HILL & SMITH HOLDINGS PLC

Annual Report

2001

Contents

Pictures from top to bottom:
Sculpture galvanised by Joseph Ash
Rail noise barrier from Hill & Smith

Results at a glance

	2001 15 months	2000 12 months
Turnover	**£241.8m**	£58.9m
Operating profit*	**£15.7m**	£4.8m
Profit before taxation*	**£10.1m**	£4.1m
Earnings per share*	**12.01p**	7.63p
Dividend per share	**5.45p**	4.20p
Net cash flow from operating activities*	**£30.2m**	£4.2m

* Before exceptional items and goodwill amortisation.

Financial calendar

Annual General Meeting 2002	27 May 2002
Payment of final dividend for the fifteen month period to 31 December 2001 (ex dividend date 8 May 2002)	8 July 2002
Announcement of results for period to 30 June 2002	September 2002
Payment of interim dividend	January 2003
Preliminary Announcement of results to 31 December 2002	March 2003

Directors, Advisers and Committees

Directors

D.S. Winterbottom FCA, FCT

Chairman (Non-Executive)

David, aged 65, joined the Board in October 1997. He is also Chairman of CPL Industries Limited, Wightlink Group Limited and T J Hughes PLC. He is also Chairman of a number of institutionally owned companies, and Non-Executive Director of Electrocomponents PLC.

D.L. Grove BA, FCA

Deputy Chairman and Chief Executive

David, aged 53, joined the Board in March 1998. He is Non-Executive Chairman of a number of private companies involving steel pressings, plastic injection moulding and rubber moulding. He is also Vice-President of Birmingham Chamber of Commerce and Industry.

C.J. Burr FCA

Finance Director

Chris, aged 52, joined the Board in November 2000. He was previously Group Finance Director of Ash & Lacy Plc, whom he joined in 1990 from European Home Products plc having previously held a variety of positions with Singer Company Inc in the UK and Continental Europe.

H.C. Everett BSc, CA

Executive Director and Company Secretary

Howard, previously Group Finance Director, is 57 and joined the Group from Rapid Metal Developments Limited, an RM Douglas PLC subsidiary, in 1990.

H.C. Marshall MSc, BSc

Non-Executive Director

Howard, aged 58, joined the Board in November 2000. He was previously Chief Executive of Ash & Lacy Plc. He is currently Chairman of West Midlands CBI, Deputy Chairman of Bullough plc, Board Member of West Midlands Industrial Development Board and a Member of West Midlands Chamber of Commerce Council.

R.E. Richardson

Non-Executive Director

Dick, aged 62, joined the Board in May 1997. He 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.

Life President

John G. Silk LLB (Lond)

John, aged 77, joined the Board in 1981 and was Chairman from 1983 to 1995. He retired from the Board and was appointed Life President in March 1999. He is also Deputy Chairman of Hampson Industries PLC and the Senior Partner of Silks, Solicitors.

Audit Committee
Messrs Winterbottom, Marshall and Richardson (Chairman)

Remuneration Committee
Messrs Winterbottom, Marshall (Chairman) and Richardson

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

Company Number 671474

Advisers

Registrars
Computershare Investor Services PLC
PO Box 82, The Pavilions, Bristol, BS99 7NH

Auditors
KPMG Audit Plc
2 Cornwall Street, Birmingham, B3 2DL

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

Solicitors
Silks, Oldbury, West Midlands
Wragge & Co, Birmingham
Shakespeares, Birmingham

Stockbrokers
Old Mutual Securities, Birmingham

. . . I am pleased to report further progress made by the Group . . .

Chairman's Statement

General

Following the takeover of Ash & Lacy Plc and the change of year end to December, I am pleased to report further progress made by the Group in the fifteen month period ended 31 December 2001. Turnover during the period increased to £241.8 million (2000: £58.9 million) resulting in a substantial increase in operating profit before exceptional items and goodwill amortisation to £15.7 million (2000: £4.8 million). Profit before exceptional items, goodwill amortisation and tax increased to £10.1 million for the fifteen month period (2000: £4.1 million). The Ash & Lacy Plc contribution to these figures is included for fourteen months from 1 November 2000.

A number of actions were taken during the period to realise the benefits of the Ash & Lacy Plc takeover. These actions included the closure of the Ash & Lacy head office, closure of operating sites, property disposals and other rationalisation measures.

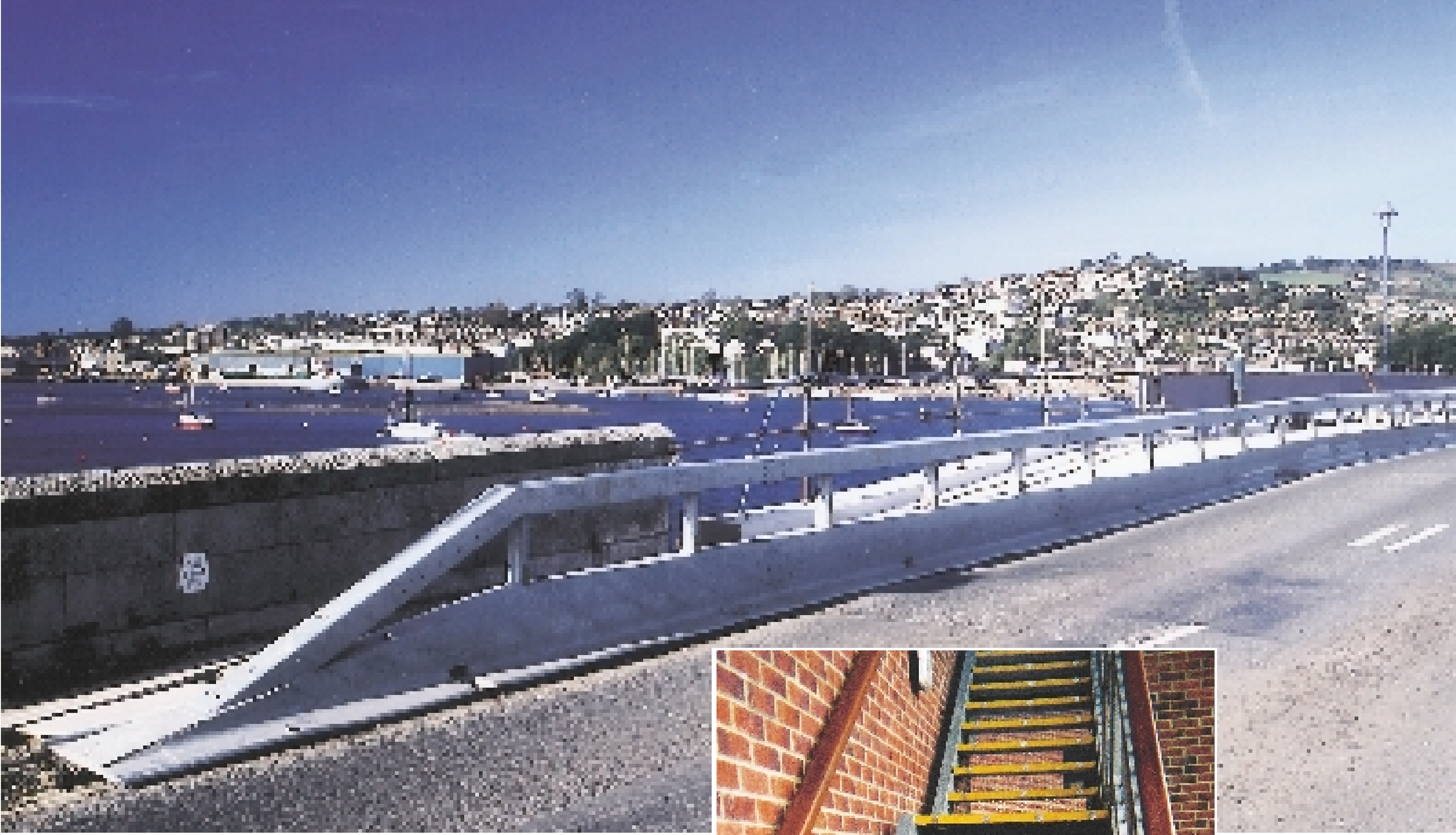
Adjusted earnings per share increased to 12.01p per share for the fifteen month period to 31 December 2001. The annualised equivalent is 9.61p per share (2000: 7.63p) which represents an increase of 26% on the previous year.

As a consequence of the financing of the takeover of Ash & Lacy Plc the Group's net debt peaked at approximately £78.0 million and I am pleased to report that by 31 December 2001 this had been reduced to £52.1 million which represents gearing of 152%.

During the financial period we continued to invest in modern equipment and new products, particularly in our companies supplying the robust infrastructure market in the UK. We continue to seek out opportunities which will further enhance the value of the Group.

Dividends

The Board is pleased to recommend a final dividend of 1.25p per share which, when added to the two interim dividends already declared, amounts to a total dividend for the fifteen month period of 5.45p per share (2000: 4.2p). The annualised equivalent is 4.36p per share, which represents an increase of 3.8%. Based on the adjusted earnings per share, this dividend is covered 2.2 times.



Board structure and employees

In September 2001 Mr Simon Knott retired from the Board having reached 70 years of age. Simon served as a Director for twenty years and I would like to thank him personally for his valuable contribution to the Group over two decades. We all wish Simon a long and happy retirement.

I would also like to thank all our employees for their support and efforts during the period under review. They are indeed our most valuable asset.

Outlook

Trading conditions continue to be mixed in the various markets we supply. Whereas volumes and margins have generally fallen in our commodity-based businesses, demand is increasing in many of our larger businesses, which are benefiting from increased infrastructure and construction spending in the UK. The current trading period has started in line with our expectations and if market conditions remain stable I look forward to another satisfactory performance this year.

DAVID WINTERBOTTOM
Chairman
26 March 2002

Pictures from top to bottom:
Varioguard safety barrier from Asset International
Stairway from Redman Fisher

Several of our more significant companies made excellent progress . . .

Operational Review

The continued improvement in the financial performance of the Group in 2001 was achieved despite a slowdown in many sectors of the UK manufacturing economy and continuing pressures on margins in some of our markets. Several of our more significant companies made excellent progress, taking advantage of improving market conditions to provide the basis for future growth.

In the early part of the period under review we completed the agreed takeover of Ash & Lacy Plc. As a consequence, a number of rationalisation measures were implemented which had an effect not only on some of the businesses acquired but also on some of the original Hill & Smith PLC activities. Some loss-making operations, where we had no significant market position or competitive advantage, were disposed of or terminated. In order to reduce costs, eliminate duplication and improve service levels to our customers we also closed two galvanising sites, one at Newport in South Wales and another at Netherton in the West Midlands, and reorganised some of our manufacturing operations.

