



Hill & Smith Holdings PLC

Annual Report 2003



Group Activities

Highway and off-highway safety barriers

Highway parapets, gantries and pedestrian guardrails

Fencing systems

Large diameter plastic drainage and water pipes

Street and highway lighting columns

Corrugated steel structures

Temporary highway and general workzone protection systems

Galvanizing and powder coating

Steel storage tanks

Residential steel lintels and doors

Steel reinforcement products

Industrial flooring, handrail systems and structures

Metal cladding building systems and ancillary products

Metal stockholding

Steel products

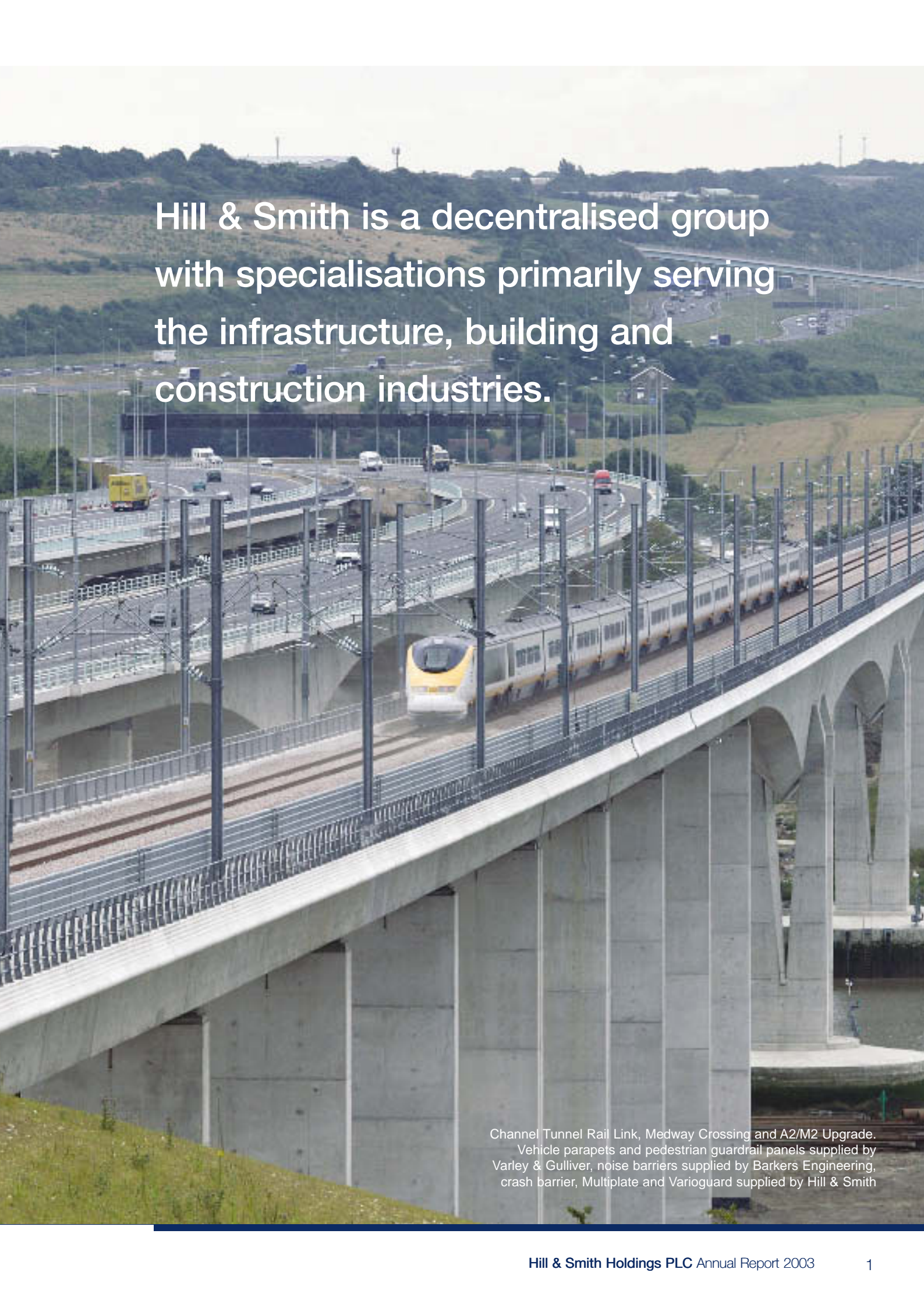
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Front cover images *Left to right:*

1. Mass road workzone protection system
2. Crash testing of the Brifen wire rope safety system
3. Multiplate road tunnel
4. Ashtech architectural aluminium wall cladding system
5. Lintels and doors for the UK housing market



Hill & Smith is a decentralised group with specialisations primarily serving the infrastructure, building and construction industries.

Channel Tunnel Rail Link, Medway Crossing and A2/M2 Upgrade.
Vehicle parapets and pedestrian guardrail panels supplied by Varley & Gulliver, noise barriers supplied by Barkers Engineering, crash barrier, Multiplate and Varioguard supplied by Hill & Smith

Financial Highlights

- Turnover up 13.6%
- Profit before exceptional items and goodwill amortisation down £0.2m after absorption of £1.0m of additional pension costs
- Dividend increased by 2.2%
- Continuation of strong capital investment and product development programme

	2003	2002
	Year	Year
Turnover	£241.7m	£212.7m
Operating profit*	£13.6m	£14.0m
Profit before taxation*	£9.8m	£10.0m
Earnings per share*	11.54p	11.79p
Dividend per share	4.6p	4.5p

* Before exceptional items and goodwill amortisation.



Major Projects in 2003



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- 1 M25, Varioguard
- 2 M6/M6 Toll Road approach, Aluminium gantry fascias supplied by Varley & Gulliver
- 3 Railway tunnel at Stockton-on-Tees, East Coast Mainline. Super-Cor supplied by Asset International
- 4 New world headquarters for the Royal Bank of Scotland Group in Edinburgh, reinforcing bar supplied by Express Reinforcements.
- 5 Channel Tunnel Rail Link, products supplied by various Group companies to this major infrastructure project
- 6 M8 Scotland, Junction 10. Abcite® coated high mast lighting columns supplied by Mallatite
- 7 Terminal 5 at Heathrow Airport, reinforcing bar supplied by Express Reinforcements.

Chairman's Statement

General

I am pleased to report another year of improvement in our underlying businesses in 2003. Turnover at £241.7 million was 13.6% ahead of the previous year which represented a mix of real organic growth and inflation due to rising steel prices.

Operating profit before goodwill amortisation and exceptional items was £13.6 million compared with £14.0 million in the previous year representing a fall of 3.0%. However, if the additional pension scheme costs of £1.0 million are taken into account, the underlying figure improved by 4.3%. Profit before taxation increased from £6.5 million to £7.0 million. Following a further reduction in interest charges in 2003 the profit before exceptional items and goodwill amortisation was £9.8 million (2002: £10.0 million) representing a 1.9% fall but again, if the additional pension scheme costs are taken into account, the underlying performance improved by 8.5%.

Adjusted earnings per share for the year were 11.54p (2002: 11.79p). This was adversely affected by the pension costs and represented a decline of 2.1%. Excluding the pension effect, adjusted earnings per share grew by 7.9%.

Cash Flow and Gearing

The Company's ability to generate healthy cash flow continued and the net debt at December 2003 was £36.5 million (2002: £44.9 million) representing gearing of 96% (2002: 125%).


Operations

Our infrastructure products businesses continued to make progress against a background of public expenditure programmes and our galvanizing plants achieved a record throughput in the year. The acquisitions of Brifen and Mallatite Limited made in 2002 have now been fully integrated into our Group. Overall, the Building and Construction Products division contributed 92% of our adjusted operating profit. Our progress during the year, however, was restrained by costs associated with the launch of new products and expenditure relating to our ongoing product development programme, which will provide enhanced contributions in the future.

The Industrial Products division contributed 8% of our adjusted operating profit and we continue to manage these non-core businesses in an appropriate manner. During the year the loss-making Wombwell Foundry Limited was closed and the SI Pressure Instruments business was sold to a strategic purchaser.

Terminal 5 complex at Heathrow airport, projected to open in 2008





Permanent installation of Varioguard protecting a weak railway bridge parapet in Northamptonshire

Dividends

The Board is recommending a further increase in our dividend payment in line with our policy since 2001. A final dividend of 2.45p will be paid subject to shareholder approval (2002: 2.40p) making a total for the year of 4.6p (2002: 4.5p). The dividend is covered 2.5 times by adjusted earnings.

Pensions

As mentioned previously, the Group has absorbed additional pension costs in 2003. At 31 December 2003 our FRS17 deficit after tax was £2.6 million which was similar to the December 2002 figure.

Employees

The business environment in which we operate becomes ever more demanding and competitive and I would like to thank all our employees for their significant contribution to our financial performance during the year. Our best wishes go to Howard Everett who was an Executive Director and Company Secretary. He left the Company at the end of the year having been with Hill & Smith Holdings PLC since 1990.

