interest element of finance lease rental payments		**(56)**		(59)	
			(677)		(1,444)
Taxation					
Corporation tax paid			**(748)**		(462)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(1,987)**		(3,927)	
Sale of tangible fixed assets		**3,728**		1,122	
Sale of properties held for realisation		**444**		—	
			2,185		(2,805)
Acquisitions and disposals					
Purchase of business	29	**(1,175)**		—	
Sale of businesses net of costs of disposal	30	**(377)**		2,518	
			(1,552)		2,518
Equity dividends paid			**(831)**		(1,659)
Cash inflow before financing			**7,228**		3,851
Financing					
Issue of ordinary share capital		**—**		46	
Capital element of finance lease rental payments net of advances	28	**189**		(278)	
Repayment of loans	28	**(1,608)**		(3,224)	
Purchase of own shares		**(406)**		—	
			(1,825)		(3,456)
Increase in cash			**5,403**		395
Reconciliation of net cash flow to movement in net debt					
Increase in cash in the period	28		**5,403**		395
Decrease in debt and lease financing			**1,419**		3,502
Changes in net debt from cash flows	28		**6,822**		3,897
New finance leases			**—**		(12)
Movement in net debt in the year			**6,822**		3,885
Net debt at 30 September 1998	28		**(11,255)**		(15,140)
Net debt as at 30 September 1999	28		**(4,433)**		(11,255)

Other Primary Statements

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 30 September 1999	**1999** **£000**	1998 Restated £000
Profit/(loss) for the financial year	**2,293**	(1,944)
Unrealised deficit on revaluation of properties	**(373)**	(1,164)
Gross exchange differences on the retranslation of net investments	**4**	7
Total recognised gains and losses relating to the financial year	**1,924**	(3,101)
Prior year adjustment (as explained in note 1)	**900**	
Total gains and losses recognised since last annual report	**2,824**	

Note of Consolidated Historical Cost Profits and Losses

There is no material difference between the results as disclosed in the profit and loss account and the results as given on an unmodified historical cost basis.

Reconciliation of Movements in Shareholders' Funds

	Group		**Company**	
	1999	1998 Restated	**1999**	1998
for the year ended 30 September 1999	**£000**	£000	**£000**	£000
Profit/(loss) for the financial year	**2,293**	(1,944)	**(4,030)**	(300)
Dividends	**(1,635)**	(1,661)	**(1,635)**	(1,661)
	658	(3,605)	**(5,665)**	(1,961)
Exchange differences	**4**	7	**—**	—
Revaluation deficit	**(373)**	(1,164)	**—**	—
New share capital subscribed (net of issue costs)	**—**	46	**—**	46
Goodwill taken to profit and loss account on disposal	**(386)**	2,187	**—**	—
Purchase of own shares	**(406)**	—	**(406)**	—
Net reduction in shareholders' funds	**(503)**	(2,529)	**(6,071)**	(1,915)
Opening shareholders' funds (Group: originally £22,683,000 restated for prior year adjustment of £900,000 as explained in note 1)	**23,583**	26,112	**20,622**	22,537
Closing shareholders' funds	**23,080**	23,583	**14,551**	20,622

Principal Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements:

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of certain land and buildings.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 30 September 1999. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under Section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account.

Goodwill and negative goodwill

Purchased goodwill (both positive and negative) arising on consolidation in respect of acquisitions before 1 October 1998, when FRS10 *Goodwill and intangible assets* was adopted, was written off to reserves in the year of acquisition. In accordance with transitional rules of FRS 10, this treatment has continued to be applied to such acquisitions. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions since 1 October 1998 is capitalised. Positive goodwill is amortised by equal annual instalments over its estimated useful life.

The Directors consider each acquisition separately for the purpose of determining the amortisation period for any goodwill that arises.

On the subsequent disposal or termination of a business acquired since 1 October 1998, the profit or loss on disposal or termination is calculated after charging/(crediting) the unamortised amount of any related goodwill (negative goodwill).

In the Company's financial statements, investments in subsidiary undertakings and associates are stated at cost less amounts written off for impairment.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost or valuation less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	— 50 years
Leasehold land and buildings	— life of lease
Plant, machinery and vehicles	— 4 to 20 years

No depreciation is provided on freehold land.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Any gain or loss on translation arising from a movement in exchange rates subsequent to the date of a transaction is included as an exchange gain or loss in the profit and loss account.

The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rate. Profit and loss accounts of such undertakings are consolidated at the average exchange rate during the year and the adjustment to year end rates is taken directly to reserves. Exchange differences arising on the retranslation of the opening net assets of foreign subsidiaries, foreign currency loans used for overseas investment and transactions executed solely for the purpose of hedging foreign currency asset exposure are taken directly to reserves.

Principal Accounting Policies

Government grants
Capital based government grants are included within accruals and deferred income in the balance sheet and credited to operating profit over the estimated useful economic lives of the assets to which they relate.

Leases
Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Pension Costs
The Group contributes into two defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The amount charged against profits represents the contributions payable to the schemes in respect of the year.

The Group operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Group. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group.