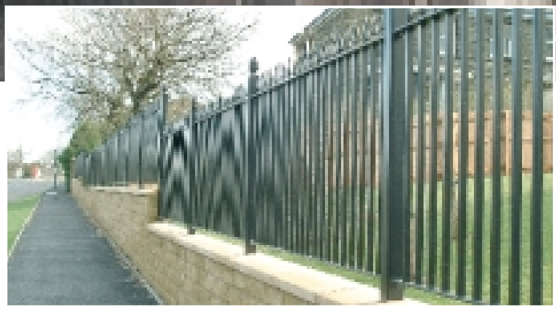
As well as carrying out two property sale and leaseback transactions we disposed of a number of surplus sites, together with part of the Ash & Lacy Plc investment property portfolio. Overall, these transactions generated net proceeds of £18.8 million. We are not a property company and we believe we can improve returns to shareholders by investing instead in our core industrial activities.

The takeover of Ash & Lacy Plc more than trebled the size of the Group and therefore some consolidation of activities was implemented so that we could maintain our management focus and marketing efforts on our core competencies. The Group is now organised into a Building and Construction Products division and a smaller Industrial Products division.

Building and Construction Products

The Infrastructure Products division which supplies the road, rail and off-highway markets benefited from increased spending by the public sector, and the ten year programme announced in the Transportation Bill (2000) was very good news for our Group. Significant benefits have accrued from amalgamating the management teams of the separate businesses within this grouping. Further investment in product development was made during the period, thereby increasing our portfolio of road safety products, including the introduction of a wire rope system for use in central reservations and the multi-application safety system (MASS), which was launched into the market in late 2001. Our Varioguard system made further gains into the roadwork zone protection market. We are committed to further investment, both organically and, if appropriate, by acquisition in this division.

Our galvanising capabilities were much enhanced during the period with the acquisition of the Joseph Ash operations as part of the Ash & Lacy Plc takeover. We are now probably the market leader in the UK, operating from eleven locations which



provide nationwide coverage with a range of facilities designed to meet the many and varied needs of our customer base. The UK market for galvanised steel continued to expand at a steady rate in 2001 as increased spending on infrastructure and construction projects provided a fresh stimulus to the market. With the enlarged capability, we are now able to provide common standards of customer service and quality from all our locations. During the period we made our first investment in powder coating, operating alongside our existing galvanising activities at Barkers Engineering which also manufactures palisade fencing. In addition to painting our own products, we successfully entered the fragmented third party market where we think there are further growth opportunities.

The industrial flooring, grating and hand railing system companies (Redman Fisher, Eurogrid and Access Design and Engineering) were reorganised onto two sites (three previously) during the period and changes made to the management teams. The disruption caused by these actions contributed in part to a disappointing performance during the period. However, the companies are now well placed to exploit this market from a more compact and focused base.

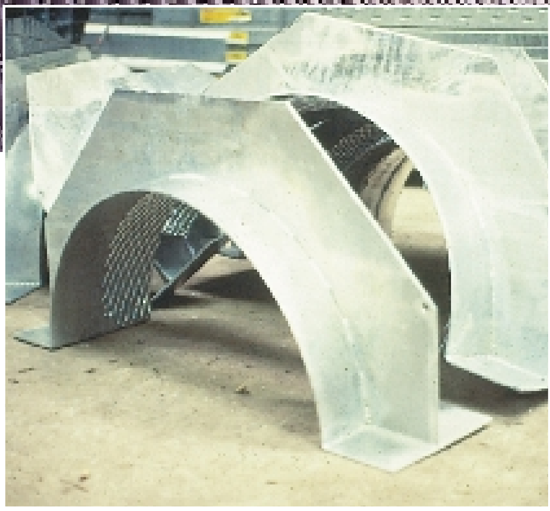
Ash & Lacy Building Products had a tough year and again rationalisation measures had to be taken in response to changed market conditions. The new management team and the leaner approach to

Pictures from top to bottom:

MASS safety barrier including pedestrian fencing from Hill & Smith, a newly introduced Group product

Fencing from Barkers Engineering

Building using lintels from Birtley Building Products



Pictures from top to bottom:
Weholite pipe from Asset International
Lintels from Birtley Building Products

Operational Review continued

manufacturing and distribution being adopted, together with the introduction of new products, should provide a basis for success in the future.

Birtley Building Products now operates from only one site, following the transfer of activities to concentrate production at Birtley and the sale of the peripheral Bainbridge garage door manufacturing activity. We remain a major participant in the steel lintel supply chain for residential developments which we supply with the only mass-produced, post-galvanised product. During the period a new fully automated steel lintel production line was commissioned although the company's performance was adversely affected in the early months of 2001 by delays from the capital equipment suppliers which restricted our production.

Express Reinforcements has a material share of the reinforcing bar market in the UK which saw buoyant demand during the period as a result of the high levels of spending in the infrastructure and construction markets. In the last quarter a capital expenditure programme was commenced to enhance and modernise our major manufacturing facility in Neath, South Wales. When completed, this will reduce our unit and overhead costs as well as enhancing our production capabilities.

Pipe Supports performed satisfactorily during the period although demand patterns in the UK were a little subdued in the latter part of 2001. The overseas operations continued to expand, particularly in the USA where the spend on power stations continues to increase significantly. With the success in building up volumes in the USA, our operation relocated to larger facilities at the end of 2001 to enable us to increase our share of this growing market.

Industrial Products

Our perforated and expanded metal activities were merged at the end of 2000 and now trade as one business under the name of Ash & Lacy Perforators. This company achieved a very creditable outcome in 2001 given the generally subdued levels of demand for its traditional products. Further investment was made in the period to improve quality and manufacturing efficiencies and to increase our capacity to service developing technology markets.

Parapet from Varley & Gulliver

Varioguard — in permanent position on the Avonmouth Bridge.

At Ash & Lacy Pressings profits were much in line with the previous year. The company continued its policy of concentrating on higher value-added products for its customers in the specialist automotive and domestic appliance markets.

Our stockholding businesses experienced difficult market conditions. The non-ferrous activities were only marginally profitable against a background of a substantial fall in base metal prices. However, cash generation was good, particularly from stock, which was reduced substantially during the year.

Bromford Iron and Steel re-rolls steel billets into merchant bar, flats and angles. We continue to trade with a small profit by not chasing commodity business and concentrating on more specialist and niche products. Shortly after the period end it acquired the business and certain assets of two local competitors, which will enable it to reduce unit costs and provide a measure of consolidation in a tough market sector.

SI Pressure Instruments continued to invest in new products and in extending its worldwide distribution network. It would have made a very respectable profit but for a reduction in sales to its key US market, where a number of its traditional customers were affected by the downturn in that economy.

Wombwell suffered from volatile customer demand and a competitive pricing environment caused by an over capacity in both the UK and global iron foundry markets. In these circumstances the company did well to achieve a profitable outcome, although the returns on capital achieved are below Group expectations. However, the closure of several competitors and the growth in its sales of general casting products hold out the prospect of an improvement in the future.

Conclusion

The financial period under review has been one of significant change for the Group and now the Ash & Lacy Plc acquisition has been successfully integrated we are working energetically towards enhancing shareholder value. We intend to invest, both organically and by acquisition, in our core businesses where we perceive there will be market growth and we have a competitive edge, particularly in the areas targeted at infrastructure spending and construction activity. Our business units in the industrial products portfolio are under review as to how we can add value and enhance margins and move away from the commodity end of the marketplace.

The challenge for the future is for our individual management teams to focus on improving what we do. With the changes made in 2001 we have entered the new year with better and more robust teams in place. With improving market prospects for some of our key businesses, we are cautiously optimistic about the future.

DAVID GROVE
Chief Executive
26 March 2002

Structural beam being dipped at the 18 metre modern galvanising facility at Joseph Ash.

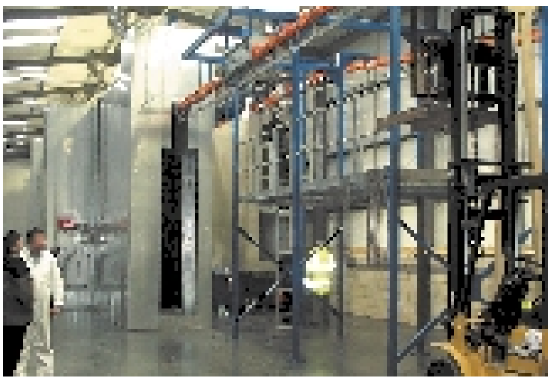
Financial Review

These results cover a fifteen month period to 31 December 2001, as a result of the change in our financial year end following the acquisition of Ash & Lacy Plc. This acquisition has increased significantly the size and scope of the Group's activities.

Summary of results

Group turnover increased to £241.8 million (2000: £58.9 million), including £165.5 million from acquisitions, and operating profit before exceptional items and goodwill amortisation increased to £15.7 million (2000: £4.8 million), including £9.9 million from acquisitions. On an annualised basis, earnings per share before exceptional items and goodwill amortisation increased by 25.9%.

We incurred substantial exceptional charges in the year, mostly as a consequence of the Ash & Lacy acquisition. In addition to bank arrangement and related due diligence fees, costs were incurred in restructuring some of the acquired businesses. The acquisition of the Joseph Ash galvanising operations enabled us to reorganise our existing Asset International business at Newport resulting in the subsequent sale of part of the site. The costs of this reorganisation, and of the lintel production line at Birtley Building Products, together with a provision against the value of trade investments, are also included as exceptional items.



New powder coat plant at Barkers Engineering.

Goodwill amortisation increased to £1.8 million (2000: £0.2 million) as a result of acquisitions in the period.

Net borrowings increased by £47.5 million due to the investments during the period in acquisitions, capital expenditure and the reorganisation measures previously mentioned. As a result, net interest charges increased to £5.6 million (2000: £0.7 million) which was covered 2.8 times by operating profit before exceptional items and goodwill amortisation.

Taxation

The tax rate on underlying profits before exceptional items and goodwill amortisation was 29.1%, primarily as a result of adjustments in respect of previous years.

Dividends

The proposed dividends for the fifteen month financial period amount to 5.45p per share equating to 4.36p for a twelve month period, an increase of 3.8% over last year and covered 2.2 times by profit before exceptional items and goodwill amortisation.

Pictures from top to bottom:

Safety barrier from Berry Systems

LNG pipework supports from Pipe Supports

Computer cabinet from A & L Perforators

Cash flow and borrowings

The cost of acquisitions in the year was £72.3 million, £12.9 million of which was financed by the issue of new shares and the remainder by increased borrowings.

Immediately following the Ash & Lacy acquisition net borrowings stood at approximately £78.0 million. By the period end these had fallen to £52.1 million, primarily as a result of property transactions and a strong operating cash flow.

We nevertheless maintained a vigorous programme of capital expenditure, investing a total of £10.5 million during the period compared with a depreciation charge of £7.2 million.

Treasury

During the period we successfully completed the syndication of our committed term loan and revolving credit facilities. With other uncommitted and hire purchase facilities, we have sufficient headroom to support our existing operations and to fund anticipated future organic and acquisition growth.

At the year end approximately 61% of the Group's net borrowings were fixed via swap arrangements and approximately 97% of the Group's net assets were denominated in sterling. Group policy is to hedge material known or probable foreign currency denominated transactional exposures by way of forward exchange contracts.

Accounting policies

The financial statements include the first transitional disclosure requirements of FRS17 "Retirement Benefits". During the period we also adopted for the first time FRS18 "Accounting Policies" and FRS19, the new accounting standard dealing with deferred tax. As a result, we have restated last year's figures and made a prior year adjustment which has resulted in a net charge to reserves of £0.7m.