Outlook

Our strategy and focus remain unchanged and we continue to concentrate our future investment into the building and construction businesses where we have significant market shares. The current trading period has started in line with our expectations and, subject to market conditions remaining favourable, I look forward to another satisfactory performance in 2004.



David Winterbottom

Chairman

16 March 2004

“Our infrastructure products businesses continued to make progress against a background of public expenditure programmes and our galvanizing plants achieved a record throughput in the year.”



Operational Review

Further progress was made by the majority of our operating companies during 2003, particularly in the area of our core competencies where we have significant market shares. We continued to develop and launch new products to complement our current portfolio in response to our perceived requirements from the markets we supply. Some examples can be seen from illustrations on the pages of this report. Our new and improved product development pipeline will be the engine for further growth together with strategic acquisitions when the opportunities arise.

Building and Construction Products

Turnover was substantially ahead during the year at £203.4 million (2002: £162.7 million) as sales prices were increased in response to rising raw material input costs. In addition, there was a full year contribution from the two acquisitions made in 2002 and new contract wins. However, operating profits fell from £13.3 million in 2002 to £12.5 million in 2003. If the effect of the increased pension contributions is taken into consideration, the 2003 outcome would have been similar to 2002. The lack of progress at operating profit level was further hampered by poor performances from two of our businesses. These issues have already been addressed and we are confident that these businesses will respond positively.

The Infrastructure Products Group ("IPG") continued successfully to market its various brands and products in a cohesive manner to common customers and capitalise on its excellent reputation for service, delivery and quality.

We are continually improving our products and developing new products to complement our present range. Our product development programme is totally focused on the launch of new innovative solutions to enhance the safety of our roads and improve traffic flows wherever possible. It is a sad fact that approximately ten people per day are killed on our roads in the UK and many more suffer serious injury. The problems with traffic congestion are well documented and represent opportunities for our product development and acquisition strategy. These challenges will continue to test our resourceful and innovative approach as the number of road vehicles continues to increase in both our domestic and export markets. We have entered into a number of term maintenance agreements with major contractors in order to respond to their servicing requirements. Our temporary crash barrier rental fleet of Varioguard products was increased further during the year in response to further demand from highways applications. Further improvements to this product were made including a new interlocking mechanism which enables this product to be installed at a rate of over 400 metres per hour. In 2002 we made two acquisitions — Brifen (wire rope safety restraint systems) and Mallatite (lighting columns). These businesses were an excellent strategic fit and have been fully integrated into the IPG portfolio. We have further developed Brifen's export potential and licensing opportunities and we have recently successfully tested the product for the American market. Mallatite commenced the supply of lighting columns on the Sunderland PFI contract and two further PFI contracts at



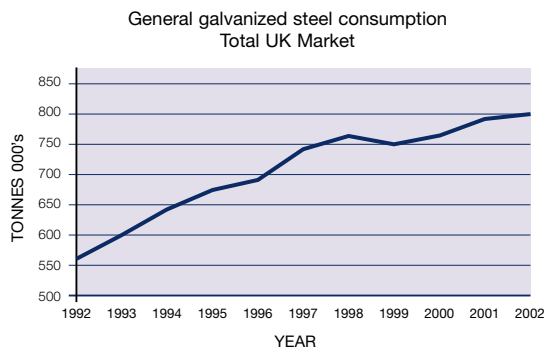
Sequence showing testing of the Brifen wire rope system for the US market



Varioguard in action saving lives in crossover accidents. Highway was reopened in thirty minutes. No injuries sustained

Islington and Wakefield have now been secured. Major contracts completed during the year included barrier systems on the M8 in Scotland, off-road barrier solutions for Asda and Sainsbury's and the first installation of our new Super-Cor Multiplate product over the East Coast Main Line at Stockton-on-Tees. Our export business also increased during the year and included a contract for the supply of our crash barrier system to Jamaica.

Our market leading galvanizing businesses, which now represent 26% of the UK market, had a record year and processed well in excess of 200,000 tonnes. During the year there were significant cost increases which affected the whole industry and over which we had little control. However, the continued investment programme in our major facilities is providing a solid base for servicing the market and meeting customer expectations. The UK market for galvanized components, as the following graph reflects, continues to grow and our modern facilities are well placed to take advantage of this in the future.



Source: Galvanizers Association

The remaining businesses in this division had a mixed year. Much improved performances were achieved by Birtley Building Products and Express Reinforcements against a competitive market background. Birtley is now the only producer of the technically superior post galvanized steel lintel and its residential door business made further progress in the year. Express was affected by surging demand from the Terminal 5 contract and

“Our product development programme is totally focused on the launch of new innovative solutions to enhance the safety of our roads and improve traffic flows wherever possible.”



New Products

- 1** Juliet balconies supplied by Birtley Building Products for housing developments nationwide
- 2** Storm water attenuation tank designed and manufactured by Asset International to reduce installation time by 80%
- 3** Quick Joints, new Interlocking joints by Varioguard for quicker installation
- 4** Rollmat, introduced by Express Reinforcements during the year to speed up on-site installation of reinforcing bar
- 5** Prefabricated pile cage supplied from Express Reinforcements' joint venture at Terminal 5, Heathrow
- 6** Sologuard allowing emergency service access crossing points to opposite carriageway
- 7** Super-Cor structure for rail tunnel applications supplied by Asset International
- 8** Ashzip standing seam roofing system
- 9** Brifen wire rope safety Slope Fence, specially developed for the Swedish market



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Operational Review *continued*

managing this level of activity challenged the management team to new highs. The new Rollmat reinforcing bar product was launched by Express during the year and has been extensively utilised on the Terminal 5 project where this product has speeded up the traditional process for laying down reinforcing bar. Redman Fisher had a difficult year which necessitated restructuring and management changes. The new management team has now been installed and it is starting to deliver an improved performance. Ash & Lacy Building Systems had a buoyant year in its traditional markets but its profits were adversely affected by the start-up costs of a new product range which, however, offers the prospect of substantially larger market and profit opportunities in the future.

All the companies in the Building and Construction Products division were affected by steel price increases during the year and the necessity to pass these increases on to our customers. We have managed these problems extremely well and further steel price increases are in the pipeline during 2004 owing to unprecedented increases in demand from China and the capacity constraints of the declining European steel industry.

The whole of this division continues to cross sell our various products and services on major projects in the UK. These included the M8/A8 upgrade in Scotland, A2/M2 Medway Bridge in Kent, the Channel Tunnel Rail Link and Terminal 5 at Heathrow Airport.

Industrial Products

In 2003 sales of £38.3 million (2002: £50.0 million) were achieved, resulting in profits of £1.1 million (2002: £0.7 million). This division performed with considerable credit against a background of poor market conditions. As indicated in last year's review, Wombwell Foundry was closed in 2003 and the majority of exceptional costs relate to the termination of this loss-making business. On a more positive note SI Pressure Instruments was disposed of during the year to a strategic purchaser for a price equivalent to turnover. Also, following the closure of its US

School building refurbished using Ashzip (standing seam roof), Ashjack (over roof conversion system), Ashfab (fabrications), Ashgrid (spacer support system), Ashflow (rainwater goods), and Ashfix (fasteners), all products supplied by Ash & Lacy Building Systems

operation, Pipe Supports returned to profitability during the year and we are now actively expanding our low cost Thailand operation. Our stockholding and other commodity-based operations continued to generate cash although profitability was limited by poor market conditions.

The other smaller businesses in this division continue to exploit niche market opportunities and, following a significant marketing effort, Bromford Iron and Steel outperformed our expectations. In general terms this division, although not core to the Group's activities, continues to generate good cash flows.

Conclusion

Our construction and building products businesses continue to win new business at a healthy rate. Many of our products are cross sold on both major infrastructure projects and smaller more localised construction sites. Wherever possible, our new products aim to be technically superior to our competition and also offer cost saving opportunities to our customers. We remain disciples of the philosophy 'innovate or die' and look forward to delivering an improved performance in 2004 from our robust and ever strengthening business units.



David Grove
Chief Executive

16 March 2004

Financial Review

“The year saw a further strengthening in our financial position.”

These results cover the twelve months to 31 December 2003. They include for the first time a full year's contribution from Mallatite which we acquired in August 2002 and only minor contributions from SI Pressure Instruments and Wombwell Foundry which were respectively sold and closed during the year.

Summary of Results

The year's results were characterised by a strong growth in sales but with a reduction in gross margins and higher overheads, including a substantial increase in net pension and social security costs. Operating cash flow remained strong.

Group turnover increased by 13.6% to £241.7 million (2002: £212.7 million). This growth arose from our core Building and Construction Products division where sales

increased by 25.0% to £203.4 million (2002: £162.7 million). Most of this increase was due to further expansion of our infrastructure product and steel reinforcing operations, including the Heathrow Terminal 5 project. In contrast, sales by the Industrial Products division fell 23.5% to £38.3 million (2002: £50.0 million). £7.6 million and 15.2% of this decrease was attributable to SI Pressure Instruments and Wombwell Foundry, as mentioned above. Excluding this effect, the underlying like for like decline was £4.1 million or 8.3% which reflects the continuing difficult market conditions for these businesses.