Stocks
Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the FIFO method is used. Cost for work in progress and finished goods comprises direct materials, direct labour and an appropriate proportion of attributable overheads.

Taxation
The charge for taxation is based on the result for the year and takes into account taxation deferred 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.

Turnover
Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to third party customers.

1. Change of accounting policy

The implementation of Financial Reporting Standard 12 (Provisions, contingent liabilities and contingent assets) has required the Directors to amend the Group's accounting policy in respect of certain provisions made at 30 September 1998. Accordingly, £900,000 of the provisions for losses on disposal of subsidiaries originally made at that time have been released by means of a prior year adjustment and are now charged as an exceptional item in the year to 30 September 1999. Comparative figures have been restated accordingly. The impact of the adjustment is to decrease the loss for the year ended 30 September 1998 and to increase net assets at that date by £900,000.

2. Segmental information

	Galvanising Services		Engineering Products		Total	
	1999	1998	**1999**	1998 Restated	**1999**	1998 Restated
	£000	£000	**£000**	£000	**£000**	£000
Turnover						
Total sales	**9,430**	8,188	**55,992**	71,638	**65,422**	79,826
Inter-segment sales	**(3,482)**	(3,329)	**—**	—	**(3,482)**	(3,329)
	5,948	4,859	**55,992**	71,638	**61,940**	76,497
Segment operating profit	**1,275**	957	**4,267**	3,538	**5,542**	4,495
Loss on sale of discontinued operations	**—**	—	**(539)**	(3,903)	**(539)**	(3,903)
Profit/(loss) on sale of fixed assets	**—**	—	**—**	153	**—**	153
Segment profit/(loss) before interest and taxation	**1,275**	957	**3,728**	(212)	**5,003**	745
Common costs					**(764)**	(867)
Group profit/(loss) before interest and taxation					**4,239**	(122)
Net assets						
Segment net assets	**7,900**	8,750	**20,755**	26,105	**28,655**	34,855
Unallocated net liabilities					**(5,575)**	(11,272)
Total net assets					**23,080**	23,583

Discontinued activities relate in total to the engineering products sector.

Unallocated net liabilities represent net borrowings including hire-purchase and finance leases, taxation and dividends payable less properties held for realisation.

Turnover and profit by country of origin is as follows:

	Turnover		Operating profit	
	1999	1998	**1999**	1998
	£000	£000	**£000**	£000
UK	**61,570**	75,126	**4,888**	3,876
America	**370**	—	**(110)**	—
Rest of Europe	**—**	1,371	**—**	(248)
	61,940	76,497	**4,778**	3,628

Notes to the Financial Statements

2. Segmental information continued

Turnover by geographical destination is as follows:

	1999 £000	1998 £000
UK	**54,810**	68,009
Rest of Europe	**1,662**	4,206
Asia	**4,501**	3,323
America	**766**	557
Middle East	**25**	228
Africa	**176**	135
Far East	**—**	39
	61,940	76,497

3. Continuing operations

The total figures for continuing operations in 1999 include the following amounts relating to acquisitions: cost of sales £457,000, distribution costs £60,000 and administrative expenses £161,000.

4. Net interest payable and similar charges

	1999 £000	1998 £000
On bank loans and overdrafts	**495**	1,468
On all other loans	**140**	140
Finance charges payable in respect of finance leases and hire-purchase contracts	**56**	59
	691	1,667
Less: interest receivable	**(14)**	(223)
	677	1,444

5. Profit/(loss) on ordinary activities before taxation

		1999 £000	1998 £000
Profit/(loss) on ordinary activities before taxation is stated			
After charging:			
Auditors' remuneration (including Company £10,000 (1998: £10,000))		**75**	80
Depreciation and other amounts written off tangible fixed assets:			
Owned		**1,736**	2,084
Leased		**144**	144
Amortisation of goodwill		**60**	—
Operating lease rentals	— plant and machinery	**326**	497
	— other	**270**	95
Foreign exchange loss		**14**	—
Research and development expenditure		**37**	—
After crediting:			
Profit on disposal of fixed assets		**34**	86
Income from fixed asset investments		**18**	—

Fees paid to KPMG Audit Plc and its associate for non-audit services amounted to £175,000 (1998: £40,000 to John W Hinks & Co.). Non-audit fees comprise accountancy, tax and other advisory services in connection with acquisitions and disposals (£114,000), tax compliance services (£48,000) and other services (£13,000).

6. Remuneration of Directors

The disclosures required by the Companies Act 1985 and the London Stock Exchange in respect of Directors' emoluments are given in the Board's report on remuneration on pages 16 to 18.

7. Staff numbers and costs

The average number of persons employed by the Group (including Directors) was:

	1999 Number	1998 Number
Production	**465**	693
Administration	**184**	164
Sales and distribution	**80**	102
	729	959

The aggregate payroll costs of these persons were as follows:

	1999 £000	1998 £000
Wages and salaries	**13,482**	15,952
Social security costs	**1,097**	1,513
Other pension costs	**25**	331
	14,604	17,796

8. Taxation

	1999 £000	1998 £000
UK corporation tax at 30.5% (1998: 31%)	**1,118**	330
Deferred taxation	**(29)**	103
Adjustments relating to an earlier year — corporation tax	**180**	(55)
	1,269	378

The tax charge includes relief of £70,000 (1998: £439,000) relating to non-operating exceptional items.