CHRIS BURR
Finance Director
26 March 2002

Directors' Report

The Directors present their forty-first annual report together with the financial statements for the fifteen month period ended 31 December 2001.

Trading review

The Chairman's Statement on pages 4 and 5 and the Operational and Financial Reviews on pages 6 to 11 contain a review of the trading for the period, 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:

Building and Construction Products
Industrial Products

Dividends

The Directors recommend a final dividend of 1.25p per share to be paid on 8 July 2002 (year to 30 September 2000: 2.10p), which, together with the first interim dividend of 2.10p paid on 8 October 2001 and the second interim dividend of 2.10p payable on 8 April 2002, makes a total distribution for the fifteen month period of 5.45p (year to 30 September 2000: 4.20p).

Employees

The Group aims to give a high level of autonomy to 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 pages 2 and 3.

Mr Simon Knott retired from the Board on 30 September 2001. The Directors retiring by rotation are Mr Grove 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 on pages 17, 18 and 20.

Except as disclosed on page 49, 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.

Donations

Charitable donations amounting to £3,000 were made in the year. There were no political contributions.

Supplier payment policy

Individual operating companies within the Group are responsible for establishing and adhering to 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 82 days (2000: 76 days). The 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.

Capital gains tax

For capital gains tax purposes the price of the Company's ordinary shares of 25p each at 31 March 1982 was 12p.

Special business of the annual general meeting

The Annual General Meeting will be held on Monday 27 May 2002 at 12.30 pm at The Copthorne Hotel, Merry Hill. Notice is sent to Shareholders separately with this Report together with an explanation of special business to be considered at the meeting.

Substantial shareholders

The Company has been notified of the following substantial shareholdings of 3% or more of the issued share capital on 26 March 2002.

	Ordinary shares	% of issued share capital
G. Hampson Silk	4,125,168	6.76%
P.J. Hampson Silk	4,125,169	6.76%
Funds managed by:		
Close Securities Limited	9,176,733	15.05%
Caledonia General Investments Limited	5,155,738	8.45%
Friends Ivory and Sime plc	4,161,439	6.82%
Framlington Group plc	1,881,866	3.09%

Close Securities Limited has granted an option to D.L. Grove (see page 18).

Of G. Hampson Silk's ordinary shares, 3,340,959 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, 3,340,960 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.

The Directors have not received notification of other shareholdings according to the Company's share register on 26 March 2002.

By order of the Board

HOWARD EVERETT
Company Secretary
26 March 2002

Corporate Governance

The Board is pleased to report that the Company complies, except where stated otherwise, with Section 1 of The Combined Code ("the Code") issued by the UK Listing Authority and has done so in all material respects throughout the year.

The Board and Board committees

The Board

The Board of Directors meets at least nine times a year and has a list of matters specifically reserved for its decision.

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.

The Company has experienced Non-Executive Directors who represent a source of strong independent advice and judgement. Their remuneration is set by the Board in line with market levels. Non-Executive Directors are not appointed for specified terms as required by the Code.

The senior independent Non-Executive Director is Mr R.E. Richardson.

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.

Nomination Committee

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

Audit Committee

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

Remuneration Committee

The Remuneration Committee comprises the Chairman and the Non-Executive Directors and meets as and when required. It is responsible for determining the remuneration packages of the Executive Directors and for advising on remuneration policy for senior executives. In addition, it also administers the Company's 1995 and 1999 executive share option schemes.

Remuneration policy

Details of the Company's remuneration policy is provided in the Board's Report on Remuneration on pages 16 to 20.

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. The Board also encourages the attendance of all shareholders at its Annual General Meeting which is held at a convenient location and time.

The Company arranges for the notices of the Annual General Meeting and related papers to be sent to shareholders and gives at least twenty 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 control

The Board has overall responsibility for the Group's system of internal control which is designed to manage rather than eliminate risk and can provide only reasonable assurance against material misstatement or loss. The Board confirms that the system of internal control accords with the guidance issued in September 1999 by the Institute of Chartered Accountants in England and Wales (the "Turnbull Committee Guidance").

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 and authorisation
- 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

In addition, the Executive Directors maintain close and frequent contact with the management of each operating company, including regular performance review meetings.

The Chairman of the Audit Committee reports the outcome of its meetings to the Board and the Board receives the minutes of all Audit Committee meetings.

During the period the Board undertook a formal risk review to address the wider non-financial issues facing the Group. This was based on each operation producing a risk register identifying their key risks, the probability of those risks occurring, their impact if they do occur and the actions being taken to manage those risks to the desired level. This information was then passed up on a filter basis culminating in the production of a Group risk register. This identifies the key risks facing the Group across all its businesses under a number of generic risk areas. These risks are discussed at executive meetings and a reporting routine has been established for regular reviews and reporting to the Audit Committee.

The Board reviews the Group risk register and receives regular reports from the Executive Directors on any major problems that have occurred and how the risks have changed since their initial identification.

Responsibility for monitoring the system of internal financial control is delegated by the Board to the Audit Committee which has the following processes to discharge its responsibility:

- whilst there is no formal internal audit function, reports covering financial control weaknesses at specific operations are produced on an *ad hoc* basis and are reviewed by the Audit Committee
- recommendations made by the external auditors as a result of the annual audit process are reviewed by the Audit Committee
- issues identified internally and by the external audit process are discussed with management and action plans put in place to address the issues

The Directors report that they have undertaken during the year a formal review of the effectiveness of the Group's system of internal controls, including strategic, operational, legal and compliance, risk management and financial controls. The review revealed nothing which, in the opinion of the Board, indicated that the system was inappropriate or unsatisfactory.

The Board has considered the need for a formal internal audit function. It is of the opinion that, given the size and nature of the Group's operations and the other controls in force, it would not be appropriate at the present time. The matter will be reviewed again next year.

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 H.C. Marshall, who chairs the Committee, and Mr R.E. 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 A of the Code.

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

Basic salaries 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 January 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:
There is a performance related cash bonus scheme in operation for the Executive Directors 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 receive 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 now capped at 60% of the annual salary payable to Mr Grove under his service agreement and the annual fee payable to GIL.

Remuneration of Chairman and Non-Executive Directors

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

The remuneration of the two other Non-Executive Directors is determined by the Board following recommendations made by the Chairman.

Directors' remuneration

The remuneration in respect of each Director for the period ended 31 December 2001 was as follows:

	Fees/ Salary £000	Benefits £000	Performance related bonus £000	Other £000	Total for Period to 31/12/01 £000	Total for Year to 30/09/00 £000
Chairman (non-executive):						
D.S. Winterbottom	58	—	—	—	58	33
Executive:						
D.L. Grove	241	—	—	—	241	90
C.J. Burr	143	12	14	—	169	—
H.C. Everett	97	11	12	—	120	71
Non-executive:						
S.H.J.A. Knott	20	—	—	—	20	15
H.C. Marshall	23	—	—	19	42	—
R.E. Richardson	25	—	—	—	25	15
Subtotal	607	23	26	19	675	224
Grove Industries Limited	60	—	188	—	248	20
Total	667	23	214	19	923	244

The other payment to Mr Marshall represents fees paid for consultancy work in respect of special projects in relation to the acquired Ash & Lacy businesses.

In addition, a sum of £165,000 was paid for the ultimate benefit of GIL Management Limited in respect of financial analysis, due diligence and consultancy services in relation to the acquisition of Ash & Lacy Plc. GIL Management Limited is a company in which Mr Grove has a non-controlling interest.

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 Group before exceptional items and goodwill amortisation 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 takes into account 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.

Directors' share options

	30 Sept 2000	Granted in period	31 Dec 2001	Exercise price (pence)	Date first exercisable	Expiry date
C.J. Burr	—	42,000*	42,000*	70.3	02/07/04	02/07/11
	—	158,000†	158,000†	70.3	02/07/04	02/07/08
H.C. Everett	6,181#	—	6,181#	66.0	01/04/02	01/10/02
	16,259#	—	16,259#	41.3	01/03/04	01/09/04
	17,600*	—	17,600*	113.6	20/02/99	20/02/06
	10,000*	—	10,000*	68.5	04/08/02	04/08/09
	20,000†	—	20,000†	68.5	04/08/02	04/08/06
D.L. Grove	500,000†	—	500,000†	67.1	09/07/02	09/07/06

* 1995 Executive Share Option Scheme

† 1999 Non-Approved Executive Share Option Scheme

1995 Savings Related Share Option Scheme

D.L. Grove also holds options granted by Close Securities Limited in respect of 2,294,183 shares at prices between 40p and 55p per share exercisable on or before 6 March 2005 and 25 August 2008 (2000: 1,844,183 shares).

At 31 December 2001 the mid-market price of the Company's shares was 66.5p. During the period the Company's mid-market share price ranged between a low of 47.5p and a high of 77.5p.

Directors' pension entitlement

Mr C.J. Burr and Mr H.C. Everett participate in the Hill & Smith Executive Pension Scheme which provides pensions and other benefits within Inland Revenue limits. The scheme provides, at normal retirement age a maximum pension of two-thirds of the final pensionable salary, subject to completion of a sufficient number of years' service. In accordance with a policy formulated many years ago for Mr Everett, his pensionable salary applying to benefits earned up to April 2001 includes the annual performance related bonus. For benefits earned after that date, bonus is excluded from his pensionable salary. Bonus is excluded from pensionable salary for Mr Burr for all service.

Directors' pensions

Pension benefits earned by the Directors:

	Age at period end	Director's contributions in period	Increase in accrued pension during the period	Accumulated total accrued pension at period end
C.J. Burr	52	6,774	3,901	35,510
H.C. Everett	57	4,989	4,405	28,333

1 The pension entitlement is that which would be paid annually on retirement based on service to the period end.
2 The increase in accrued pension during the year excludes any increase for inflation.
3 The Director's contributions are the contributions paid in the period by the Director under the terms of the scheme.
4 Members of the scheme have the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits are included in the above table.
5 The following is additional information relating to Directors' pensions:
   (a) Normal Retirement Age: C.J. Burr 60, H.C. Everett 65
   (b) Spouse's pensions: $2/3$ pension on death after retirement
   (c) Early retirement rights: C.J. Burr: None
   H.C. Everett: Benefits may be taken from age 60 without requiring consent. The benefits earned after April 2001 would be payable without reduction, whilst prior benefits would be reduced.
   (d) Pension increases: C.J. Burr: Pensions increase in line with RPI, limited to 5% per annum on all pensions, subject to a minimum of 3% per annum.
   H.C. Everett: Pension accrued prior to April 1997 increases at 3% per annum; pension accrued after April 1997 increases in line with RPI, limited to 5% per annum, subject to a minimum of 3% per annum.
   (e) Other discretionary benefits: None

Service agreements

The Chairman and the three Executive Directors 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 on twelve months' notice but if a Change in Control (as that expression is defined in the service agreement) of the Company takes place the Chairman may at any time within the twelve month period immediately following such Change in Control terminate the agreement by ninety days' notice instead of twelve months' notice. In the event of the service agreement being terminated by either party within the twelve month period immediately following such Change in Control the terms of the contract are payable in full without mitigation.