The higher overheads include an increase in net pension costs of £1.0 million arising from the new actuarial valuations of our two Group schemes.

Overall, Group adjusted operating profit before exceptional items and goodwill amortisation fell marginally to £13.6 million (2002: £14.0 million). However, adjusting for the effects of the higher net pension costs, underlying adjusted operating profits grew by 4.3%. Net exceptional charges amounted to £1.2 million. This included a charge of £1.8 million in respect of the termination of operations, primarily the costs of closing Wombwell Foundry Limited which we advised in last year's report. We also completed the sale of the SI Pressure Instruments business which gave rise to a gain of £0.5 million and we generated a further profit of £0.1 million from the sale of surplus properties.



Combined sewer and storm water overflow tank, Bradford. AMP3 project for Yorkshire Water.



Work in progress at Terminal 5, Heathrow Airport

Interest

Interest costs fell 5.9% to £3.8 million (2002: £4.0 million) mainly as a result of lower average net borrowings, with adjusted interest cover improving to 3.6 times.

Taxation

The effective tax rate on profits before exceptional items and goodwill amortisation was 27.6% compared to the standard rate of 30%, mainly as a result of adjustments relating to prior years.

Earnings per share

Adjusted earnings per share before exceptional items and goodwill amortisation amounted to 11.54p, a reduction of 2.1% compared to last year. Excluding the effects of the increase in pension costs, underlying adjusted earnings per share grew by 7.9%.

Dividends

In line with our progressive dividend policy, we again propose to increase the level of the distribution to shareholders. The proposed final dividend, together with the interim dividend already paid, makes a total for the year of 4.6p per share and represents an increase of 2.2% from last year. Based on adjusted earnings, this level of dividend is covered 2.5 times.

Financing and borrowings

The year saw a further strengthening in our financial position. Year end net borrowings fell to £36.5 million (2002: £44.9 million) and net assets increased to £38.0 million (2002: £35.9 million) resulting in year end gearing of 96% (2002: 125%). The year end borrowing position was boosted by strong seasonal cash flow effects and by some special one-off factors, in particular £5.2 million of advance payments received in connection with our Terminal 5 Joint Venture.

Despite the large increase in turnover, we again reduced working capital. We also maintained our programme of capital expenditure, investing a total of £6.5 million, £0.9 million in excess of depreciation.

During the year we reorganised our borrowing arrangements through a new £67.5 million five year term and revolving credit facility with a group of leading banks. With additional overdraft and hire purchase facilities, we have substantial financing resources to support our programme of organic growth and corporate development.

Pensions

Increases in inflation expectations offset most of the beneficial effects from the partial recovery in equity asset values. As a result our year end net FRS17 funding deficit remained at £2.6 million. Further information is given in note 23 to the Financial Statements.

International Financial Reporting Standards

European listed groups are required to adopt International Financial Reporting Standards ("IFRS") for their financial statements from 2005, including comparative information for 2004. The Group is assessing the impact of IFRS on its published financial statements on an ongoing basis, as the standards are themselves evolving.

Chris Burr
Finance Director
16 March 2004



Directors, Advisers and Committees

Executive Directors

D L Grove BA, FCA

Deputy Chairman and Chief Executive

David, aged 55, joined the Board in 1998. He is a Non-Executive Director of a number of private manufacturing, distribution and investment companies. He is President of the Birmingham Chamber of Commerce and Industry and the Chairman of the West Midlands Industrial Development Board.

C J Burr FCA

Finance Director

Chris, aged 54, joined the Board in 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.

Non-executive Directors

D S Winterbottom FCA, FCT

Chairman

David, aged 67, joined the Board in 1997. He is Chairman of CPL Industries Limited and Wightlink Shipping Limited. He is also Non-Executive Director of Electrocomponents PLC.

H C Marshall MSc, BSc

Howard, aged 60, joined the Board in 2000. He was previously Chief Executive of Ash & Lacy Plc. He is currently Vice-Chairman of West Midlands CBI, Board Member of West Midlands Industrial Development Board, Member of West Midlands Chamber of Commerce Council and Governor of the University of Central England.

R E Richardson FCMl

Dick, aged 64, joined the Board in 1997. He is Chairman of an industrial investment company, GW 685 Limited. He was previously Chairman and Chief Executive of Graystone PLC, Deputy Chairman and Managing Director of Goring Kerr PLC and Managing Director of Tace PLC.



Executive Directors

Chris Burr, left; David Grove, right

Non-executive Directors

from left:

David Winterbottom,
Howard Marshall,
Dick Richardson

Life President

John G Silk LLB (Lond.)

John, aged 79, joined the Board in 1981 and was Chairman from 1983 to 1995. He retired from the Board and was appointed Life President in 1999.

Audit Committee

Messrs Winterbottom,
Marshall and Richardson (Chairman).

Remuneration Committee

Messrs Winterbottom,
Marshall (Chairman) and Richardson.

Registered Office

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Company Number

671474

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Auditor

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Bankers

Barclays Bank PLC
Colmore Row, Birmingham, B3 2WN

Solicitors

Silks, Oldbury, West Midlands
Wragge & Co, Birmingham
Howes Percival, Northampton

Stockbrokers

Arbuthnot, Birmingham

Financial Adviser

Stafford Corporate Consulting Limited, London



Directors' Report

The Directors present their forty-third annual report together with the financial statements for the year ended 31 December 2003.

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 year, a statement as to the current trading position and an indication of the outlook for the future.

Principal activities

The principal activities of the Group companies are:

Building and Construction Products
Industrial Products

Dividends

The Directors recommend a final dividend of 2.45p per share to be paid on 13 July 2004 (2002: 2.4p), which, together with the interim dividend of 2.15p paid on 9 January 2004, makes a total distribution for the year of 4.6p (2002: 4.5p).

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 page 12. H C Everett resigned with effect from 31 December 2003. The Directors retiring by rotation are C J Burr and H C Marshall 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 19 and 21.

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 £6,000 (2002: £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 was 81 days (2002: 92 days). The Company's average credit period was 35 days (2002: 39 days).

Research and Development

During the year the Group spent a total of £60,000 (2002: £133,000) on research and development.

Substantial shareholders

The Company has been notified of the following substantial shareholdings of 3% or more of the issued share capital on 16 March 2004:

	Ordinary shares	% of issued share capital
G Hampson Silk	4,178,501	6.77
P J Hampson Silk	4,183,502	6.78
Funds managed by:		
Close Securities Limited	7,176,733	11.63
Caledonia Investments plc	5,155,738	8.36
ISIS Asset Management plc	2,970,664	4.79

Close Securities Limited has granted an option to D L Grove (see page 21).

Of G Hampson Silk's ordinary shares, 3,340,959 are either registered in his own name or his wife's name. Of P J Hampson Silk's ordinary shares, 3,340,960 are registered in his own name or his wife's name and 5,000 are held for him in the name of a nominee company. Of the remaining ordinary shares of both G Hampson Silk and P J Hampson Silk, 730,876 are registered in the name of a private limited company of which they are both directors and of which they each have control of more than one-third of the voting power at general meetings of that company and a further 106,666 are held in two discretionary trusts of which they are both trustees.

The Directors have not received notification of other substantial shareholdings according to the Company's share register on 16 March 2004.

Auditor

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 18 May 2004 at 10.30 a.m. in the Balcony Suite, at The National Motorcycle Museum, Solihull. Notice is sent to shareholders separately with this Report together with an explanation of special business to be considered at the meeting.

By order of the Board



Chris Burr
Company Secretary

16 March 2004

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.

With effect from 1 January 2004 a new Combined Code issued by the Financial Reporting Council became applicable to the Group. The Board is considering the additional requirements of the new Code and wherever practicable will seek to comply during 2004.

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 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 auditor is 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 Directors' Remuneration Report on pages 18 to 22.

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"). There is an ongoing process for identifying, evaluating and managing risks.

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 year the Board undertook a formal risk review to address the wider non-financial issues facing the Group. This was based on each operation producing or updating a 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.

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.

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 auditor 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 Board has considered the need for a formal internal audit function and an appropriate appointment has recently been made.

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.

Directors' Remuneration Report

The Remuneration Committee

The Remuneration Committee comprises the Chairman, D S Winterbottom, and the two Non-Executive Directors, H C Marshall, who chairs the Committee, and 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 Committee used the services of Mellon Resources and Investor Solutions who were appointed by the Committee to advise whether remuneration paid is appropriate. Mellon Resources and Investor Solutions provide no other services to the Company. 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 Combined Code.

Remuneration of Executive Directors

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

Under his service agreement D L Grove receives an annual performance-related cash bonus dependent upon the increase in the Group earnings per share (as therein defined) in accordance with the formula set out in that agreement. This bonus is capped at 75% of basic annual salary. Bonuses for C J Burr are awarded on the basis of the Group's achievement of internal cash and profit targets and, where deemed appropriate by the Committee, supplementary discretionary bonuses.