9. Dividends

	1999 £000	1998 £000
Equity shares:		
Interim dividend paid of 2.10p per share (1998: 2.10p)	**818**	830
Final dividend proposed of 2.10p per share (1998: 2.10p)	**817**	831
	1,635	1,661

The interim dividend originally declared with the half year results at £832,000 has reduced as a result of the share buy-back on 24 June 1999 of 625,000 ordinary shares.

Notes to the Financial Statements

10. Earnings per share

The basic earnings per share is arrived at by dividing the profit after tax of £2.293m (1998: restated loss £1.944m) by 39,389,495 shares (1998: 39,518,286), being the weighted average number of ordinary shares in issue during the year.

The diluted earnings per share is arrived at by dividing the profit after tax of £2.293m (1998: restated loss of £1.944m) by 39,457,503 shares (1998: 39,518,817), being the weighted average number of ordinary shares as adjusted for the dilutive effect of share options outstanding at the year end.

The IIMR earnings per share is calculated by reference to earnings of £2.765m (1998: £1.368m) divided by 39,389,495 shares (1998: 39,518,286), being the weighted average number of ordinary shares in issue during the year. The reconciliation to basic earnings/(loss) per share is as follows:

	1999 Pence	1998 Pence
Basic earnings/(loss) per share	**5.82**	(4.92)
Profit on sale of property	**—**	(0.38)
Loss on sale of businesses	**1.37**	9.87
Tax effect on non-operating exceptional items	**(0.18)**	(1.11)
IIMR earnings per share	**7.01**	3.46

11. Intangible fixed assets

	Goodwill £000
Group	
Cost	
Arising on acquisition during year	2,886
At end of year	**2,886**
Amortisation	
Charged in year	(60)
At end of year	**(60)**
Net book value	
At 30 September 1999	**2,826**
At 30 September 1998	—

On 12 May 1999 the Company acquired all of the shares of Berry Safety Systems Limited (formerly Brockhouse Forgings Limited) and associated subsidiaries. The resulting goodwill of £2,886,000 was capitalised and will be written off over 20 years which the Directors consider to be the minimum period expected to benefit from the acquisition. The book and fair value of the net assets acquired and details of the consideration paid are included in note 29.

The acquired business, which represents only a part of Brockhouse Forgings Limited's trading prior to its acquisition by the Group, made a profit before tax of £252,000 from the beginning of its financial year to the date of acquisition. In its previous financial year to 28 November 1998 it made an operating profit, before common costs, of £618,000.

12. Tangible fixed assets

	Group				Company
	Land and buildings		Plant,		Plant,
		Long	machinery and		machinery
	Freehold	leasehold	vehicles	Total	and vehicles
	£000	£000	£000	£000	£000
Cost or valuation					
At beginning of year	11,798	600	23,113	35,511	62
Additions	13	—	1,974	1,987	14
Acquisitions during the year	—	—	13	13	—
Disposals	(3,598)	—	(525)	(4,123)	—
Disposals on termination of activities	—	—	(4,697)	(4,697)	—
Transfers to current assets	(706)	(200)	—	(906)	—
Revaluation	(400)	—	—	(400)	—
Transfers from subsidiaries	—	—	—	—	26
At end of year	**7,107**	**400**	**19,878**	**27,385**	**102**
Depreciation					
At beginning of year	142	8	11,268	11,418	21
Charge for the year	83	8	1,789	1,880	22
Disposals	(74)	—	(355)	(429)	—
Disposals on termination of activities	—	—	(2,511)	(2,511)	—
Revaluation	(27)	—	—	(27)	—
Transfers from subsidiaries	—	—	—	—	15
At end of year	**124**	**16**	**10,191**	**10,331**	**58**
Net book value					
At 30 September 1999	**6,983**	**384**	**9,687**	**17,054**	**44**
At 30 September 1998	11,656	592	11,845	24,093	41

Certain of the Group's properties have been revalued at 30 September 1999 by the Directors, having taken appropriate professional advice, on the basis of open market value for their existing use.

Particulars relating to revalued assets are given below:

	1999	1998
	£000	£000
Land and buildings		
At 1997 open market value for existing use	**3,225**	6,325
At 1998 open market value for existing use	**2,123**	2,808
At 1999 open market value for existing use	**2,005**	—
At historic cost	**154**	3,265
Cost/valuation	**7,507**	12,398
Historical cost of revalued assets	**6,153**	8,608
Aggregate depreciation based on historical cost	**(1,125)**	(1,092)
Historical cost net book value	**5,028**	7,516

Other tangible fixed assets, including additions subsequent to the revaluation of land and buildings, are included at cost.

The gross book value of land and buildings includes freehold land of £3,200,000 (1998: £4,600,000).

Included in the net book value of plant, machinery and vehicles is £1,402,000 (1998: £1,060,000) in respect of assets held under finance leases and similar hire-purchase contracts.