Mr Burr and Mr Everett may terminate their service agreements with the Company by giving six months' notice. The Company may terminate these service agreements by giving twelve months' notice but if the notice is given within the period of twelve months immediately following a Change in Control the notice to be given by the Company must not be less than eighteen months. On termination of the service agreement by the Company without proper notice the Director is under a duty to mitigate any loss unless such termination is effected within the period of twelve months following a Change in Control.

Mr D.L. Grove's service agreement is terminable by either party on twelve months' notice but during the period of ninety days following a Change in Control the period of notice required to be given by the Company to Mr Grove is increased from twelve months to eighteen months and the period of notice required to be given by Mr Grove to the Company is reduced from twelve months to ninety days. If, during the period of ninety 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 eighteen 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.

Directors' interests

Directors' shareholdings at the end of the financial period were as follows:

	31 Dec 2001	30 Sept 2000
D.S. Winterbottom	15,690	15,690
D.L. Grove	520,945	479,545
H.C. Everett	79,625	78,712
R.E. Richardson	—	—
C.J. Burr	62,628	—
H.C. Marshall	68,601	—

There have been no changes in the above figures between the period end and the present date.

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

HOWARD MARSHALL
Chairman, Remuneration Committee
26 March 2002

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.

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

We have audited the financial statements on pages 23 to 49.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Report. As described on page 21, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority 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 1985. 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 Group is not disclosed.

We review whether the statement on pages 14 and 15 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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 implications 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 31 December 2001 and of the profit of the Group for the 15 months then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

Chartered Accountants
Registered Auditor
26 March 2002

2 Cornwall Street
Birmingham
B3 2DL

Group Profit & Loss Account

for the fifteen months ended 31 December 2001

		15 months ended 31 December 2001				Year ended 30 September 2000 As restated			
	Notes	**Before exceptional items and goodwill amorti-sation £000**	**Excep-tional items £000**	**Goodwill amorti-sation £000**	**Total £000**	Before exceptional items and goodwill amorti-sation £000	Excep-tional items £000	Goodwill amorti-sation £000	Total £000
Turnover	**1,2**								
Continuing operations:									
Existing operations		**76,333**	**—**	**—**	**76,333**	58,858	—	—	58,858
Acquisitions		**165,516**	**—**	**—**	**165,516**	—	—	—	—
Total turnover		**241,849**	**—**	**—**	**241,849**	58,858	—	—	58,858
Operating profit	**1,2,3**								
Continuing operations:									
Existing operations		**5,790**	**(2,245)**	**(224)**	**3,321**	4,770	—	(150)	4,620
Acquisitions		**9,906**	**(4,142)**	**(1,562)**	**4,202**	—	—	—	—
Total operating profit		**15,696**	**(6,387)**	**(1,786)**	**7,523**	4,770	—	(150)	4,620
Loss on sale of businesses	**3, 24**	**—**	**(1,106)**	**—**	**(1,106)**	—	(64)	—	(64)
Profit on sale of fixed assets	**3**	**—**	**1,179**	**—**	**1,179**	—	464	—	464
Profit on ordinary activities before interest	**1**	**15,696**	**(6,314)**	**(1,786)**	**7,596**	4,770	400	(150)	5,020
Net interest payable	**5**	**(5,611)**	**—**	**—**	**(5,611)**	(668)	—	—	(668)
Profit on ordinary activities before taxation	**6**	**10,085**	**(6,314)**	**(1,786)**	**1,985**	4,102	400	(150)	4,352
Tax on profit	**7**	**(2,933)**	**1,997**	**—**	**(936)**	(1,142)	30	—	(1,112)
Profit on ordinary activities after taxation		**7,152**	**(4,317)**	**(1,786)**	**1,049**	2,960	430	(150)	3,240
Minority interests		**(11)**	**—**	**—**	**(11)**	—	—	—	—
Profit for the period		**7,141**	**(4,317)**	**(1,786)**	**1,038**	2,960	430	(150)	3,240
Dividends	**8**				**(3,792)**				(1,621)
Retained (loss)/profit for the period	**21**				**(2,754)**				1,619
Earnings per share	**9**	**12.01p**	**(7.26p)**	**(3.00p)**	**1.75p***	7.63p	1.11p	(0.39p)	8.35p*
Diluted earnings per share	**9**	**11.98p**	**(7.24p)**	**(3.00p)**	**1.74p***	7.61p	1.11p	(0.39p)	8.33p*

* FRS 3

Group Balance Sheet

at 31 December 2001

	Notes	31 December 2001 £000	30 September 2000 As restated £000
Fixed assets			
Intangible assets	10	28,248	3,213
Tangible assets	11	44,399	17,470
Investments	12	225	1,365
		72,872	22,048
Current assets			
Stocks	13	16,785	7,632
Debtors: due after one year	14	5,526	65
Debtors: due within one year	14	48,997	17,624
		54,523	17,689
Cash and deposits		4,664	288
		75,972	25,609
Creditors: amounts falling due within one year			
Borrowings and finance leases	15	(15,744)	(4,590)
Other creditors	15	(49,990)	(17,712)
		(65,734)	(22,302)
Net current assets		10,238	3,307
Total assets less current liabilities		83,110	25,355
Creditors: amounts falling due after one year			
Borrowings and finance leases	16	(41,056)	(287)
Other creditors	16	—	(18)
		(41,056)	(305)
Provisions for liabilities and charges	18	(7,660)	(1,035)
Net assets		34,394	24,015
Share capital and reserves			
Called up share capital	20	15,245	9,654
Share premium	21	3,338	135
Capital redemption reserve	21	238	238
Revaluation reserve	21	733	1,781
Other reserves	21	4,088	—
Profit and loss account	21	10,706	12,171
Equity shareholders' funds		34,348	23,979
Equity minority interests		46	36
		34,394	24,015

Approved by the Board of Directors on 26 March 2002 and signed on its behalf by:

D.L. GROVE
Director

C.J. BURR
Director

Company Balance Sheet

at 31 December 2001

	Notes	31 December 2001 £000	30 September 2000 As restated £000
Fixed assets			
Tangible assets	11	85	30
Investments	12	98,285	19,886
		98,370	19,916
Current assets			
Debtors: due after one year	14	1,015	54
Debtors: due within one year	14	7,366	2,099
		8,381	2,153
Cash and deposits		1,857	—
		10,238	2,153
Creditors: amounts falling due within one year			
Borrowings and finance leases	15	(33,953)	(5,380)
Other creditors	15	(5,349)	(2,053)
		(39,302)	(7,433)
Net current liabilities		(29,064)	(5,280)
Total assets less current liabilities		69,306	14,636
Creditors: amounts falling due after one year			
Borrowings and finance leases	16	(39,840)	—
		(39,840)	—
Provisions for liabilities and charges	18	(318)	(138)
Net assets		29,148	14,498
Share capital and reserves			
Called up share capital	20	15,245	9,654
Share premium	21	3,338	135
Capital redemption reserve	21	238	238
Profit and loss account	21	10,327	4,471
Equity shareholders' funds		29,148	14,498

Approved by the Board of Directors on 26 March 2002 and signed on its behalf by:

D.L. GROVE
Director
C.J. BURR
Director

Group Cash Flow Statement

for the fifteen months ended 31 December 2001

	Notes	15 months ended 31 December 2001 £000	15 months ended 31 December 2001 £000	Year ended 30 September 2000 £000	Year ended 30 September 2000 £000
Net cash flow from operating activities	**24a**		**25,189**		4,213
Returns on investments and servicing of finance	**24b**		**(5,005)**		(669)
Taxation			**(1,469)**		(386)
Capital expenditure and financial investment	**24c**		**6,517**		(475)
Acquisitions and disposals	**24d**		**(72,355)**		(729)
Equity dividends paid			**(3,370)**		(1,632)
Cash flow before financing			**(50,493)**		322
Financing					
Issue of new shares		**5,874**		4	
Loan advances		**67,500**		—	
Loan repayments		**(15,349)**		(3,500)	
Redemption of loan notes		**(28)**		—	
Repayments of capital element of finance leases		**(381)**		(378)	
Purchase of own shares		**—**		(198)	
			57,616		(4,072)
Increase/(decrease) in cash in the period			**7,123**		(3,750)
Reconciliation of net cash flow to movement in net debt					
Increase/(decrease) in cash			**7,123**		(3,750)
Cash (inflow)/outflow from borrowings			**(51,742)**		3,878
Change in net debt resulting from cash flows			**(44,619)**		128
New finance leases			**(1,169)**		(284)
Loan notes issued as part of acquisition			**(1,759)**		—
Movement in net debt in the period			**(47,547)**		(156)
Net debt at the start of the period	**24e**		**(4,589)**		(4,433)
Net debt at the end of the period	**24e**		**(52,136)**		(4,589)

Other Primary Statements

Statement of Group Total Recognised Gains and Losses
for the fifteen months ended 31 December 2001

	15 months ended 31 December 2001 £000	Year ended 30 September 2000 As restated £000
Profit for the period	**1,038**	3,240
(Unrealised deficit)/realised surplus on revaluation of properties	**(146)**	126
Currency translation differences on overseas net investments	**—**	(54)
Total recognised gains and losses relating to the period	**892**	3,312
Prior period adjustment (as explained in note 19)	**(705)**	
Total recognised gains and losses since last annual report	**187**	

Note of Group Historical Cost Profits and Losses
for the fifteen months ended 31 December 2001

There is no material difference between the results as shown in the profit and loss account and their historical cost equivalent.

Reconciliation of movement in Group Shareholders' Funds
for the fifteen months ended 31 December 2001

	Group		**Company**	
	15 months ended 31 December 2001 £000	Year ended 30 September 2000 As restated £000	**15 months ended 31 December 2001 £000**	Year ended 30 September 2000 As restated £000
Profit for the period	**1,038**	3,240	**9,648**	1,617
Dividends	**(3,792)**	(1,621)	**(3,792)**	(1,621)
	(2,754)	1,619	**5,856**	(4)
Goodwill previously written off to reserves	**387**	—	**—**	—
Other recognised net gains and losses relating to the period	**(146)**	(54)	**—**	—
New ordinary share capital issued	**12,882**	4	**8,794**	4
Purchase of own shares	**—**	(198)	**—**	(198)
Net increase in shareholders' funds	**10,369**	1,371	**14,650**	(198)
Opening shareholders' funds (Group: originally £24,684,000 restated for prior period adjustment of £705,000; Company: originally £14,444,000 restated for prior period adjustment of £54,000)	**23,979**	22,608	**14,498**	14,696
Shareholders' funds at the end of the period	**34,348**	23,979	**29,148**	14,498

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 31 December 2001. 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 the 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. 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.

The net assets of businesses acquired are incorporated into the consolidated financial statements at their fair value to the Group. Fair value adjustments are always considered to be provisional at the first balance sheet date after acquisition to allow the maximum time to elapse for management to make a reliable estimate.

Investments

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

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.

Turnover

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

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.