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 criterion currently set by the Remuneration Committee under both executive share option schemes is 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. The criterion was set to ensure that earnings attributable to the shareholders increased at a rate in excess of inflation prior to any exercise of options.

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' pension entitlement

C J Burr participates 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. Bonus is excluded from the definition of pensionable salary. H C Everett, who resigned with effect from 31 December 2003, also participated in this scheme during the year. There are no pension arrangements in place for other directors.

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.

Service agreements

The Chairman and the two Executive Directors have service agreements with the Company. The Company policy on contracts is that twelve months' notice is due if terminated by the Company except after a Change in Control when the period is eighteen months.

The Chairman's service agreement is terminable by either party on twelve months' notice but if a Change in Control 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.

C J Burr may terminate his service agreement with the Company by giving six months' notice. The Company may terminate the agreement 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 Mr Burr is under a duty to mitigate any loss unless such termination is effected within the period of twelve months following a Change in Control. 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 dates of the contracts are as follows:

D S Winterbottom	4 March 1999
D L Grove	9 July 1999
C J Burr	20 June 2001

Directors' interests

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

	31 December 2003	31 December 2002
D S Winterbottom	15,690	15,690
D L Grove	540,945	540,945
R E Richardson	3,518	—
C J Burr	62,628	62,628
H C Marshall	68,601	68,601

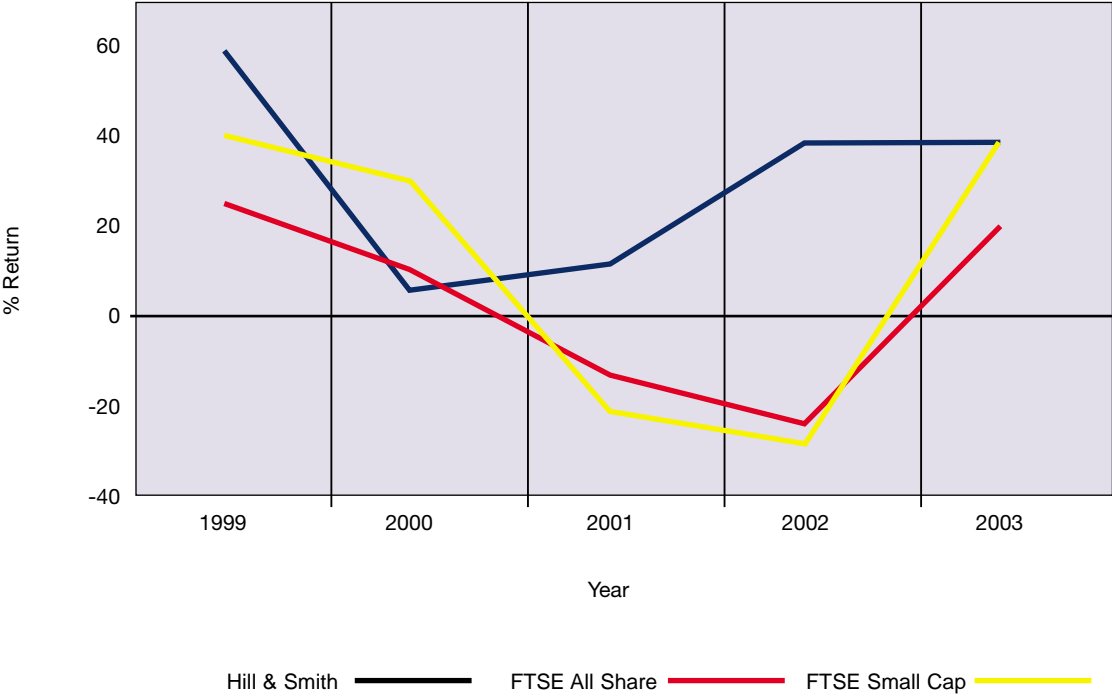
There have been no changes in the above figures between the year end and the present date.

Directors' Remuneration Report continued

Total Shareholder Return

Under Statutory Instrument 2002 Number 1986, we are now required to show the total shareholder return over 5 years in graphical form against a broad equity index; the graph is shown below. The indices selected are the FTSE All Share Index and the FTSE Small Capitalisation Index, which are broadly based indices of shareholder return.

Hill & Smith Holdings PLC 5 Year relative performance



The graph shows that the Company has matched or outperformed both comparator indices in four of the past five years.

The individual aspects of remuneration for each Director

The auditor is required to report on the information contained in this section of the report.

Directors' remuneration

The remuneration in respect of each Director who held office during the year ended 31 December 2003 was as follows:

	Fees/ Salary £000	Benefits £000	Performance- related bonus £000	Compensation for loss of office £'000	Total for Year to 31/12/03 £000	Total for Year to 31/12/02 £000
Executive:						
D L Grove	300	10	138	—	448	440
C J Burr	145	18	43	—	206	179
H C Everett	85	15	—	30	130	94
Non-executive:						
D S Winterbottom	50	—	—	—	50	50
H C Marshall	25	—	—	—	25	22
R E Richardson	25	—	—	—	25	22
Total	630	43	181	30	884	807

Directors' share options

	31 December 2002 and 2003	Exercise price (pence)	Date first exercisable	Expiry date
C J Burr	42,000*	70.3	2/07/04	2/07/11
	158,000†	70.3	2/07/04	2/07/08
H C Everett	16,259#	41.3	1/03/04	30/06/04
	17,600*	113.6	20/02/99	20/02/06
	10,000*	68.5	4/08/02	4/08/09
	20,000†	68.5	4/08/02	30/06/04
D L Grove	500,000†	67.1	9/07/02	9/07/06

* 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 (2002: 2,294,183 shares) at prices between 40p and 55p per share which are all exercisable and expire on various dates between 6 March 2005 and 25 August 2008.

At 31 December 2003 the mid-market price of the Company's shares was 109.5p. During the year the Company's mid-market share price ranged between a low of 66.5p and a high of 113.0p.

Directors' Remuneration Report continued

Directors' pensions

Pension benefits earned by the Directors

	C J Burr	H C Everett
Age at year end	54	59
Accrued benefit at 31 December 2003	43,450	36,342
Increase in accrued benefits excluding inflation	2,926	3,634
Increase in accrued benefits including inflation	4,030	4,525
Directors' contributions	4,928	4,025
Transfer value of accrued benefits at 1 January 2003	418,649	329,542
Transfer value of accrued benefits at 31 December 2003	557,086	490,774

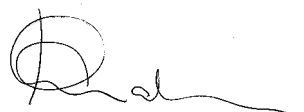
- 1 The accrued pension benefit is that which would be paid annually on retirement based on service to the year end.
- 2 Members of the scheme have the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits are included in the above table.
- 3 The following is additional information relating to Directors' pensions:
 - (a) Normal Retirement Age: CJ Burr 60, HC Everett 65
 - (b) Spouse's pensions: $\frac{2}{3}$ 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 post-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
- 4 Additional benefits have been granted to H C Everett in connection with his termination agreement, represented by an additional pension of £1,575 per annum assessed as the additional benefits that would otherwise have been earned up to 31 July 2004.



Howard Marshall

Chairman, Remuneration Committee

16 March 2004

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 25 to 49. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Report and the Directors' Remuneration Report. As described on page 23, 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 whether the financial statements and the part of the Directors' Remuneration Report to be audited have been 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 regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on pages 16 and 17 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 the unaudited part of the Directors' Remuneration Report, 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 and the part of the Directors' Remuneration Report to be audited. 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 and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

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 2003 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

Chartered Accountants

Registered Auditor

16 March 2004

2 Cornwall Street

Birmingham

B3 2DL

Group Profit and Loss Account

for the year ended 31 December 2003

	Notes	Year ended 31 December 2003				Year ended 31 December 2002			
		Before exceptional items and goodwill amort- isation £000	Excep- tional items £000	Goodwill amorti- sation £000	Total £000	Before exceptional items and goodwill amort- isation £000	Excep- tional items £000	Goodwill amorti- sation £000	Total £000
Turnover	1,2	241,665	—	—	241,665	212,740	—	—	212,740
Operating profit	1,2,3	13,581	(5)	(1,630)	11,946	14,008	(916)	(1,744)	11,348
Profit on sale of business	3	—	540	—	540	—	—	—	—
Profit on sale of properties	3	—	85	—	85	—	223	—	223
Loss on termination of operations	3	—	(1,851)	—	(1,851)	—	(1,098)	—	(1,098)
Profit on ordinary activities before interest	1	13,581	(1,231)	(1,630)	10,720	14,008	(1,791)	(1,744)	10,473
Net interest payable	5	(3,755)	—	—	(3,755)	(3,989)	—	—	(3,989)
Profit on ordinary activities before taxation	6	9,826	(1,231)	(1,630)	6,965	10,019	(1,791)	(1,744)	6,484
Tax on profit	7	(2,712)	598	16	(2,098)	(2,809)	221	45	(2,543)
Profit on ordinary activities after taxation		7,114	(633)	(1,614)	4,867	7,210	(1,570)	(1,699)	3,941
Minority interests		(3)	—	—	(3)	3	—	—	3
Profit for the year		7,111	(633)	(1,614)	4,864	7,213	(1,570)	(1,699)	3,944
Dividends	8				(2,838)				(2,760)
Retained profit for the year	21				2,026				1,184
Earnings per share	9	11.54p	(1.03p)	(2.61p)	7.90p*	11.79p	(2.57p)	(2.77p)	6.45p*
Diluted earnings per share	9	11.46p	(1.02p)	(2.60p)	7.84p*	11.75p	(2.56p)	(2.77p)	6.42p*

* FRS 3

All results relate to continuing operations.