Included within plant, machinery and vehicles are assets held for hire with a cost of £224,000 (1998: £Nil) and accumulated depreciation of £8,000 (1998: £Nil).

13. Fixed asset investments

Group	Trade investments £000	Loans £000	Total £000
Cost and net book value			
At beginning of year	—	—	—
Additions	950	450	1,400
At end of year	**950**	**450**	**1,400**

As part of the arrangements for the disposal of certain subsidiary undertakings during the year, the Company acquired certain trade investments and made loans to those companies. The Company holds 100% of the issued 'A' ordinary share capital of Brockhouse Forgings Limited, acquired at a cost of £750,000 and a loan amounting to £250,000 which is secured by a fixed and floating charge on all the assets of the company, carries interest at 2% above the bank rate and is repayable at any time following the approval of the company's accounts for the year ended 30 April 2000. The investment is accounted for as a trade investment because the Group, which has only 19.5% of the voting rights, is unable to exercise any significant influence over the company.

The Company also holds 100% of the 8% cumulative redeemable preference shares issued by Tipton Steel Stockholders Limited, acquired at a cost of £200,000 and a loan amounting to £200,000 which is secured and carries interest at 8%. The preference shares are repayable in two instalments on 1 May 2002 and 2003, or earlier at that company's request, whilst the loan stock is repayable in two instalments on 1 May 2000 and 2001.

Company	Shares in Group undertakings £000	Loans to Group undertakings £000	Trade investments £000	Other Loans £000	Total £000
Cost					
At beginning of year	15,847	6,196	—	—	22,043
Additions	1,818	1,923	950	450	5,141
Disposals	(2,446)	—	—	—	(2,446)
At end of year	**15,219**	**8,119**	**950**	**450**	**24,738**
Provisions					
At beginning of year	1,042	—	—	—	1,042
Impairment losses	3,763	—	–	—	3,763
Disposals	(930)	—	—	—	(930)
At end of year	**3,875**	**—**	**—**	**—**	**3,875**
Net book value					
At 30 September 1999	**11,344**	**8,119**	**950**	**450**	**20,863**
At 30 September 1998	14,805	6,196	—	—	21,001

Additions to shares in Group undertakings are shown net of a dividend of £4,366,000 paid out of pre-acquisition reserves.

A list of the principal Group businesses is given on page 48. All of the Group's subsidiaries at 30 September 1999 are wholly owned. Asset International (Ireland) Limited is incorporated in the Republic of Ireland and Pipe Supports USA, Inc. is incorporated in the United States of America.

In addition, the Company holds 100% of the issued share capital of Royston Steel Fencing Limited, having acquired a further 50%, also for £1, on 11 December 1998. 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 financial statements of the Group. It is not expected that any further losses will arise to the Group upon the winding-up of the company.

14. Properties held for realisation

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Cost at beginning of year	**460**	645	**—**	—
Transfers from fixed assets	**906**	460	**—**	—
Transfers from subsidiaries	**—**	—	**1,366**	—
Disposals	**(460)**	(645)	**(460)**	—
Cost at end of year	**906**	460	**906**	—

15. Stocks

	Group 1999 £000	Group 1998 £000
Raw materials and consumables	**3,176**	4,358
Work in progress	**1,544**	2,097
Finished goods and goods for resale	**1,904**	3,159
	6,624	9,614

16. Debtors

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Trade debtors	**13,341**	16,855	**—**	—
Amounts owed by subsidiary undertakings	**—**	—	**1,505**	2,553
Corporation tax	**459**	718	**271**	137
Advance corporation tax	**134**	181	**—**	563
Other debtors	**94**	376	**—**	86
Prepayments and accrued income	**813**	609	**218**	868
	14,841	18,739	**1,994**	4,207

Trade debtors include £20,000 (1998: £137,000) due after more than one year. At 30 September 1998 the Company had taxation recoverable after one year amounting to £280,000.

17. Creditors: amounts falling due within one year

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Debenture loan (see note 18)	**1,000**	—	**1,000**	—
Bank loans and overdrafts (see note 18)	**1,500**	5,743	**4,108**	1,102
Obligations under finance leases and hire-purchase contracts (see note 18)	**381**	290	**—**	—
Trade creditors	**10,065**	13,081	**—**	—
Amounts owed to Group undertakings	**—**	—	**31**	—
Corporation tax	**734**	208	**18**	72
Other taxation and social security	**1,194**	1,540	**—**	21
Accruals and deferred income	**1,979**	1,507	**1,151**	1,075
Dividend proposed	**1,635**	831	**1,635**	831
	18,488	23,200	**7,943**	3,101

18. Creditors: amounts falling due after more than one year

	Group		Company	
	1999	1998	**1999**	1998
	£000	£000	**£000**	£000
Debenture loan	**—**	1,000	**—**	1,000
Bank loans and overdrafts	**2,375**	3,875	**1,000**	1,000
Obligations under finance leases and hire-purchase contracts	**468**	370	**—**	—
	2,843	5,245	**1,000**	2,000

The maturity of financial liabilities entered into by the Group and the Company are as follows:

	Group		Company	
	1999	1998	**1999**	1998
	£000	£000	**£000**	£000
Debenture loan				
Amounts due within one year	**1,000**	—	**1,000**	—
Amounts due after more than one year				
Between one and two years	**—**	1,000	**—**	1,000
	1,000	1,000	**1,000**	1,000
Bank loans and overdraft				
Amounts due within one year	**1,500**	5,743	**4,108**	1,102
Amounts due after more than one year				
Between one and two years	**1,500**	1,500	**500**	500
Between two and five years	**875**	2,375	**500**	500
	2,375	3,875	**1,000**	1,000
	3,875	9,618	**5,108**	2,102
Finance leases and hire-purchase obligations				
Amounts due within one year	**381**	290	**—**	—
Amounts due after more than one year				
Between one and two years	**193**	281	**—**	—
Between two and five years	**275**	89	**—**	—
	468	370	**—**	—
	849	660	**—**	—

The debenture loan comprises 14% first mortgage debenture stock which 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 from 30 September 2000 to 30 September 2003 and then 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 31 March and 30 September and contains no right to convert into share capital in the Company. The Directors intend to redeem the debenture loan at the earliest opportunity provided bank interest rates remain attractive. Accordingly, the debenture loan has been classified as due within one year.

The bank loans carry a rate of interest of 0.7% above the London Inter-Bank Offered Rate.

Obligations under finance leases and hire-purchase contracts are secured on the relevant assets.

19. Financial instruments

(a) Management of financial risks

The Group's major financial risks relate to movements of interest and exchange rates. Management continually review the Group's exposure to these issues and will, if required, make appropriate use of derivative financial instruments to mitigate this exposure. No such instruments have been in place during the year.

Interest rate risk

The Group is subject to fluctuations in interest rates on its borrowings and surplus cash. There is no internal policy requirement to take out interest rate hedging on these, although appropriate arrangements would be made if management believed that it was necessitated by market conditions.

Currency exposure

The Group is subject to fluctuations in interest rates on its net investments overseas and on transactional monetary assets and liabilities not denominated in the operating (or 'functional') currency of the operating unit concerned. The Group's policy is to hedge, where practical, the net asset value of its overseas investments. This hedging is currently achieved through borrowings in the respective currencies.

The Group is predominantly UK based and undertakes the majority of its transactions in Sterling. Consequently it has no material transactional monetary assets or liabilities denominated in currencies other than the functional currencies of its respective geographical areas of operation. As a result, there is no internal policy requirement to take out exchange rate hedging on the Group's transactional monetary assets and liabilities although this position is continually reviewed and, were changes in the Group or market conditions to warrant it, appropriate arrangements would be made.

(b) Financial assets

The Group's financial assets, excluding short-term debtors, consist mainly of a cash surplus held at bank in the current account.

Where cash surpluses arise in the short term, interest is earned based on a floating rate related to bank base rates or LIBOR. Where the Group's funding requirements allow longer term investment of surplus cash, management will review available options to obtain the best possible return whilst maintaining an appropriate degree of access to the funds.

(c) Financial liabilities

The Group's financial liabilities, excluding short term creditors, which are all sterling denominated, are set out below. Fixed rate financial liabilities comprise sterling denominated finance leases and hire-purchase agreements and bank loans. There is also a fixed rate mortgage debenture repayable 30 September 2000–2003. Floating rate financial liabilities comprise sterling denominated bank loans and overdrafts. The floating rate financial liabilities bear interest at rates related to bank base rates or LIBOR.

	Floating rate financial liabilities £000	Fixed rate financial liabilities £000	**Total £000**
Currency			
Sterling	3,875	1,849	**5,724**

	Fixed rate financial liabilities	
	Weighted average interest rate %	Weighted average period for which rate is fixed (years)
Sterling — mortgage debenture	14.0	1.0
Sterling — finance leases and hire-purchase agreements	7.8	3.1
Total weighted average	11.2	2.0

19. Financial instruments continued

(d) Maturity profile

The maturity profile of the Group's and Company's financial liabilities other than short-term creditors such as trade creditors and accruals is shown in note 18 to the financial statements.

At 30 September 1999 the Group had the following undrawn committed facilities with an average maturity of $5^1/_2$ months, in respect of which all conditions precedent had been met:

	£000
Undrawn committed borrowing facilities	
Expiring in one year or less	9,000

(e) Fair values

At 30 September 1999 the fair value of the Group's financial instruments was not materially different to the book value of the instruments. The fair value was calculated using market rates where available, otherwise cash flows were discounted at prevailing rates.

(f) Comparative information

In accordance with transitional arrangements, permitted by FRS13, comparative figures have not been provided for the above information.