Investment properties are revalued annually. Any surplus or deficit arising is transferred to a revaluation reserve, except for any impairment in value which is charged against the profit for the year. Depreciation is not provided in respect of such properties. This is not in accordance with the requirements of the Companies Act 1985. However, these properties are not held for consumption but for investment and the Directors consider that their systematic annual depreciation would be inappropriate. The policy adopted is therefore considered to be necessary for the accounts to give a true and fair view.

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 expected costs of pensions in respect of the Group's defined benefit pension schemes is charged to the profit and loss account so as to spread the cost of providing pensions over the period during which the Group benefits from employees' services. The effects of variations from regular costs are spread over the expected average remaining service lives of members of the scheme. Contributions in respect of defined contribution schemes are charged to the profit and loss account in the period to which they relate. The Group has adopted the transitional disclosure requirements of FRS17.

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.

Research and development

Research and development expenditure is written off in the year in which it is incurred.

Taxation

In preparing these financial statements the Group has adopted FRS 19 Deferred Tax. This has resulted in a prior year adjustment as set out in note 19. Previously deferred tax was only provided on timing differences between the treatment of items for taxation and accounting purposes, to the extent that it was probable that an actual liability would crystallise.

Deferred taxation

Deferred tax is provided on timing differences between the treatment of items for taxation and accounting purposes.

Notes to the Financial Statements

1 **Segmental information**

	15 months ended 31 December 2001				Year ended 30 September 2000 As restated			
	Turnover £000	Operating profit* £000	Profit before interest and tax £000	Net assets £000	Turnover £000	Operating profit* £000	Profit before interest and tax £000	Net assets £000
Building and Construction Products								
Continuing operations:								
Existing operations	**71,115**	**5,922**	**1,336**	**28,184**	52,704	4,643	4,893	27,780
Acquisitions	**114,757**	**6,414**	**3,622**	**16,080**	—	—	—	—
Total	**185,872**	**12,336**	**4,958**	**44,264**	52,704	4,643	4,893	27,780
Industrial Products								
Continuing operations:								
Existing operations	**5,218**	**(132)**	**(183)**	**1,127**	6,154	127	127	874
Acquisitions	**50,759**	**3,492**	**2,821**	**17,803**	—	—	—	—
Total	**55,977**	**3,360**	**2,638**	**18,930**	6,154	127	127	874
Total operations								
Continuing operations:								
Existing operations	**76,333**	**5,790**	**1,153**	**29,311**	58,858	4,770	5,020	28,654
Acquisitions	**165,516**	**9,906**	**6,443**	**33,883**	—	—	—	—
Total	**241,849**	**15,696**	**7,596**	**63,194**	58,858	4,770	5,020	28,654
Tax and dividends				**(6,003)**				(3,179)
Long-term debtors and other provisions				**1,091**				(84)
Net borrowings				**(52,136)**				(4,589)
Goodwill				**28,248**				3,213
Total Group				**34,394**				24,015
By geographical origin								
UK	**237,643**	**15,696**	**7,602**	**33,537**	56,255	4,698	4,948	23,857
Rest of World	**4,206**	**—**	**(6)**	**857**	2,603	72	72	158
Total	**241,849**	**15,696**	**7,596**	**34,394**	58,858	4,770	5,020	24,015
Turnover by geographical destination								
UK	**217,577**				49,299			
Rest of Europe	**9,907**				1,760			
Asia	**3,155**				3,158			
USA	**8,434**				4,457			
Rest of World	**2,776**				184			
Total	**241,849**				58,858			

* Operating profit is stated before exceptional items and goodwill amortisation.

2 Operating profit

	15 months ended 31 December 2001 Existing operations £000	Acquisitions £000	Total £000	Year ended 30 September 2000 Existing operations £000	Acquisitions £000	Total £000
Turnover	**76,333**	**165,516**	**241,849**	58,858	—	58,858
Cost of sales	**(55,385)**	**(126,578)**	**(181,963)**	(42,114)	—	(42,114)
Gross profit	**20,948**	**38,938**	**59,886**	16,744	—	16,744
Distribution costs	**(3,608)**	**(17,057)**	**(20,665)**	(3,021)	—	(3,021)
Administrative expenses	**(11,550)**	**(12,803)**	**(24,353)**	(8,953)	—	(8,953)
Other operating income	**—**	**828**	**828**	—	—	—
Operating profit before exceptional items and goodwill amortisation	**5,790**	**9,906**	**15,696**	4,770	—	4,770
Exceptional items	**(2,245)**	**(4,142)**	**(6,387)**	—	—	—
Goodwill amortisation	**(224)**	**(1,562)**	**(1,786)**	(150)	—	(150)
Operating profit	**3,321**	**4,202**	**7,523**	4,620	—	4,620

3 Exceptional items

The loss on sale of businesses relates to the disposals of the Garage Doors and Bainbridge divisions of Birtley Building Products. The profit on sale of fixed assets relates to a number of property disposals. Exceptional items from existing operations represent the costs of various restructuring projects undertaken during the period, in particular the reorganisation of production and the closure of part of the Asset International site at Newport, the reorganisation of lintel production at Birtley Building Products, and provisions against investments. Exceptional items from acquisitions represent closure costs of the Ash & Lacy head office, bank arrangement and related due diligence fees, as well as costs incurred in closing and reorganising some of the acquired businesses.

All exceptional items relate to continuing operations as defined by FRS 3.

Operating profit before exceptional items and goodwill amortisation has been shown because the Directors consider that this gives a more meaningful indication of the underlying performance of the Group.

4 Employees

	15 months ended 31 December 2001	Year ended 30 September 2000
The average number of people employed by the Group during the period was:		
Building and Construction Products	**1,684**	745
Industrial Products	**600**	25
	2,284	770
The aggregate employment cost for the period was:	**£000**	£000
Wages and salaries	**54,063**	13,553
Social security costs	**4,980**	1,094
Pension credit	**(692)**	(61)
	58,351	14,586

Details of the Directors' remuneration, pensions and share options are given in the Board's Report on Remuneration on pages 16 to 20.

Notes to the Financial Statements

5 Net interest payable

	15 months ended 31 December 2001 £000	Year ended 30 September 2000 £000
Interest payable:		
Bank loans and overdrafts	**5,631**	448
Interest on finance leases and hire purchase contracts	**86**	82
Other loans	**87**	140
	5,804	670
Interest receivable	**(193)**	(2)
	5,611	668

6 Profit on ordinary activities before taxation

	15 months ended 31 December 2001 £000	Year ended 30 September 2000 £000
The profit on ordinary activities is stated after charging:		
Depreciation of tangible fixed assets:		
Owned	**7,031**	1,634
Leased	**194**	188
Amortisation of goodwill	**1,786**	150
Operating lease rentals:		
Plant and machinery	**636**	227
Other	**2,020**	368
Research and development expenditure	**315**	141
Auditors' remuneration: (including Company £19,000 (2000: £10,000))	**196**	78
Non-audit fees paid to the auditors and their associates:		
In connection with the acquisition of Ash & Lacy Plc	**183**	—
Other fees	**171**	39
Loss on disposal of fixed assets	**—**	4
Foreign exchange loss	**21**	9
After crediting:		
Income from fixed asset investments	**—**	43
Profit on disposal of fixed assets	**175**	—
Grants receivable	**9**	—
Operating lease rentals	**1,728**	—

7 Taxation

	15 months ended 31 December 2001 £000	Year ended 30 September 2000 As restated £000
UK corporation tax on profits of the period	**424**	1,155
Adjustments in respect of prior periods	**(195)**	(250)
	229	905
Deferred taxation: origination and reversal of timing differences	**707**	207
	936	1,112

The Group has adopted FRS19: Deferred Tax. This has resulted in the restatement of the comparative figures increasing the deferred tax charge for the year ended 30 September 2000 by £233,000, turning the previously reported credit of £26,000 into a charge of £207,000. There is no material effect on the current year tax charge.

Factors affecting tax charge for the period:
The current tax charge for the period is lower than the standard rate of corporation tax in the UK. The differences are explained below.

	15 months ended 31 December 2001 £000	Year ended 30 September 2000 As restated £000
Profit on ordinary activities before taxation	**1,985**	4,352
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	**596**	1,306
Effect of goodwill amortisation	**536**	45
Profit on ordinary activities before goodwill amortisation multiplied by the standard rate of corporation tax in the UK of 30%	**1,132**	1,351
Expenses not deductible for tax purposes	**154**	161
Capital allowances for period in excess of depreciation	**(29)**	(123)
Income and expenditure timing differences	**(678)**	(84)
Capital profits less losses and write-downs not subject to tax	**(155)**	(150)
Adjustments in respect of previous periods	**(195)**	(250)
Current tax charge	**229**	905

The benefit of capital allowances in excess of depreciation and income and expenditure timing differences is offset by the deferred tax charge for the period.

8 Dividends

	15 months ended 31 December 2001	Year ended 30 September 2000	15 months ended 31 December 2001	Year ended 30 September 2000
	Pence per share		£000	£000
Equity shares:				
Additional dividend	**—**	—	**469**	—
1st interim paid	**2.10**	2.10	**1,280**	810
2nd interim payable	**2.10**	—	**1,280**	—
Final proposed	**1.25**	2.10	**763**	811
	5.45	4.20	**3,792**	1,621

The additional dividend represents the additional final dividend for the year ended 30 September 2000 which was paid on the additional shares issued to Ash & Lacy shareholders.

Notes to the Financial Statements

9 Earnings per share

The weighted average number of shares in issue during the period was 59,481,873 (2000: 38,777,907), diluted for the effects of outstanding share options 59,592,569 (2000: 38,897,976). Earnings per share have been calculated on earnings of £1,038,000 (2000: £3,240,000) and earnings per share before exceptional items and goodwill amortisation on earnings of £7,141,000 (2000: £2,960,000). Earnings per share before exceptional items and goodwill amortisation have been shown because the Directors consider that this gives a more meaningful indication of the underlying performance of the Group.