Group Balance Sheet

at 31 December 2003

	Notes	31 December 2003 £000	31 December 2002 £000
Fixed assets			
Intangible assets	10	27,240	30,350
Tangible assets	11	41,437	42,748
Investments	12	25	125
		68,702	73,223
Current assets			
Properties held for resale		1,407	1,365
Stocks	13	23,641	23,410
Debtors: due after one year	14	6,583	6,183
Debtors: due within one year	14	47,226	49,562
		53,809	55,745
Cash and deposits		14,323	12,811
		93,180	93,331
Creditors: amounts falling due within one year			
Borrowings and finance leases	15	(10,370)	(10,377)
Other creditors	15	(66,768)	(65,774)
		(77,138)	(76,151)
Net current assets		16,042	17,180
Total assets less current liabilities		84,744	90,403
Creditors: amounts falling due after one year			
Borrowings and finance leases	16	(40,438)	(47,304)
Provisions for liabilities and charges	18,19	(6,318)	(7,208)
Net assets		37,988	35,891
Share capital and reserves			
Called up share capital	20	15,424	15,391
Share premium	21	3,423	3,367
Capital redemption reserve	21	238	238
Revaluation reserve	21	739	733
Other reserves	21	4,313	4,313
Profit and loss account	21	13,809	11,806
Equity shareholders' funds		37,946	35,848
Equity minority interests		42	43
		37,988	35,891

Approved by the Board of Directors on 16 March 2004 and signed on its behalf by:

D L GROVE

Director

C J BURR

Director

Company Balance Sheet

at 31 December 2003

	Notes	31 December 2003 £000	31 December 2002 £000
Fixed assets			
Tangible assets	11	50	68
Investments	12	97,226	97,315
		97,276	97,383
Current assets			
Debtors: due after one year	14	2,072	1,644
Debtors: due within one year	14	19,821	22,846
		21,893	24,490
Cash and deposits		30	30
		21,923	24,520
Creditors: amounts falling due within one year			
Borrowings and finance leases	15	(24,471)	(23,360)
Other creditors	15	(6,163)	(6,689)
		(30,634)	(30,049)
Net current liabilities		(8,711)	(5,529)
Total assets less current liabilities		88,565	91,854
Creditors: amounts falling due after one year			
Borrowings and finance leases	16	(39,045)	(46,476)
Provisions for liabilities and charges		18,19	(645)
Net assets		48,875	44,905
Share capital and reserves			
Called up share capital	20	15,424	15,391
Share premium	21	3,423	3,367
Capital redemption reserve	21	238	238
Profit and loss account	21	29,790	25,909
Equity shareholders' funds		48,875	44,905

Approved by the Board of Directors on 16 March 2004 and signed on its behalf by:

D L GROVE

Director

C J BURR

Director

Group Cash Flow Statement

for the year ended 31 December 2003

	Notes	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Net cash flow from operating activities	24a	20,925	26,145
Returns on investments and servicing of finance	24b	(4,040)	(4,383)
Taxation		(1,182)	(432)
Capital expenditure and financial investment	24c	(4,230)	(5,545)
Acquisitions and disposals	24d	1,031	(5,455)
Equity dividends paid		(2,759)	(2,044)
Cash flow before financing		9,745	8,286
Financing			
Issue of new shares		89	49
Loan advances		50,406	5,976
Loan repayments		(57,539)	(6,423)
Redemption of loan notes		(328)	(341)
Proceeds from new finance leases secured on existing assets		—	1,126
Repayments of capital element of finance leases		(861)	(526)
		(8,233)	(139)
Increase in cash in the year		1,512	8,147
Reconciliation of net cash flow to movement in net debt			
Increase in cash		1,512	8,147
Cash outflow from borrowings		8,322	188
Change in net debt resulting from cash flows		9,834	8,335
New finance leases		(1,414)	(180)
Amortisation of arrangement fees		(35)	—
Loan notes issued as part of acquisition		—	(889)
Movement in net debt in the year		8,385	7,266
Net debt at the start of the year	24e	(44,870)	(52,136)
Net debt at the end of the year	24e	(36,485)	(44,870)

Other Primary Statements

Statement of Group Total Recognised Gains and Losses for the year ended 31 December 2003

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Profit for the year	4,864	3,944
Currency translation differences on overseas net investments	(17)	(84)
Total recognised gains and losses relating to the year	4,847	3,860

Note of Group Historical Cost Profits and Losses for the year ended 31 December 2003

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 Shareholders' Funds for the year ended 31 December 2003

	Group		Company	
	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Profit for the year	4,864	3,944	6,719	18,342
Dividends	(2,838)	(2,760)	(2,838)	(2,760)
	2,026	1,184	3,881	15,582
Other recognised net gains and losses relating to the year	(17)	(84)	—	—
New ordinary share capital issued	89	400	89	175
Net increase in shareholders' funds	2,098	1,500	3,970	15,757
Shareholders' funds at the start of the year	35,848	34,348	44,905	29,148
Shareholders' funds at the end of the year	37,946	35,848	48,875	44,905

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 2003. 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.

Where a Group company is party to a joint arrangement that is not an entity, the Group accounts directly for its part of the income and expenditure, assets, liabilities and cash flows on consolidation. Such joint arrangements are effectively an extension of the Group's activities and do not carry on a trade or business of their own.

Goodwill and negative goodwill

Purchased goodwill (both positive and negative) arising on consolidation in respect of acquisitions before 1 October 1998, when FRS 10, 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 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

Except for work completed under long term contracts (see below), turnover represents the amount (excluding value added tax) invoiced to third party customers following the delivery of goods or provision of services.

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.

The Group has followed the transitional provisions of FRS 15 to retain the book value of freehold land and buildings, certain of which had been revalued from their historic cost.

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 FRS 17.

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.

Long term contracts

The profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated as cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for losses as soon as they are foreseen.

Contract work in progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

Research and development

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

Deferred taxation

Deferred tax is provided, without discounting, on timing differences between the treatment of items for taxation and accounting purposes except as otherwise required by FRS 19.

Notes to the Financial Statements

1 Segmental information

	Year ended 31 December 2003				Year ended 31 December 2002			
	Operating Turnover £000	Operating profit* £000	Profit before interest and tax £000	Net assets £000	Operating Turnover £000	Operating profit* £000	Profit before interest and tax £000	Net assets £000
Building and Construction Products	203,403	12,502	10,583	39,764	162,743	13,305	12,175	38,136
Industrial Products	38,262	1,079	137	12,447	49,997	703	(1,702)	18,475
Total operations	241,665	13,581	10,720	52,211	212,740	14,008	10,473	56,611
Tax and dividends				(9,904)				(8,939)
Long term debtors and other provisions				4,926				2,739
Net borrowings				(36,485)				(44,870)
Goodwill				27,240				30,350
Total Group				37,988				35,891

By geographical origin

UK	240,448	13,443	10,673	37,304	209,230	14,072	10,524	35,203
Rest of World	1,217	138	47	684	3,510	(64)	(51)	688
Total	241,665	13,581	10,720	37,988	212,740	14,008	10,473	35,891

Turnover by geographical destination

UK	220,508	192,428
Rest of Europe	11,864	10,818
Asia	2,446	3,008
USA	1,135	4,243
Rest of World	5,712	2,243
Total	241,665	212,740

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

All results relate to continuing operations.

2 Operating profit

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Turnover	241,665	212,740
Cost of sales	(184,693)	(159,740)
Gross profit	56,972	53,000
Distribution costs	(20,352)	(17,045)
Administrative expenses	(23,254)	(22,227)
Other operating income	215	280
Operating profit before exceptional items and goodwill amortisation	13,581	14,008
Exceptional items	(5)	(916)
Goodwill amortisation	(1,630)	(1,744)
Operating profit	11,946	11,348

3 Exceptional items

Exceptional items charged to operating profit represent business reorganisation costs net of a credit of £750,000 arising from the release of provision for potential environmental costs no longer deemed necessary together with £418,000 write-back of a previous over-impairment of fixed assets. The profit on sale of business relates to the sale of the business and certain assets and liabilities of SI Pressure Instruments Limited. The loss on termination of operations relates primarily to the cost of closure of Wombwell Foundry Limited.