20. Provisions for liabilities and charges

Group	Pensions obligations £000	Deferred taxation £000	Reorganisation costs £000	Loss on disposals £000	Total £000
At beginning of year — as previously reported	417	337	47	1,000	1,801
Prior year adjustment	—	—	—	(900)	(900)
At beginning of year — as restated	417	337	47	100	901
Utilised during year	(104)	—	(47)	(100)	(251)
Credit for the year	—	(29)	—	—	(29)
Transferred out on disposal of subsidiaries	—	(90)	—	—	(90)
At end of year	**313**	**218**	**—**	**—**	**531**

The amounts provided for deferred taxation and the amounts not provided are set out below:

	1999		1998	
	Provided £000	**Unprovided £000**	Provided £000	Unprovided £000
Difference between accumulated depreciation and amortisation and capital allowances	**246**	**588**	337	1,604
On revaluation of land and buildings	**—**	**—**	—	468
Other timing differences	**(28)**	**(110)**	—	(123)
	218	**478**	337	1,949

Company	Pension obligations £000
At beginning of year	—
Transferred from subsidiaries	417
Utilised during year	(104)
At end of year	**313**

21. Called up share capital

	1999	1998
	£000	£000
Authorised		
48,000,000 Ordinary shares of 25p each	**12,000**	12,000
Allotted, called up and fully paid		
38,934,016 Ordinary shares of 25p each (1998: 39,559,016)	**9,734**	9,890

The Company purchased 625,000 of its own shares on 24 June 1999, which were subsequently cancelled on 10 August 1999.

During the year no ordinary shares were allotted under Share Option Schemes (1998: 81,461 ordinary shares under the 1985 Savings Related Share Option Scheme at a price of 55.228p each).

Options outstanding at 30 September 1999 were:

	Option price £000	Date exercisable £000	Expiry date £000
1985 Executive Share Option Scheme:			
53,000 ordinary shares	95.063p	01.02.95	01.02.02
106,773 ordinary shares	112.500p	28.01.97	28.01.04
1995 Executive Share Option Scheme:			
190,398 ordinary shares	113.597p	20.02.99	20.02.06
306,000 ordinary shares	68.500p	04.08.02	04.08.09
1999 Unapproved Executive Share Option Scheme:			
500,000 ordinary shares	67.167p	09.07.02	07.07.06
112,000 ordinary shares	68.500p	04.08.02	04.08.06
1985 Savings Related Share Option Scheme:			
20,300 ordinary shares	73.218p	01.04.00	01.10.00
180,525 ordinary shares	90.000p	01.04.00	01.10.00
34,219 ordinary shares	90.000p	01.04.02	01.10.02
1995 Savings Related Share Option Scheme:			
303,298 ordinary shares	66.000p	01.04.02	01.10.02
496,891 ordinary shares	41.330p	01.03.04	01.09.04

Under the scheme rules for the Savings Related Share Option Schemes, early encashment of options is available to employees of disposed subsidiaries. Employees of Tipton Steel Stockholders and British & Midland Forgings must either take up their accrued options or lose them within 6 months of the sales by the Group of these companies (12 May and 28 May 1999 respectively). 7,473 shares, in respect of these options, will be issued in due course.

22. Directors' interests

The Directors of the Company at the end of the year, and the interests 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:

	30 September 1999	30 September 1998
D.S. Winterbottom	**15,690**	15,690
R.E. Richardson	**—**	—
S.H.J.A. Knott	**502,494**	492,494
H.C. Everett	**78,712**	55,775
D.L. Grove	**479,545**	379,545

John G. Silk, who retired as a Director on 19 March 1999 (and is now Life President), is a partner in Silks, Solicitors to the Company, which received fees of £86,652 for services rendered to the Company.

Directors' options

	At 30 September 1998	Granted during year	Lapsed during year	**At 30 September 1999**	Exercise price	Date exercisable	Expiry date
H.C. Everett							
1985 Savings Related Share Option Scheme	14,850	—	14,850	**—**	73.218p	01.04.98	01.10.98
1995 Savings Related	6,181	—	—	**6,181**	66.000p	01.04.02	01.10.02
Share Option Scheme	—	16,259	—	**16,259**	41.330p	01.03.04	01.09.04
1995 Executive Share	17,600	—	—	**17,600**	113.597p	20.02.99	20.02.06
Options Scheme	—	10,000	—	**10,000**	68.500p	04.08.02	04.08.09
1999 Unapproved Executive Share Option Scheme	—	20,000	—	**20,000**	68.500p	04.08.02	04.08.06
D.L. Grove							
1999 Unapproved Executive Share Option Scheme	—	500,000	—	**500,000**	67.167p	09.07.02	09.07.06

D.L. Grove also 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 (1998: 1,844,183 shares).

The market price of the Company's shares at 30 September 1999 was 65.5p. The market price for the year varied between 35.5p and 74.5p.

23. Share premium and reserves

Group	Share premium account £000	Revaluation reserve £000	Capital redemption reserve £000	Profit and loss account £000
At beginning of year — as previously reported	133	2,290	—	10,370
Prior year adjustment	—	—	—	900
At beginning of year — as restated	133	2,290	—	11,270
Retained profit for the year	—	—	—	658
Exchange adjustments	—	—	—	4
Goodwill transferred to profit and loss account on disposal	—	—	—	(386)
Revaluation deficit	—	(373)	—	—
Transfers	—	(10)	—	10
Purchase of own shares	—	—	156	(406)
At end of year	**133**	**1,907**	**156**	**11,150**

Company	Share premium account £000	Capital redemption reserve £000	Profit and loss account £000
At beginning of year	133	—	10,599
Deficit for the year	—	—	(5,665)
Purchase of own shares	—	156	(406)
At end of year	**133**	**156**	**4,528**

The cumulative amount of positive goodwill resulting from acquisitions in earlier financial years which has been written off is £2,800,000 (1998: £2,800,000), which relates entirely to subsidiary undertakings. The cumulative amount of negative goodwill resulting from acquisitions in earlier financial years which has been written off is £836,000 (1998: £1,222,000).