10 Intangible fixed assets

		Goodwill	
	Gross £000	Amortisation £000	Net £000
At 30 September 2000	3,423	(210)	3,213
Acquisitions in the period	26,882	(61)	26,821
Amortisation charge for the period	—	(1,786)	(1,786)
At 31 December 2001	**30,305**	**(2,057)**	**28,248**

11 Tangible fixed assets

	Group						Company		
	Land and buildings								
	Investment properties £000	Freehold £000	Long leasehold £000	Short leasehold £000	Plant and machinery £000	Total £000	Short leasehold £000	Plant and machinery £000	Total £000
Cost or valuation									
At 30 September 2000	—	7,275	400	—	20,126	27,801	—	92	92
Exchange adjustments	—	—	—	—	8	8	—	—	—
Acquisitions	4,197	18,059	—	739	55,294	78,289	—	—	—
Additions	—	1,378	—	19	8,600	9,997	9	63	72
Disposals	(3,309)	(10,563)	—	—	(4,574)	(18,446)	—	(138)	(138)
Transfers	—	275	73	—	(348)	—	—	—	—
Intercompany transfers	—	—	—	—	—	—	—	117	117
Revaluation	—	—	(223)	—	—	(223)	—	—	—
At 31 December 2001	**888**	**16,424**	**250**	**758**	**79,106**	**97,426**	**9**	**134**	**143**
Depreciation									
At 30 September 2000	—	213	23	—	10,095	10,331	—	62	62
Exchange adjustments	—	—	—	—	(1)	(1)	—	—	—
Acquisitions	—	994	—	16	38,555	39,565	—	—	—
Disposals	—	(407)	—	—	(3,609)	(4,016)	—	(121)	(121)
Transfers	—	—	46	—	(46)	—	—	—	—
Intercompany transfers	—	—	—	—	—	—	—	88	88
Revaluation	—	—	(77)	—	—	(77)	—	—	—
Charge for the period	—	275	9	2	6,939	7,225	—	29	29
At 31 December 2001	**—**	**1,075**	**1**	**18**	**51,933**	**53,027**	**—**	**58**	**58**
Net book value									
At 31 December 2001	**888**	**15,349**	**249**	**740**	**27,173**	**44,399**	**9**	**76**	**85**
At 30 September 2000	—	7,062	377	—	10,031	17,470	—	30	30

11 **Tangible fixed assets** continued

Particulars relating to revalued assets are given below:

	2001 **£000**	2000 £000
Land & buildings		
At 1997 open market value for existing use	**2,850**	3,225
At 1998 open market value for existing use	**814**	2,123
At 1999 open market value for existing use	**2,005**	2,005
At 2001 open market value for existing use	**250**	—
At 2001 open market value for resale	**888**	—
At historical cost	**11,513**	322
Cost/valuation	**18,320**	7,675
Historical cost of revalued assets	**7,470**	6,153
Aggregate depreciation based on historical cost	**(1,392)**	(1,158)
Historical cost net book value	**6,878**	4,995

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 £8,500,000 (2000: £3,200,000).

Included in the net book value of plant and machinery is £2,264,000 (2000: £1,500,000) in respect of assets held under finance lease and similar hire purchase contracts.

Included within plant and machinery are assets held for hire with a cost of £1,662,000 (2000: £831,000) and accumulated depreciation of £209,000 (2000: £63,000)

12 **Fixed asset investments**

Group	Trade investments £000	Loans £000	Total £000
Cost			
At 30 September 2000	1,015	350	1,365
Repayments	—	(100)	(100)
At 31 December 2001	**1,015**	**250**	**1,265**
Provisions			
At 30 September 2000	—	—	—
Charge for the period	790	250	1,040
At 31 December 2001	**790**	**250**	**1,040**
Net book value			
At 31 December 2001	**225**	**—**	**225**
At 30 September 2000	1,015	350	1,365

As part of the arrangements for the disposal of certain subsidiary undertakings, 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 carries interest at 2% above the bank rate and is repayable at any time with the permission of that company’s bankers. 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. The preference shares are repayable in two instalments on 1 May 2002 and 1 May 2003, or earlier at that company’s request.

12 **Fixed asset investments** continued

Company

	Share in Group undertakings £000	Loans to Group undertakings £000	Trade investments £000	Other Loans £000	Total £000
Cost					
At 30 September 2000	15,219	7,242	950	350	23,761
Additions	67,307	14,494	—	—	81,801
Disposals	(2,930)	—	—	—	(2,930)
Repayments	—	—	—	(100)	(100)
At 31 December 2001	**79,596**	**21,736**	**950**	**250**	**102,532**
Provisions					
At 30 September 2000	3,875	—	—	—	3,875
Additions	—	1,337	—	—	1,337
Disposals	(1,965)	—	—	—	(1,965)
Charge for the period	—	—	750	250	1,000
At 31 December 2001	**1,910**	**1,337**	**750**	**250**	**4,247**
Net book value					
At 31 December 2001	**77,686**	**20,399**	**200**	**—**	**98,285**
At 30 September 2000	11,344	7,242	950	350	19,886

A list of the principal Group businesses is given on page 52. All of the Group's subsidiaries are wholly owned except for Pipe Supports (Asia) Limited, a company incorporated in Thailand, in which the Group has an equity interest of 87%. Asset International (Ireland) Limited and Redman Fisher (Ireland) Limited are incorporated in the Republic of Ireland and Pipe Supports USA, Inc is incorporated in the United States of America.

13 **Stocks**

	Group	
	31 December 2001 £000	30 September 2000 £000
Raw materials and consumables	**7,972**	2,764
Work in progress	**2,327**	863
Finished goods and goods for resale	**6,486**	4,005
	16,785	7,632

The replacement value of stocks is not materially different from book value.

14 Debtors

	Group		Company	
	31 December 2001	30 September 2000	**31 December 2001**	30 September 2000 As restated
	£000	£000	**£000**	£000
Due after one year:				
Trade debtors	**—**	65	**—**	—
Deferred taxation	**—**	—	**—**	54
Pension fund prepayment	**5,526**	—	**1,015**	—
	5,526	65	**1,015**	54
Due within one year:				
Trade debtors	**42,371**	16,416	**—**	—
Amounts owed by subsidiary undertakings	**—**	—	**75**	1,671
Corporation tax	**467**	140	**2,882**	327
Other debtors	**4,106**	281	**4,209**	—
Prepayments and accrued income	**2,053**	787	**200**	101
	48,997	17,624	**7,366**	2,099
Total debtors	**54,523**	17,689	**8,381**	2,153

15 Creditors: amounts falling due within one year

	Group		Company	
	31 December 2001	30 September 2000	**31 December 2001**	30 September 2000
	£000	£000	**£000**	£000
Borrowings and finance leases				
Bank loans and overdrafts	**—**	4,122	**18,536**	5,380
Current portion of long-term bank loans	**13,686**	—	**13,686**	—
Finance lease and hire-purchase obligations	**327**	468	**—**	—
Loan notes	**1,731**	—	**1,731**	—
	15,744	4,590	**33,953**	5,380
Other creditors				
Trade creditors	**34,429**	12,221	**2,445**	—
Bills of exchange	**543**	—	**—**	—
Corporation tax	**1,202**	801	**—**	—
Other taxation and social security	**2,426**	1,612	**44**	4
Accruals and deferred income	**6,677**	1,457	**559**	343
Proposed dividend	**2,043**	1,621	**2,043**	1,621
Other creditors	**2,670**	—	**243**	—
Amounts owed to Group undertakings	**—**	—	**15**	85
	49,990	17,712	**5,349**	2,053

16 Creditors: amounts falling due after one year

	Group		Company	
	31 December 2001 £000	30 September 2000 £000	**31 December 2001 £000**	30 September 2000 £000
Borrowings and finance leases				
Long-term bank loans	**39,840**	—	**39,840**	—
Finance lease and hire-purchase obligations	**1,216**	287	**—**	—
	41,056	287	**39,840**	—
Other creditors				
Accruals and deferred income	**—**	18	**—**	—
	—	18	**—**	—
	41,056	305	**39,840**	—

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

	Group		Company	
	2001 £000	2000 £000	**2001 £000**	2000 £000
Bank loans and overdraft				
Amounts due within one year	**13,686**	4,122	**32,222**	5,380
Amounts due after more than one year				
Between one and two years	**7,549**	—	**7,549**	—
Between two and five years	**32,291**	—	**32,291**	—
	39,840	—	**39,840**	—
	53,526	4,122	**72,062**	5,380
Loan notes				
Amounts due within one year	**1,731**	—	**1,731**	—
Amounts due after more than one year				
Between one and two years	**—**	—	**—**	—
Between two and five years	**—**	—	**—**	—
	—	—	**—**	—
	1,731	—	**1,731**	—
Finance leases and hire-purchase obligations				
Amounts due within one year	**327**	468	**—**	—
Amounts due after more than one year				
Between one and two years	**325**	103	**—**	—
Between two and five years	**891**	184	**—**	—
	1,216	287	**—**	—
	1,543	755	**—**	—

The bank loans carry a rate of interest of 1.5% above LIBOR and are secured by a first fixed and floating charge over substantially all of the Group's assets.

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

17 **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.

Interest rate risk

The Group has used an interest rate swap to fix approximately 61% of its year end gross borrowings at a base rate of 6.11%.

Currency exposure

The Group is subject to fluctuations in exchange 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. The Group uses forward exchange contracts to hedge the majority of exposures that do exist.

(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 and fixed asset investments as detailed in Note 12.

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. 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
Sterling at 31 December 2001	**20,382**	**36,418**	**56,800**
Sterling at 30 September 2000	4,122	755	4,877

	Fixed rate financial liabilities	
	Weighted average interest rate %	Weighted average period for which rate is fixed years
Sterling at 31 December 2001	**6.9**	**2.7**
Sterling at 30 September 2000	7.8	2.1

17 **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 16 to the financial statements.

At 31 December 2001 the Group had the following undrawn committed facilities, in respect of which all conditions precedent had been met:

	2001 £000	2000 £000
Undrawn committed borrowing facilities:		
Expiring in one year or less	—	16,000
Expiring after more than two years	18,500	—

(e) Fair values

At 31 December 2001 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.

18 **Provisions for liabilities and charges**

				Group			**Company**
	Deferred taxation £000	Pension obligations £000	Other £000	Total £000	Deferred taxation £000	Pension obligations £000	Total £000
At 30 September 2000 as previously reported	192	138	—	330	—	138	138
Prior year adjustment (see below)	705	—	—	705	—	—	—
At 30 September 2000 as restated	897	138	—	1,035	—	138	138
Transferred in relation to acquisitions during the period	1,621	—	4,650	6,271	54	—	54
Transferred from debtors	—	—	—	—	(54)	—	(54)
Utilised during the period	—	(138)	(575)	(713)	—	(138)	(138)
Profit and loss account	707	—	360	1,067	318	—	318
At 31 December 2001	**3,225**	**—**	**4,435**	**7,660**	**318**	**—**	**318**

Other provisions relate primarily to potential liabilities for environmental costs and dilapidations on leasehold properties. It is considered that these will not result in any material cash outflows in the near future.

19 Deferred taxation

Details of amounts provided for deferred taxation and movements in the period are set out below:

	Group		Company	
	2001	2000	**2001**	2000
	£000	£000	**£000**	£000
Difference between accumulated depreciation, amortisation and capital allowances	**2,669**	974	**(11)**	(8)
Other timing differences	**556**	(77)	**329**	(46)
	3,225	897	**318**	(54)
At beginning of period as previously reported	**192**	218	**—**	—
Prior year adjustment (see below)	**705**	472	**(54)**	(145)
At beginning of period as restated	**897**	690	**(54)**	(145)
Transferred in relation to acquisitions during the period	**1,621**	—	**54**	—
Charge for the period	**707**	207	**318**	91
	3,225	897	**318**	(54)

The prior year adjustment relates to the adoption of FRS 19: Deferred taxation, and comprises:

	Group	Company
	£000	£000
Increase in provision for deferred taxation at 30 September 1999	**472**	(145)
Increase in charge for the year ended 30 September 2000	**233**	91
	705	(54)

20 Called up share capital

	31 December 2001	30 September 2000
	£000	£000
Authorised 80,000,000 Ordinary shares of 25p each (2000: 48,000,000)	**20,000**	12,000
Allotted,called up and fully paid 60,979,110 Ordinary shares of 25p each (2000: 38,616,489)	**15,245**	9,654

During the period the Company increased its authorised share capital to 80,000,000 shares and on 2 November 2000 issued 22,352,929 shares in connection with the acquisition of Ash & Lacy Plc, realising £5,871,000. During the year 9,692 shares were issued under its various share option schemes (2000: 7,473), realising £4,000.