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

	Year ended 31 December 2003	Year ended 31 December 2002
The average number of people employed by the Group during the year was:		
Building and Construction Products	1,815	1,612
Industrial Products	527	711
	2,342	2,323
The aggregate employment cost for the year was:	£000	£000
Wages and salaries	48,916	46,327
Social security costs	4,921	4,345
Pension cost/(credit)	544	(462)
	54,381	50,210

Details of the Directors' remuneration and share interests are given in the Directors' Remuneration Report on pages 18 to 22.

Notes to the Financial Statements *continued*

5 Net interest payable

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Interest payable:		
Bank loans and overdrafts	3,825	4,045
Interest on finance leases and hire purchase contracts	154	85
Amortisation of arrangement fees	35	—
Other loans	158	70
	4,172	4,200
Interest receivable	(417)	(211)
	3,755	3,989

6 Profit on ordinary activities before taxation

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
The profit on ordinary activities is stated after charging:		
Depreciation of tangible fixed assets:		
Owned	5,369	5,831
Leased	250	162
Amortisation of goodwill	1,630	1,744
Operating lease rentals:		
Plant and machinery	788	839
Other	3,046	3,237
Research and development expenditure	60	133
Auditor's remuneration (including Company £33,000 (2002: £25,750))	201	205
Non-audit fees paid to the auditor and its associates:		
Other assurance services	51	18
Taxation	38	45
In relation to acquisitions and disposals	110	68
Other	39	—
Foreign exchange loss	173	114
After crediting:		
Profit on disposal of fixed assets	160	64
Grants receivable	—	6
Rental income	1,863	1,563

7 Taxation

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
UK corporation tax on profits of the year	1,315	2,330
Adjustments in respect of previous periods	(136)	(250)
Foreign tax	22	33
	1,201	2,113
Deferred taxation: origination and reversal of timing differences		
Current year	1,046	514
Adjustments in respect of previous periods	(149)	(84)
	2,098	2,543

Factors affecting the tax charge for the year

The tax charge for the year has been reduced by £232,000 as a result of capital allowances in respect of industrial buildings which are no longer subject to clawback.

The current tax charge for the year is lower (2002: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 31 December 2003	Year ended 31 December 2002
Profit on ordinary activities before taxation	6,965	6,484
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	2,090	1,945
Effect of goodwill amortisation	473	478
Profit on ordinary activities before goodwill amortisation multiplied by the standard rates of corporation tax in the UK of 30%	2,563	2,423
Expenses not deductible for tax purposes	220	185
Capital allowances for the year in excess of depreciation	(681)	—
Depreciation for the year in excess of capital allowances	—	186
Income and expenditure timing differences	(597)	(700)
Capital profits less losses and write-downs not subject to tax	(209)	(73)
Overseas losses not relieved	41	342
Adjustments in respect of previous periods	(136)	(250)
Current tax charge	1,201	2,113

Notes to the Financial Statements *continued*

8 Dividends

	Year ended 31 December 2003	Year ended 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2002
	Pence per share		£000	
Equity shares:				
Interim paid	2.15	2.10	1,324	1,282
Final proposed	2.45	2.40	1,514	1,478
Total	4.60	4.50	2,838	2,760

9 Earnings per share

The weighted average number of shares in issue during the year was 61,608,085 (2002: 61,157,774), diluted for the effects of outstanding share options 62,076,036 (2002: 61,399,912). Earnings per share have been calculated on earnings of £4,864,000 (2002: £3,944,000) and earnings per share before exceptional items and goodwill amortisation on earnings of £7,111,000 (2002: £7,213,000). 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

Group	Gross £000	Amortisation £000	Net £000
At 31 December 2002	34,151	(3,801)	30,350
Additions in the year	70	—	70
Disposals in the year	(1,802)	252	(1,550)
Amortisation charge for the year	—	(1,630)	(1,630)
At 31 December 2003	32,419	(5,179)	27,240

All acquisitions are being amortised over a period of twenty years.

Additions in the year represent revisions to provisional fair values attributed to the acquisition of Mallatite Limited in 2002.

11 Tangible fixed assets

	Group				Company		
	Land and buildings			Total £000	Short		Total £000
	Free- hold £000	lease- hold £000	Plant and machinery £000		lease- hold £000	Plant and machinery £000	
Cost or valuation							
At 31 December 2002	17,509	836	84,884	103,229	9	102	111
Exchange adjustments	—	(6)	(39)	(45)	—	—	—
Additions	480	39	6,022	6,541	—	3	3
Disposals	—	(55)	(10,968)	(11,023)	—	—	—
Transfers to current assets	(1,402)	—	(50)	(1,452)	—	—	—
At 31 December 2003	16,587	814	79,849	97,250	9	105	114
Depreciation							
At 31 December 2002	1,356	47	59,078	60,481	1	42	43
Exchange adjustments	—	(1)	(7)	(8)	—	—	—
Disposals	—	(12)	(9,980)	(9,992)	—	—	—
Transfers to current assets	(287)	—	—	(287)	—	—	—
Charge for the year	241	14	5,364	5,619	1	20	21
At 31 December 2003	1,310	48	54,455	55,813	2	62	64
Net book value							
At 31 December 2003	15,277	766	25,394	41,437	7	43	50
At 31 December 2002	16,153	789	25,806	42,748	8	60	68

Particulars relating to revalued assets are given below:

	2003 £000	2002 £000
Land & buildings		
At 1997 open market value for existing use	2,850	2,850
At 1998 open market value for existing use	547	547
At 1999 open market value for existing use	2,005	2,005
At historic cost	11,999	12,943
Cost/valuation	17,401	18,345
Historical cost of revalued assets	6,315	6,315
Aggregate depreciation based on historical cost	(1,725)	(1,567)
Historical cost net book value	4,590	4,748

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 £7,680,000 (2002: £8,280,000).

Included in the net book value of plant, machinery and vehicles is £2,457,000 (2002: £1,985,000) in respect of assets held under finance lease and similar hire purchase contracts.

Included within plant, machinery and vehicles are assets held for hire with a cost of £4,707,000 (2002: £2,589,000) and accumulated depreciation of £681,000 (2002: £420,000).

Notes to the Financial Statements *continued*

12 Fixed asset investments

Group	Trade investments £000	Loans £000	Total £000
Cost			
At 31 December 2002	915	250	1,165
Repayments	(100)	—	(100)
At 31 December 2003	815	250	1,065
Provisions			
At 31 December 2002 and 31 December 2003	790	250	1,040
Net book value			
At 31 December 2003	25	—	25
At 31 December 2002	125	—	125

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 is secured by a fixed and floating charge on all the assets of the company, 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.

Company	Share in Group undertakings £000	Loans to Group undertakings £000	Trade investments £000	Other Loans £000	Total £000
Cost					
At 31 December 2002	82,651	17,790	850	250	101,541
Additions	11	—	—	—	11
Disposals	—	—	(100)	—	(100)
At 31 December 2003	82,662	17,790	750	250	101,452
Provisions					
At 31 December 2002 and 31 December 2003	1,910	1,316	750	250	4,226
Net book value					
At 31 December 2003	80,752	16,474	—	—	97,226
At 31 December 2002	80,741	16,474	100	—	97,315

A list of the principal Group businesses is given on pages 50 and 51. All 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%. Redman Fisher (Ireland) Limited is incorporated in the Republic of Ireland.

The Company's subsidiary, Express Reinforcements Limited, continues to operate a joint arrangement through Express O'Rourke JV Limited, a company in which it holds 50% of the issued share capital. Express O'Rourke JV Limited manufactures and supplies steel reinforcement products for the construction of Terminal 5, Heathrow Airport.

13 Stocks

	Group	
	31 December 2003 £000	31 December 2002 £000
Raw materials and consumables	12,934	12,623
Work in progress	2,445	2,810
Finished goods and goods for resale	8,262	7,977
	23,641	23,410

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

14 Debtors

	Group		Company	
	31 December 2003 £000	31 December 2002 £000	31 December 2003 £000	31 December 2002 £000
Due after one year:				
Trade debtors	—	28	—	—
Pension fund prepayment	6,583	6,155	2,072	1,644
	6,583	6,183	2,072	1,644
Due within one year:				
Trade debtors	42,443	45,423	38	2
Amounts owed by subsidiary undertakings	—	—	17,996	18,791
Corporation tax	—	—	—	1,635
Other debtors	434	349	—	2,346
Prepayments and accrued income	4,349	3,790	1,787	72
	47,226	49,562	19,821	22,846
Total debtors	53,809	55,745	21,893	24,490