In accordance with Section 228 (7) of the Companies Act 1985, the Company has not presented its own profit and loss account. The consolidated profit for the financial year includes losses dealt with in the financial statements of the holding company of £4,030,000 (1998: £300,000).

24. Contingent liabilities

The Company has guaranteed the overdrafts of its subsidiaries; the amount outstanding at the year end was £305,618 (1998: £11,101,041).

The Group had guarantees outstanding to a bank in respect of performance bonds of £802,000 (1998: £934,000), Customs and Excise of £6,000 (1998: £91,000) and to other third parties of £Nil (1998: £10,000), at 30 September 1999.

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

25. Commitments

(a) Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

	Group		Company	
	1999	1998	**1999**	1998
	£000	£000	**£000**	£000
Contracted	**40**	128	**—**	—

(b) Annual commitments under non-cancellable operating leases are as follows:

	1999		1998	
	Land and buildings	**Other**	Land and buildings	Other
Group	**£000**	**£000**	£000	£000
Operating leases which expire:				
Within one year	**—**	**17**	—	—
In the second to fifth years inclusive	**28**	**206**	10	162
Over five years	**339**	**—**	—	—
	367	**223**	10	162

26. Pension scheme

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 5 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 increases 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 £25,000 (1998: £331,000) net of a provision release of £104,000 (1998: £Nil). There is a provision for pension costs remaining of £313,000 (1998: £417,000). This provision is being released to profit in line with actuary's advice received.

The next actuarial valuation is at 5 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.

27. Reconciliation of operating profit to operating cash flows

	1999 £000	1998 £000
Operating profit	**4,778**	3,628
Depreciation, amortisation and impairment charges	**1,922**	2,097
Cash flow relating to reorganisation provisions	**(147)**	(1,435)
Decrease in stocks	**2,259**	2,864
Decrease/(increase) in debtors	**1,639**	(935)
(Decrease)/increase in creditors	**(1,496)**	1,286
(Decrease)/increase in pension provision	**(104)**	198
Net cash inflow from operating activities	**8,851**	7,703
Operating cash flow per share	**22.47p**	19.49p

28. Analysis of net debt

	At beginning of year £000	Cash flow £000	Other non-cash changes £000	**At end of year £000**
Cash in hand and at bank	23	1,268	—	**1,291**
Overdrafts	(4,135)	4,135	—	**—**
	(4,112)	5,403	—	**1,291**
Debt due after one year	(4,875)	—	2,500	**(2,375)**
Debt due within one year	(1,608)	1,608	(2,500)	**(2,500)**
Finance leases	(660)	(189)	—	**(849)**
	(7,143)	1,419	—	**(5,724)**
Total	(11,255)	6,822	—	**(4,433)**

Notes to the Financial Statements

29. Purchase of subsidiary undertaking

	1999 Book and fair value £000
Net assets acquired	
Tangible fixed assets	**13**
Stocks	**146**
Debtors	**395**
Cash at bank and in hand	**3,470**
Creditors	**(440)**
Tax payable	**(286)**
Net assets	**3,298**
Goodwill on acquisition	**2,886**
Consideration	**6,184**
Satisfied by	
Cash	**4,645**
Net proceeds from sale of forges (see note 31)	**1,539**
	6,184
Cash outflow	
Consideration	**6,184**
Acquisition of cash at bank and in hand	**(3,470)**
Net consideration	**2,714**
Net proceeds from sale of forges	**(1,539)**
Cash outflow	**1,175**

The operating cash flows of the acquired subsidiary undertaking are not significant in relation to Group activity.

30. Sale of subsidiary undertakings and businesses

On 12 May 1999 the Group sold British and Midland Forgings Limited and Criterion Stampings Limited and on 28 May 1999 the Group sold Tipton Steel Stockholders Limited. The effect of both disposals was as follows:

	1999	1998
	£000	£000
Net assets disposed of		
Tangible fixed assets	**2,186**	1,249
Stocks	**877**	2,086
Debtors	**2,348**	2,648
Taxation	**(4)**	(97)
Cash at bank and in hand	**168**	—
Creditors	**(1,830)**	(2,588)
Bank overdrafts	**—**	(486)
Deferred taxation	**(90)**	(9)
Net assets	**3,655**	2,803
Loss on disposal	**(925)**	(771)
Consideration	**2,730**	2,032
Satisfied by		
Cash proceeds less costs of disposal	**(209)**	2,032
Fixed asset investments (see note 31)	**1,400**	—
Offset against purchase of Berry Safety Systems Limited (see note 31)	**1,539**	—
	2,730	2,032
Net cash (outflow)/inflow		
Net cash proceeds	**(209)**	2,032
Disposal of (cash)/bank overdraft	**(168)**	486
Cash (outflow)/inflow	**(377)**	2,518

The operating cash flows of the businesses disposed of in both 1999 and 1998 were not significant in relation to Group activity.