Options over the Company's shares outstanding at 31 December 2001 were:

	Number of shares	Option price (p)	Date first exercisable	Expiry date
1985 Executive Share Option Scheme	53,000	95	1 Feb 1995	1 Feb 2002
	87,413	113	28 Jan 1997	28 Jan 2004
1995 Executive Share Option Scheme	114,665	114	20 Feb 1999	20 Feb 2006
	264,000	69	4 Aug 2002	4 Aug 2009
	62,000	70	2 July 2004	2 July 2011
1999 Unapproved Executive Share Option Scheme	500,000	67	9 July 2002	9 July 2006
	108,000	69	4 Aug 2002	4 Aug 2006
	158,000	70	2 July 2004	2 July 2008
1985 Savings Related Share Option Scheme	9,960	90	1 Apr 2002	1 Oct 2002
1995 Savings Related Share Option Scheme	180,322	66	1 Apr 2002	1 Oct 2002
	308,324	41	1 Mar 2004	1 Sept 2004

21 Share premium and reserves

Group	Share premium £000	Capital redemption reserve £000	Revaluation reserve £000	Other reserves £000	Profit and loss account £000
At 30 September 2000 as previously reported	135	238	1,781	—	12,876
Prior period adjustment	—	—	—	—	(705)
At 30 September 2000 as restated	135	238	1,781	—	12,171
Retained loss for the year	—	—	—	—	(2,754)
Revaluations	—	—	(146)	—	—
Realised on disposal	—	—	—	—	387
Transfer between reserves	—	—	(902)	—	902
Shares issued	3,203	—	—	4,088	—
At 31 December 2001	**3,338**	**238**	**733**	**4,088**	**10,706**

	Share premium £000	Capital redemption reserve £000	Profit and loss account £000
Company			
At 30 September 2000 as previously reported	135	238	4,471
Prior period adjustment	—	—	—
At 30 September 2000 as restated	135	238	4,471
Retained profit for the year	—	—	5,856
Shares issued	3,203	—	—
At 31 December 2001	**3,338**	**238**	**10,327**

Other reserves represent the premium on shares issued in exchange for Ash & Lacy Plc shares. The Group has taken advantage of Section 131 of the Companies Act 1985.

The cumulative amount of positive goodwill resulting from acquisitions in earlier financial years which has been written off is £2,413,000 (2000: £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 (2000: £836,000).

In accordance with Section 228 (7) of the Companies Act 1985, the Company has not presented its own profit and loss account. The Group profit for the period includes profit dealt with in the financial statements of the Company of £9,648,000 (2000: £1,617,000).

22 Guarantees and other financial commitments

(a) Guarantees

The Company has guaranteed the bank loans and overdrafts of certain subsidiary undertakings. The amount outstanding at 31 December 2001 was £1,502,000 (2000: £2,244,000).

The Group had guarantees outstanding to a bank in respect of performance bonds of £77,000 (2000: £142,000) and a Customs and Excise counter indemnity of £127,000 (2000: £20,000).

(b) Capital commitments

	Group		**Company**	
	31 December 2001 £000	30 September 2000 £000	**31 December 2001 £000**	30 September 2000 £000
Contracted for but not provided in the accounts	**764**	1,198	**—**	—

(c) Operating lease commitments

Annual commitments under non-cancellable operating leases expiring:

	31 December 2001		30 September 2000	
	Land & buildings £000	**Other £000**	Land & buildings £000	Other £000
Group				
Within one year	**272**	**184**	17	12
Between one and two years	**48**	**225**	—	—
Between two and five years	**201**	**702**	25	177
After five years	**1,394**	**5**	339	—
	1,915	**1,116**	381	189
Company				
Within one year	**—**	**—**	—	—
Between two and five years	**—**	**—**	—	—
After five years	**34**	**—**	—	—
	34	**—**	—	—

Notes to the Financial Statements

23 Pensions

Following the acquisition of Ash & Lacy Plc and with effect from 6 April 2001, the Company has reorganised its pension scheme arrangements in the United Kingdom. Benefits under the Hill & Smith Group Pension and Assurance Scheme ceased accruing as at 5 April 2001. As a result of the reorganisation, the Company now operates two main schemes; one providing benefits accruing in the future on a defined benefit basis and a second, and larger, scheme providing benefits that are on a defined contribution basis. The assets of both schemes are administered by trustees and are kept entirely separate from those of the Company. Independent actuarial valuations are carried out every three years. Contribution rates are determined on the basis of advice from an independent professionally qualified actuary, with the objective of providing the funds required to meet pension obligations as they fall due. Pension costs are similarly determined and are charged to the profit and loss account so as to spread the cost over the members' working lives with the Company. There is also a separate Group personal pension plan.

The most recent valuations were completed as at 5 April 2000. The valuations assessed the funding level measured on the statutory Minimum Funding Requirement (MFR) basis, but took into account changes made to the MFR basis on 15 June 1998, which followed the removal of tax credits for pension schemes on UK dividends declared after 2 July 1997. The assumptions which have the most significant effect on the results of the valuation are those relating to the return on investments, including dividend growth, and the rates of increase in salaries. The principal actuarial assumptions used for calculating the funding level and contribution rates were investment growth of 9% per annum on equities and 8% per annum on gilts, dividend growth of 5.6% per annum and salary increases of 6% per annum. For the former Ash & Lacy Group Pension Schemes, the total market value of the schemes' assets as at the valuation date was £33.5 million and comparing this value with the value of the liabilities on the funding basis revealed an overall funding level of 135%. For the former Hill & Smith Group Pension and Assurance Scheme, the total market value of the scheme's assets as at the valuation date was £27.3 million and comparing this value with the value of the liabilities on the funding basis revealed an overall funding level of 102%.

The profit and loss account for the period includes a net pension credit of £692,000 (2000: credit of £61,000) which is net of £1,650,000 (2000: £175,000 provision release) in respect of the funding surplus which is being amortised over the average expected future service of the current employees and includes the charge in respect of the contributions to the Group personal pension plan.The balance sheet includes a debtor of £5,526,000 (2000: creditor of £138,000).

The Group has no significant exposure to any other post-retirement obligations.

FRS 17

Whilst the Group continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension costs', under FRS 17 'Retirement benefits' the following transitional disclosures are required:

The valuation at 5 April 2000 has been updated by the actuary on an FRS 17 basis as at 31 December 2001.

The major assumptions used in this valuation were:

31 December 2001	
Rate of increase in salaries	4.0%
Rate of increase in pensions in payment	2.25%
Discount rate	6.0%
Inflation assumption	2.5%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

23 **Pensions** continued

Scheme assets

The fair value of the Schemes' assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the Schemes' liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Value at 31 December 2001 £000
Equities	**35,750**
Bonds	**2,900**
Other – With Profits policies	**11,150**
Property	**1,050**
Cash	**2,350**
	53,200
Present value of scheme liabilities	**51,450**
Surplus in the schemes	**1,750**
Related deferred tax liability	**(525)**
	1,225

The Group made contributions to the Schemes during the period totalling £250,000. As the Group is continuing to benefit from a contribution holiday it has been agreed with the Schemes' trustees that this holiday will continue for at least the next year.

The Company is a member of the Group pension schemes which provide benefits on final pensionable pay. Because the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement Benefits', the Schemes will be accounted for by the Company when the accounting standard is fully adopted by the Company as if they were defined contribution schemes.

Had the Group adopted FRS 17 early, net assets and profit and loss reserves would have been stated as follows:

	31 December 2001 £000
Net assets	
Net assets excluding pension liability	**30,526**
Net pension asset	**1,225**
Net assets restated	**31,751**
Reserves	
Profit and loss reserve excluding net pension asset	**6,838**
Pensions reserve	**1,225**
Profit and loss reserve restated	**8,063**

24 Acquisitions and disposals

Acquisitions

On 2 November 2000 the Group acquired Ash & Lacy Plc. On 1 November 2000 the Group acquired the residential doors division of P.C. Henderson Limited. On 13 August 2001 the Group acquired Redman Fisher (Ireland) Limited. All the transactions have been accounted for as acquisitions.

The fair value of the consideration paid (including expenses) and the net assets acquired, together with the goodwill arising in respect of these acquisitions, are as follows:

Ash & Lacy Plc	Book value £000	Alignment of accounting policies £000	Other fair value adjustments £000	Fair value £000
Goodwill	717	—	—	717
Fixed assets	43,409	—	(5,182)	38,227
Stock	14,498	(200)	(700)	13,598
Debtors	39,535	—	3,808	43,343
Creditors	(30,371)	—	(2,848)	(33,219)
Provisions	(3,319)	—	(2,952)	(6,271)
Taxation	(1,377)	—	—	(1,377)
Cash balances	(9,528)	—	—	(9,528)
Net assets acquired	**53,564**	**(200)**	**(7,874)**	**45,490**
Consideration				
Shares			7,008	
Loan notes			1,759	
Cash			62,549	
				71,316
Goodwill				**25,826**

Goodwill arising from the acquisition is being amortised over 20 years. The provisional fair value adjustments primarily represent revisions to the carrying value of certain fixed assets, the recognition of the pension fund surplus and certain liabilities, primarily environmental costs, leasehold dilapidations, and deferred taxation.

The acquisition has contributed the following cash flows to the Group:

	£000
Net cash flow from operating activities	17,542
Return on investments and servicing of finance	1,096
Taxation	1,044
Capital expenditure and financial investment	7,150
Acquisitions and disposals	(9,720)
Financing	(24)
	17,088

The results of Ash & Lacy Plc in the period from 1 January 2000 to 1 November 2000 amounted to a turnover of £115,612,000, a profit before taxation of £7,617,000 and a tax charge of £2,557,000. The profit after taxation for the year ended 31 December 1999 amounted to £7,814,000. There were no other recognised gains and losses arising in the period from 1 January 2000 to 1 November 2000 other than the profit and loss for the period.

24 Acquisitions and disposals continued

Other acquisitions	Book value £000	Other fair value adjustments £000	Fair value £000
Fixed assets	497	—	497
Stock	329	(105)	224
Debtors	129	—	129
Creditors	(183)	(6)	(189)
Cash balances	1	—	1
Net assets acquired	**773**	**(111)**	**662**
Cash consideration			940
Goodwill			**278**

Goodwill arising from these acquisitions is being amortised over 10 years. These acquisitions have not contributed any material cash flows to the Group.

Disposals

During the period the Group sold the business and certain assets of the Garage Doors and Bainbridge divisions of Birtley Building Products Limited.