Notes to the Financial Statements continued

15 Creditors: amounts falling due within one year

	Group		Company	
	31 December	31 December	31 December	31 December
	2003	2002	2003	2002
	£000	£000	£000	£000
Borrowings and finance leases				
Bank loans and overdrafts	—	—	14,683	13,352
Current portion of long term bank loans	7,612	7,504	7,612	7,504
Finance lease and hire purchase obligations	807	594	225	225
Loan notes	1,951	2,279	1,951	2,279
	10,370	10,377	24,471	23,360
Other creditors				
Trade creditors	41,366	46,329	2,037	2,488
Bills of exchange	2,217	2,202	—	—
Corporation tax	2,405	2,416	—	—
Other taxation and social security	2,553	3,533	36	—
Accruals and deferred income	6,816	4,921	941	1,025
Payment received on account	5,412	—	—	—
Proposed dividend	2,838	2,759	2,838	2,759
Other creditors	3,161	3,614	311	417
	66,768	65,774	6,163	6,689

16 Creditors: amounts falling due after one year

	Group		Company	
	31 December	31 December	31 December	31 December
	2003	2002	2003	2002
	£000	£000	£000	£000
Borrowings and finance leases				
Long term bank loans	38,369	45,575	38,369	45,575
Finance lease and hire purchase obligations	2,069	1,729	676	901
	40,438	47,304	39,045	46,476

16 Creditors: amounts falling due after one year (continued)

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

	Group		Company	
	31 December	31 December	31 December	31 December
	2003	2002	2003	2002
	£000	£000	£000	£000
Bank loans and overdraft				
Amounts due within one year	7,612	7,504	22,295	20,856
Amounts due after more than one year:				
Between one and two years	4,612	7,504	4,612	7,504
Between two and five years	33,757	38,071	33,757	38,071
	38,369	45,575	38,369	45,575
	45,981	53,079	60,664	66,431
Loan notes				
Amounts due within one year	1,951	2,279	1,951	2,279
Finance leases and hire-purchase obligations				
Amounts due within one year	807	594	225	225
Amounts due after more than one year:				
Between one and two years	795	522	225	225
Between two and five years	1,274	1,207	451	676
	2,069	1,729	676	901
	2,876	2,323	901	1,126

The bank loans carry a rate of interest of up to 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.

Included within bank loans due in between two and five years is £3,500,000 in respect of a revolving credit facility over which refinancing is permitted, the earliest date at which the lender can require repayment being 30 June 2008. In the absence of the refinancing facility, this amount would have been repayable on 30 January 2004.

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 36% 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 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.

Notes to the Financial Statements *continued*

17 Financial instruments (continued)

(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
Currency			
Sterling at 31 December 2003	31,927	18,881	50,808
Sterling at 31 December 2002	28,984	28,697	57,681
		Fixed rate financial liabilities Weighted Weighted average average interest rate %	Weighted average period for which rate is fixed years
Sterling at 31 December 2003		6.8	1.3
Sterling at 31 December 2002		7.3	1.8

(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 2003 the Group had the following undrawn committed facilities, in respect of which all conditions precedent had been met:

	2003 £000	2002 £000
Undrawn committed borrowing facilities		
Expiring after more than two years	19,000	12,524

(e) Fair values

At 31 December 2003 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	Other	Total	Deferred taxation	Total
	£000	£000	£000	£000	£000
At 31 December 2002	3,764	3,444	7,208	473	473
Provisions released	—	(750)	(750)	—	—
Utilised during the year	897	(1,037)	(140)	172	172
At 31 December 2003	4,661	1,657	6,318	645	645

Other provisions at 31 December 2003 relate 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 year are set out below:

	Group		Company	
	31 December 2003	31 December 2002	31 December 2003	31 December 2002
	£000	£000	£000	£000
Difference between accumulated depreciation, amortisation and capital allowances	2,927	2,531	(5)	(3)
Other timing differences	1,734	1,233	650	476
	4,661	3,764	645	473
At 31 December 2002	3,764	3,225	473	318
Transferred in relation to acquisitions during the year	—	109	—	—
Charge for the year	897	430	172	155
At 31 December 2003	4,661	3,764	645	473

20 Called up share capital

	31 December 2003	31 December 2002
	£000	£000
	Authorised 80,000,000 Ordinary shares of 25p each (2002: 80,000,000)	20,000
Allotted, called up and fully paid 61,697,484 Ordinary shares of 25p each (2002: 61,564,955)	15,424	15,391

During the year the Company issued 132,529 shares under its various share option schemes (2002: 80,986), realising £89,008 (2002: £52,298).

Notes to the Financial Statements *continued*

20 Called up share capital (continued)

Options over the Company's shares outstanding at 31 December 2003 were:

	Number of shares	Option price (p)	Date first exercisable	Expiry date
1985 Executive Share Option Scheme	68,053	113	23 Jan 1998	23 Jan 2005
1995 Executive Share Option Scheme	107,732	114	20 Feb 1999	20 Feb 2006
	159,000	69	4 Aug 2002	4 Aug 2009
	52,000	70	2 July 2004	2 July 2011
	203,000	66	21 Jan 2005	21 Jan 2012
1999 Non-Approved Executive Share Option Scheme	500,000	67	9 July 2002	9 July 2006
	78,000	69	4 Aug 2002	4 Aug 2006
	158,000	70	2 July 2004	2 July 2008
	177,000	66	21 Jan 2005	21 Jan 2009
1995 Savings Related Share Option Scheme	269,715	41	1 Mar 2004	1 Sept 2004

21 Share premium and reserves

	Share premium	Capital redemption reserve	Revaluation reserve	Other reserves	Profit and loss account
Group	£000	£000	£000	£000	£000
At 31 December 2002	3,367	238	733	4,313	11,806
Retained profit for the year	—	—	—	—	2,026
Exchange differences	—	—	—	—	(17)
Realised on disposal	—	—	72	—	(72)
Transfer between reserves	—	—	(66)	—	66
Shares issued	56	—	—	—	—
At 31 December 2003	3,423	238	739	4,313	13,809

	Share premium	Capital redemption reserve	Profit and loss account
Company	£000	£000	£000
At 31 December 2002	3,367	238	25,909
Retained profit for the year	—	—	3,881
Shares issued	56	—	—
At 31 December 2003	3,423	238	29,790

Other reserves represent the premium on shares issued in exchange for shares of subsidiaries acquired. 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 (2002: £2,413,000), 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 (2002: £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 year includes profit dealt with in the financial statements of the Company of £6,719,000 (2002: £18,342,000).

22 Guarantees and other financial commitments

(a) Guarantees

The Company guarantees the bank loans and overdrafts of certain subsidiary undertakings. The amount outstanding at 31 December 2003 was £Nil (2002: £2,051,000).

The Group had guarantees outstanding to a bank in respect of performance bonds of £2,919,250 (2002: £328,000) and a Customs and Excise counter-indemnity of £Nil (2002: £120,000).

(b) Capital commitments

	Group		Company	
	31 December 2003	31 December 2002	31 December 2003	31 December 2002
	£000	£000	£000	£000
Contracted for but not provided in the accounts	228	897	—	—

(c) Operating lease commitments

Annual commitments under non-cancellable operating leases expiring:

Group	31 December 2003		31 December 2002	
	Land & buildings	Other	Land & buildings	Other
	£000	£000	£000	£000
Within one year	104	379	468	291
Between one and two years	—	421	91	411
Between two and five years	238	718	187	1,061
After five years	2,654	108	1,703	12
	2,996	1,626	2,449	1,775
Company				
Between two and five years	—	26	—	26
After five years	34	—	34	—
	34	26	34	26

Notes to the Financial Statements *continued*

23 Pensions

The Company operates two main pension 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. This second scheme also contains some defined benefit liabilities. 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 operated by one of the Company's subsidiaries.

The most recent valuations were prepared as at 5 April 2003. The valuations assessed the funding level using the Defined Accrued Benefit Method. The assumptions which have the most significant effect on the results of the valuation are those relating to the return on investments, the rates of increase in salaries and rates of increase for pensions in deferment and payment. The principal actuarial assumptions used for calculating the contribution rates were investment growth of 8% per annum pre-retirement, 6.5% per annum post-retirement, salary increases of 5% per annum, retail price inflation of 3.5% per annum and dividend yield of 3% per annum. Adjustments were made to these assumptions to allow for market conditions in order to calculate the funding level at the valuation date. For the Hill & Smith Executive Pension Scheme, the market value of the scheme's assets as at the valuation date was £12.9 million and comparing this value to the value of the liabilities on the funding basis revealed a funding level of 80%. For the Hill & Smith Pension Scheme, the market value of the scheme's assets as at the valuation date was £33.4 million and comparing this value to the value of the liabilities on the funding basis revealed a funding level of 99%. The deficits identified in the schemes are to be recovered by way of additional contributions from the Company, at rates to be agreed.

The profit and loss account for the year includes a net pension charge of £544,000 (2002: £462,000 credit). This is net of a variation of £865,000 (2002: £1,253,000) to allow for the funding of the schemes. This variation has reduced from last year on account of the deficits assessed, which are being amortised over the average expected future service of the current employees. The balance sheet includes a debtor of £6,583,000 (2002: £6,155,000).

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 FRS17 'Retirement benefits' the following transitional disclosures are required:

A full actuarial valuation of the schemes was carried out as at 5 April 2003 and updated to 31 December 2003 by a qualified actuary.