31. Major non-cash transactions

Consideration for the purchase of Berry Safety Systems Limited on 12 May 1999 was satisfied in part by proceeds from the sale of the Group's forging businesses (British & Midland Forgings Limited and Criterion Stampings), amounting to £2,539,000 less the Group's investment of £1,000,000, comprising shares in and loans to the purchaser.

Proceeds from the sale of Tipton Steel Stockholders Limited on 28 May 1999 were satisfied in part by the Group's investment of £400,000, comprising preference shares in and loans to the purchaser.

Five Year Record

	1995 £000	1996 £000	1997 £000	1998 £000	**1999 £000**
Turnover	87,823	80,683	81,281	76,497	**61,940**
Operating profit	6,235	3,772	2,698	3,628	**4,778**
Profit/(loss) before taxation	5,434	2,922	1,216	(1,566)	**3,562**
Taxation	1,546	622	205	378	**1,269**
Profit/(loss) after taxation	3,888	2,300	1,011	(1,944)	**2,293**
Shareholders' funds	28,173	27,966	26,112	23,583	**23,080**
Dividends per ordinary share	6.20p	6.20p	4.20p	4.20p	**4.20p**
Operating cash flow per ordinary share	13.08p	15.78p	14.84p	19.49p	**22.47p**

Equivalent market price at 31 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.

Figures for 1998 have been restated in accordance with note 1 to the financial statements.

Notice of Meeting

Notice is hereby given that the 39th Annual General Meeting of Hill & Smith Holdings PLC will be held at **The Copthorne Hotel, The Waterfront, Level Street, Brierley Hill, DY5 1UR** on **Thursday, 23 March 2000 at 12 noon** for the following purposes:

1. To receive and adopt the Directors' report and the financial statements for the year ended 30 September 1999 together with the auditor's report thereon.
2. To approve the payment of the proposed final dividend of 2.1p per share on 7 April 2000.
3. To re-elect Mr R.E. Richardson as a Director.
4. To re-elect Mr D.S. Winterbottom as a Director.
5. To reappoint KPMG Audit Plc as auditor and to authorise the Directors to determine the auditor's remuneration.

11 February 2000

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 pm on 21 March 2000 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 pm on 21 March 2000 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 and 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.

ATTENTION:
Please note that the day of the Annual General Meeting is Thursday 23 March 2000.

Principal Group Businesses

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, M22 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†
Woodhill Road, Bury, Lancashire, BL8 1BW
Tel: (0161) 764 5034 Fax: (0161) 764 5020
Email: info@birtley-building.co.uk
Website: www.birtley-building.co.uk

Varley & Gulliver Limited
57–70 Alfred Street, Sparkbrook,
Birmingham, West Midlands, B12 8JR
Tel: (0121) 773 2441 Fax: (0121) 766 6875
Email: varley_and_gulliver@compuserve.com

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, West Midlands, WV14 0QL
Tel: (01902) 499400 Fax: (01902) 499419
Email: barrier@hill-smith.co.uk
Website: www.hill-smith.co.uk

Berry Safety Systems*
Springvale Business and Industrial Park,
Bilston, Wolverhampton, West Midlands, WV14 0QL
Tel: (01902) 499400 Fax: (01902) 499419
Email: barrier@hill-smith.co.uk
Website: www.hill-smith.co.uk

West Midlands Galvanizers*
Springvale Business and Industrial Park,
Bilston, Wolverhampton, West Midlands, WV14 0QL
Tel: (01902) 353935 Fax: (01902) 405115
Email: barrier@hill-smith.co.uk
Website: www.hill-smith.co.uk

Pipe Supports Limited‡
Salwarpe Road, Droitwich, Worcestershire, WR9 9BH
Tel: (01905) 795500 Fax: (01905) 794126
Email: psl@pipesupports.com
Website: www.pipesupports.com

Pipe Supports USA, Inc‡
2579 Lester Street, Harvey, Louisiana 700058, USA
Tel: (001) 504 367 7473 Fax: (001) 504 367 7484
Email: PipSupUSA@aol.com

Pipe Supports Asia Limited‡
35/2 Bangna Trad Rd., Km11.5, Bangplee
Samut Prakarn, Thailand 10540
Tel: (0066) 2316 3912 Fax: (0066) 2316 2431
Email: pipeasia@ks.th.com

The businesses marked * trade as divisions of Hill & Smith Limited.
The business marked † trades as a division of Birtley Building Products Limited.

The companies marked ‡ are indirectly held. A holding of 80% of the ordinary shares of Pipe Supports Asia Limited, a company incorporated in Thailand, was acquired on 4 October 1999.

Hill & Smith Holdings PLC

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

Telephone: (01902) 357910
Fax: (01902) 357919