	£000
Assets sold:	
Tangible fixed assets	(252)
Stocks	(670)
	(922)
Consideration	693
Goodwill previously written off to reserves	(387)
Provision for closure costs	(490)
Loss on sale of businesses	(1,106)

Consideration — satisfied by:	
Cash	661
Deferred receipt	32
	693

Notes to the Financial Statements

25 Notes to the Cash Flow Statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	15 months ended 31 December 2001 Before exceptional items and goodwill amortisation £000	Exceptional items and goodwill amortisation £000	Total £000	Year ended 30 September 2000 Total £000
Operating profit	**15,696**	**(8,173)**	**7,523**	4,620
Income on investment properties	**(805)**	**—**	**(805)**	—
Depreciation	**7,225**	**—**	**7,225**	1,822
Amortisation of goodwill	**—**	**1,786**	**1,786**	150
(Profit)/loss on sale of fixed assets	**(147)**	**66**	**(81)**	—
Change in working capital:				
Stocks	**3,948**	**50**	**3,998**	(725)
Debtors	**6,101**	**1,307**	**7,408**	(3,145)
Creditors and provisions	**(1,774)**	**(91)**	**(1,865)**	1,491
	8,275	**1,266**	**9,541**	(2,379)
Net cash inflow from operating activities	**30,244**	**(5,055)**	**25,189**	4,213

(b) Returns on investments and servicing of finance

	2001	2000
Rents received	**779**	—
Interest received	**194**	2
Interest paid	**(5,916)**	(589)
Interest element of finance lease rentals	**(62)**	(82)
	(5,005)	(669)

(c) Capital expenditure and financial investment

	2001	2000
Purchase of tangible fixed assets	**(9,063)**	(1,989)
Sale of fixed assets	**15,580**	1,514
	6,517	(475)

(d) Acquisitions and disposals

	2001	2000
Purchase of subsidiary undertakings and businesses	**(63,489)**	(665)
Sale of businesses (net of disposal costs)	**661**	(64)
Net bank balances acquired	**(9,527)**	—
	(72,355)	(729)

25 **Notes to the Cash Flow Statement** continued

(e) Analysis of net debt

	30 September 2000 £000	Cash flow £000	Other non-cash changes £000	**31 December 2001 £000**
Cash at bank and in hand	288	4,376	—	**4,664**
Overdrafts	(2,747)	2,747	—	**—**
	(2,459)	7,123	—	**4,664**
Debt due within one year	(1,375)	(12,283)	(1,759)	**(15,417)**
Debt due after one year	—	(39,840)	—	**(39,840)**
Finance leases	(755)	381	(1,169)	**(1,543)**
Net debt	(4,589)	(44,619)	(2,928)	**(52,136)**

(f) Purchase of subsidiary undertakings and businesses

Net assets acquired:	
Goodwill	**717**
Tangible fixed assets	**38,724**
Stock	**13,822**
Debtors	**43,472**
Creditors	**(38,058)**
Taxation	**(2,998)**
Cash balances	**(9,527)**
	46,152
Goodwill	**26,104**
	72,256
Satisfied by:	
Shares	**7,008**
Loan notes	**1,759**
Cash	**63,489**
	72,256

26 **Related party interests**

During the period the Company paid a total of £412,500 to Grove Industries Limited, a company of which the Chief Executive Mr D.L. Grove is the chairman and a major shareholder, in respect of services provided by that company and by Mr Grove as set out in the Board's Report on Remuneration on page 17.

Group operating companies purchased £63,521 of goods from Silkjet Limited, and made sales of £280,000 to XL Timbalex Limited. Silkjet Limited and XL Timbalex Limited are subsidiaries of Webgrove Holdings Limited, a company of which Mr Grove is the chairman and a major shareholder. £18,259 was paid to Tana Consultants Limited, a company of which Mr Grove is a major shareholder, in respect of travel services. All of these transactions took place on an arm's length basis.

At 31 December 2001, £41,667 (2000: £1,959) was owed to Grove Industries Limited, £35,186 (2000: £nil) was owed to Silkjet Limited, and £99,000 (2000: £nil) was owed by XL Timbalex Limited.

During the year, by virtue of being directors of Ash & Lacy Plc, Mr H.C. Marshall and Mr C.J. Burr received £218,230 and £84,152 respectively in respect of cancellation of options over Ash & Lacy Plc shares.

Five year summary

	15 months 2001 £000	Year 2000 As restated £000	Year 1999 £000	Year 1998 £000	Year 1997 £000
Turnover	**241,849**	58,858	61,940	76,497	81,281
Operating profit*	**15,696**	4,770	4,838	3,848	4,339
Profit before taxation*	**10,085**	4,102	4,161	2,404	3,257
Shareholders' funds	**34,348**	23,979	23,080	23,583	26,112
Operating cash flow*	**30,244**	4,213	8,998	9,358	7,005
Earnings per share*	**12.01p**	7.63p	7.20p	3.46p	3.57p
Dividends per share	**5.45p**	4.20p	4.20p	4.20p	4.20p

***** Before exceptional items and goodwill amortisation.

Venue for AGM

The 41st Annual General Meeting of Hill & Smith Holdings PLC will be held at **The Copthorne Hotel, The Waterfront, Level Street, Brierley Hill, DY5 1UR** on **Monday 27 May 2002** at **12.30 pm**. The location is indicated below.

The notice for the Annual General Meeting is included in a separate circular to shareholders sent with the report and accounts.

ATTENTION
Please note that the day of the Annual General Meeting is Monday 27 May 2002

Principal Group Businesses

Building and Construction Products

INFRASTRUCTURE PRODUCTS GROUP

Asset International Limited ***(Large diameter plastic drainage and water pipes)***
Stephenson Street, Newport, Gwent, NP9 0XH
Tel: (01633) 273081 Fax: (01633) 281301
Email: postbox@assetint.co.uk
Website: www.assetint.co.uk

Barkers Engineering Limited ***(Fencing, galvanising and powder coating)***
Etna Works, Duke Street, Fenton,
Stoke-on-Trent, Staffordshire, ST4 3NS
Tel: (01782) 319264 Fax: (01782) 599724
Email: sales@whbarker.co.uk
Website: www.whbarker.co.uk

Hill & Smith Limited ***(Safety barriers and multiplate steel structures)***
Springvale Business and Industrial Park, Bilston,
Wolverhampton, West Midlands, WV14 0QL
Tel: (01902) 499400 Fax: (01902) 499419
Email: info@hill-smith.co.uk
Website: www.hill-smith.co.uk

Varley & Gulliver Limited ***(Parapets, gantries and pedestrian guardrails)***
57–70 Alfred Street, Sparkbrook,
Birmingham, B12 8JR
Tel: (0121) 773 2441 Fax: (0121) 766 6875
Email: sales@v-and-g.co.uk
Website: www.v-and-g.co.uk

Ash & Lacy Building Products Limited
(Structural components and specialist fabrication services to the building industry)
Bromford Lane, West Bromwich, West Midlands, B70 7JJ
Tel: (0121) 525 1444 Fax: (0121) 525 3444
Email: enquiries@ashandlacybp.co.uk
Website: www.ashandlacybp.co.uk

Birtley Building Products Limited ***(Steel lintels, residential doors and galvanising)***
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

Eurogrid Limited*
(Flooring, handrail systems and structures)
Halesfield 18, Telford, TF7 4JS
Tel: (01952) 581988 Fax: (01952) 586285
Email: sales@eurogrid.co.uk
Website: www.eurogrid.co.uk

Express Reinforcements Limited* ***(Reinforcing bar and mesh)***
Fordwater Trading Estate, Ford Road,
Chertsey, Surrey, KT16 8HG
Tel: (01932) 579600 Fax: (01932) 579601
Email: sales@expressreinforcements.co.uk
Website: www.expressreinforcements.co.uk

Joseph Ash Limited* ***(Galvanising and the manufacture of steel storage tanks)***
Charles Henry Street, Birmingham, B12 0SP
Tel: (0121) 622 4661 Fax: (0121) 666 6049
Email: birmingham@josephash.co.uk
Website: josephash.co.uk

Pipe Supports Group Limited ***(Constant and variable pipe support systems)***
Salwarpe Road, Droitwich, Worcestershire, WR9 9BH
Tel: (01905) 795500 Fax: (01905) 794126
Email: psl@pipesupports.com
Website: www.pipesupports.com

Redman Fisher Engineering Limited* ***(Flooring, handrail systems and structures)***
Birmingham New Road, Tipton,
West Midlands, DY4 9AA
Tel: (01902) 880880 Fax: (01902) 880446
Email: flooring@redmanfisher.co.uk
Website: www.redmanfisher.co.uk

Industrial Products

W & S Allely Limited* ***(Stockholders of aluminium, brass, copper and stainless steel)***
PO Box 58, Alma Street, Smethwick,
West Midlands, B66 2RP
Tel: (0121) 558 3301 Fax: (0121) 555 5194
Email: sales@allely.co.uk
Website: www.allely.co.uk

Ash & Lacy Perforators Limited* ***(Perforated and expanded metal)***
PO Box 58, Alma Street, Smethwick
West Midlands, B66 2RP
Tel: (0121) 558 8921 Fax: (0121) 565 1354
Email: sales@ashlacyperf.co.uk
Website: www.ashlacyperf.co.uk

Ash & Lacy Pressings Limited* ***(General presswork)***
Shenstone Works, Lynn Lane, Shenstone,
Lichfield, WS14 0EB
Tel: (01543) 480361 Fax: (01543) 481624
Email: enquiries@alpressings.co.uk
Website: www.alpressings.co.uk

Bromford Iron & Steel Company Limited* ***(Hot rolled flats, bars, sections and profiles)***
Bromford Lane, West Bromwich, West Midlands, B70 7JJ
Tel: (0121) 553 6121 Fax: (0121) 525 0913
Email: enquiries@bromfordsteels.co.uk
Website: www.bromfordsteels.co.uk

D & J Steels Limited ***(Forging and engineering steel stockholders)***
Lambert Works, Colliery Road,
Wolverhampton, West Midlands, WV1 2RD
Tel: (01902) 453680 Fax: (01902) 455431
Email: sales@dandjsteels.demon.co.uk

Eden Material Services (UK) Limited* ***(Stainless steel hollow bar, tube and pipe stock-holders)***
Unit 42a, No. 1 Industrial Estate, Medomsley Road.
Consett, County Durham, DH8 6TT
Tel: (01207) 590055 Fax: (01207) 590059
Email: sales@edenmaterials.co.uk
Website: www.edenmaterials.co.uk

SI Pressure Instruments Limited* ***(Pressure calibration and measurement instruments)***
Garrets Green Lane, Birmingham, B33 0YA
Tel: (0121) 784 6855 Fax: (0121) 784 4795
Email: sales@si-pressure.co.uk
Website: www.si-pressure.co.uk

Wombwell Foundry Limited* ***(Rolls and castings)***
Hough Lane, Wombwell, Barnsley
South Yorkshire, S73 0LT
Tel: (01226) 753 161 Fax: (01226) 755 553
Email: info@wf-uk.com
Website: www.wf-uk.com

The companies marked with an asterisk are indirectly held.

HILL & SMITH HOLDINGS PLC

2 Highlands Court, Cranmore Avenue,
Shirley, B90 4LE

Telephone: (0121) 704 7430
Fax: (0121) 704 7439
Website: www.hsholdings.co.uk