The principal assumptions used by the actuary were:

	At	At	At
	31 December	31 December	31 December
	2003	2002	2001
Rate of increase in salaries	3.75%	3.50%	4.00%
Rate of increase in pensions in payment	2.50%	2.00%	2.25%
Discount rate	5.75%	6.00%	6.00%
Inflation assumption	2.60%	2.00%	2.50%

The schemes hold assets and liabilities in respect of defined contribution benefits. As at 31 December 2003, the liabilities and matching assets have a value of £4,406,000 and are excluded from the following figures.

23 Pensions (continued)

The assets in the schemes and expected rates of return were:

	Long term rate of return expected at 31 December 2003	Market Value at 31 December 2003 £000	Long term rate of return expected at 31 December 2002	Market Value at 31 December 2002 £000	Long term rate of return expected at 31 December 2001	Market Value at 31 December 2001 £000
UK Equities	8.00%	27,735	8.00%	24,682	8.00%	28,864
Bonds	5.75%	5,613	6.00%	6,280	6.00%	5,884
Gilts	5.00%	3,330	4.50%	1,795	5.50%	1,659
With Profits policies	6.25%	10,038	6.25%	10,321	6.75%	11,150
Cash	4.00%	237	4.00%	900	4.00%	2,350
Other	8.00%	618	8.00%	897	8.00%	1,050
Total market value of assets		47,571		44,875		50,957
Present value of scheme liabilities		(51,241)		(48,616)		(49,207)
(Deficit)/surplus in the schemes		(3,670)		(3,741)		1,750
Related deferred tax asset/(liability)		1,101		1,122		(525)
Net pension (liability)/asset		(2,569)		(2,619)		1,225

Analysis of the amount which would have been charged to operating profit

	31 December 2003 £000	31 December 2002 £000
Current service cost	792	715

Analysis of the amount which would have been credited to other financing income

	31 December 2003 £000	31 December 2002 £000
Expected return on pension scheme assets	3,068	3,647
Interest on pension scheme liabilities	(2,829)	(2,902)
Net return	239	745

Analysis of the amount which would have been recognised in the Statement of Total Recognised Gains and Losses

	31 December 2003 £000	31 December 2002 £000
Actual return less expected return on pension scheme assets	2,923	(8,694)
Experience gains and losses arising on the pension scheme liabilities	502	(1,204)
Changes in assumptions underlying the present value of the scheme liabilities	(3,032)	4,377
Actuarial gain /(loss) recognised in the Statement of Total Recognised Gains and Losses	393	(5,521)

Notes to the Financial Statements continued

23 Pensions (continued)

Movement in the deficit during the year

	31 December	31 December
	2003	2002
	£000	£000
(Deficit)/surplus in the schemes at the start of the year	(3,741)	1,750
Current service cost	(792)	(715)
Contributions	231	—
Other financing income	239	745
Actuarial gain/(loss)	393	(5,521)
Deficit in the schemes at the end of the year	(3,670)	(3,741)

History of experience gains and losses during the year

	31 December	31 December
	2003	2002
	£000	£000
Difference between the expected return and actual return on scheme assets		
Amount	2,923	(8,694)
Percentage of scheme assets	6%	(19%)
Experience gains and losses on scheme liabilities		
Amount	502	(1,204)
Percentage of present value of scheme liabilities	1%	(2%)
Total amount recognised in the Statement of Total Recognised Gains and Losses		
Amount	393	(5,521)
Percentage of present value of scheme liabilities	1%	(11%)

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

	31 December	31 December
	2003	2002
	£000	£000
Net assets		
Net assets excluding net pension asset	33,380	31,582
Net pension liability	(2,569)	(2,619)
Net assets restated	30,811	28,963
Reserves		
Profit and loss reserve excluding net pension asset	9,201	7,497
Pensions reserve	(2,569)	(2,619)
Profit and loss reserve restated	6,632	4,878

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.

24 Notes to the Cash Flow Statement

	Year ended 31 December 2003		Year ended 31 December 2002	
	Before exceptional items and goodwill amortisation £000	Exceptional items and goodwill amortisation £000	Total £000	Total £000
(a) Reconciliation of operating profit to net cash inflow from operating activities				
Operating profit	13,581	(1,635)	11,946	11,348
Depreciation	5,497	122	5,619	8,085
Amortisation of goodwill	—	1,630	1,630	1,744
Payments on the termination of business	—	—	—	(193)
Profit on sale of fixed assets	(160)	—	(160)	(64)
Change in working capital:				
Stocks	(818)	245	(573)	(4,696)
Debtors	3,299	(213)	3,086	(299)
Creditors and provisions	(132)	(491)	(623)	10,220
	2,349	(459)	1,890	5,225
Net cash inflow from operating activities	21,267	(342)	20,925	26,145
(b) Returns on investments and servicing of finance				
Interest received			417	211
Interest paid			(4,303)	(4,509)
Interest element of finance lease rentals			(154)	(85)
			(4,040)	(4,383)
(c) Capital expenditure and financial investment				
Purchase of fixed assets			(5,442)	(7,146)
Sale of fixed assets			1,212	1,601
			(4,230)	(5,545)
(d) Acquisitions and disposals				
Purchase of subsidiary undertakings and businesses			—	(3,781)
Sale of businesses (net of disposal costs)			2,882	—
Net overdraft acquired			—	(1,674)
Termination of businesses			(1,851)	—
			1,031	(5,455)
(e) Analysis of net debt				
	31 December 2002 £000	Cash flow £000	Other non-cash changes £000	31 December 2003 £000
Cash at bank and in hand	12,811	1,512	—	14,323
Debt due within one year	(9,783)	255	(35)	(9,563)
Debt due after one year	(45,575)	7,206	—	(38,369)
Finance leases	(2,323)	861	(1,414)	(2,876)
Net debt	(44,870)	9,834	(1,449)	(36,485)

Principal Group Businesses

Building and Construction Products

Infrastructure Products Group



Asset International Limited
(Large diameter plastic drainage pipes and storm water attenuation tanks)
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, galvanizing, powder coating and fasteners)
Etna Works, Duke Street, Fenton, Stoke-on-Trent, Staffordshire, ST4 3NS
Tel: (01782) 319264 Fax: (01782) 599724
Email: sales@barkers-engineering.co.uk
Website: www.barkers-engineering.co.uk



Hill & Smith Limited
(Highway and off-highway safety barriers, temporary highway and general workzone protection systems and corrugated 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



Mallatite Limited
(Street and highway lighting columns)
Sandfold Lane, Levenshulme, Manchester, M19 3FT
Tel: (0161) 225 3100 Fax: (0161) 257 2625
Email: sales@mallatite.co.uk
Website: www.mallatite.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

Other businesses



Ash & Lacy Building Systems Limited*
(Metal cladding building systems and ancillary products)
Bromford Lane, West Bromwich, West Midlands, B70 7JJ
Tel: (0121) 525 1444 Fax: (0121) 525 3444
Email: sales@ashandlacybp.co.uk
Website: www.ashandlacybp.co.uk



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



Express Reinforcements Limited*
(Steel reinforcement products)
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*
(Galvanizing and the manufacture of steel storage tanks)
Charles Henry Street, Birmingham, B12 0SP
Tel: (0121) 622 4661 Fax: (0121) 666 6049
Email: sales@josephash.co.uk
Website: www.josephash.co.uk



Redman Fisher Engineering Limited*
(Industrial 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*

(Aluminium, brass, copper and stainless steel stockholding)

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



D & J Steels Limited

(Forging and engineering steel stockholding)

Lambert Works, Colliery Road,
Wolverhampton, West Midlands, WV1 2RD
Tel: (01902) 453680 Fax: (01902) 455431
Email: sales@dandjsteels.demon.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



Eden Material Services (UK) Limited*

(Stainless steel hollow bar, tube and pipe stockholding)

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



Ash & Lacy Pressings Limited*

(Speaker grilles and 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



Pipe Supports 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



Bromford Iron & Steel Company Limited*

(Hot rolled steel 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

The companies marked * are indirectly held.

Five Year Summary

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000	15 months ended 31 December 2001 £000	Year ended 30 September 2000 £000	Year ended 30 September 1999 £000
Turnover	241,665	212,740	241,849	58,858	61,940
Operating profit *	13,581	14,008	15,696	4,770	4,838
Profit before taxation *	9,826	10,019	10,085	4,102	4,161
Shareholders' funds	37,946	35,848	34,348	23,979	23,080
Operating cash flow *	21,267	24,244	30,244	4,213	8,998
Earnings per share *	11.54p	11.79p	12.01p	7.63p	7.20p
Dividends per share	4.60p	4.50p	5.45p	4.20p	4.20p

* Before exceptional items and goodwill amortisation.

Financial Calendar

Annual General Meeting 2004	18 May 2004
Payment of final dividend for the year to 31 December 2003 (ex dividend date 9 June 2004)	13 July 2004
Announcement of results for period to 30 June 2004	September 2004
Payment of interim dividend	January 2005
Preliminary Announcement of results to 31 December 2004	March 2005

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