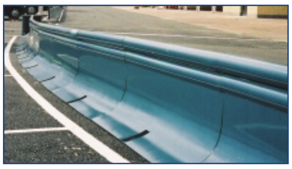
Hill & Smith Holdings PLC

Annual Report 2005




Winning Through Innovation

Hill & Smith Holdings PLC

We are a decentralised group serving the transport infrastructure, construction and building products markets.

Our success has been driven by a focused and effective management culture supported by innovative product development.

CONTENTS

2005 Highlights

	Year ended 31 December 2005	Year ended 31 December 2004		**Change**
Sales	**£277.3m**	£268.7m	▲	**3.2%**
Profit before tax	**£15.8m**	£10.1m	▲	**56.5%**
Underlying profit before tax*	**£15.7m**	£11.8m	▲	**33.0%**
Net debt	**£47.3m**	£37.9m	▲	**24.7%**
Underlying net debt†	**£22.6m**	£37.9m	▼	**40.4%**
Basic earnings per share	**22.52p**	12.16p	▲	**85.2%**
Underlying earnings per share*	**17.92p**	13.30p	▲	**34.7%**
Dividend per share	**6.00p**	5.00p	▲	**20.0%**

- **Record sales and profits**
- **Continuation of our product development programme**
- **Investment in Zinkinvent GmbH**
- **Lionweld Kennedy acquisition successfully integrated**
- **Acquisition of Techspan Systems**
- **Acquisition of Counters & Accessories (post-year end)**

* Results stated before reorganisation and property items
† Excluding Zinkinvent GmbH investment funding

Investments, Major Projects and New Products in 2005

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1. Asset International's "Weholite" product being installed at the Arbury Park project, Cambridgeshire.
2. Counters & Accessories speed indication display (SID).
3. EUROTRACC crash cushion on the Dartford Toll Plaza.
4. Express Reinforcements new Rollmaster machine for making the Rollmat steel reinforcing system.

5 Vecu Stop Crash Cushion on the A92.

6 Techspan's MS4 mobile messaging sign.

7 Barkers Engineering's new powder coating plant in operation.

8 Hill & Smith's new "Flexbeam" crash barrier, approved by the Highways Agency.

Chairman's Statement

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David Winterbottom Chairman

General

I am pleased to report on what has been an outstanding year for the Group.

In the year ended 31 December 2005 underlying operating profit increased by 29.7% to £19.6 million (2004: £15.1 million) on sales of £277.3 million (2004: £268.7 million). Underlying profit before taxation increased by 33.0% to £15.7 million (2004: £11.8 million). The benefits of a capital investment programme of £20 million over the last two years against a corresponding depreciation charge of £12 million have come through in an improvement in underlying operating margins in the current year to 7.1% compared with 5.6% in 2004. Underlying earnings per share advanced by 34.7% to 17.92p in 2005 (2004: 13.30p).

Dividends

A final dividend of 3.40p (2004: 2.75p) is proposed. If approved by shareholders, the total dividend for the year will therefore be 6.00p (2004: 5.00p), which represents an increase of 20% on the previous year. Dividend payments and dividend cover have improved consistently over the last five years and the current year dividend is now three times covered by underlying earnings.

Operations

The majority of our profit improvement in 2005 came from organic growth fuelled by our capital expenditure and cost reductions programmes, which are highly focused on improving the financial returns of the Group. Both Lionweld Kennedy, which was acquired in 2004, and our new investment in Zinkinvent made good contributions to the trading results.

Underlying profits advanced in all three of our divisions with a particularly strong performance from the Infrastructure Products (IPG) businesses. The Building and Construction Products and Industrial Products operations recorded more modest rises in profitability.

Zinkinvent GmbH Investment

In May 2005 the Group invested €25 million in cash to acquire a 33% shareholding in Zinkinvent GmbH ("Zinkinvent") and also advanced to Zinkinvent a loan of €10 million. Zinkinvent is a German investment company owning 86% of a Belgian company, Vista NV. Vista NV is a galvanizing and lighting pole fabricating business with significant operations in Benelux, France and the USA with many similarities to our existing galvanizing and IPG businesses in the UK.

Right: A view through Asset International's "Weholite" drainage product showing installation at the new Arbury Park project, Cambridgeshire.

“We will continue our strategy of growth by investing in our existing businesses and by acquisition in our core competences where above average growth can be anticipated.”

We have representation on both the Zinkinvent and Vista Boards and we are gaining an in-depth knowledge of these companies at first hand. I am pleased to report that the Zinkinvent performance in the second half of 2005 was slightly ahead of our expectations. This investment is being accounted for on an equity basis as an associate company.

As previously announced, we have been carrying out extensive due diligence on Zinkinvent and Vista with a view to acquiring the remaining 67% of the issued share capital of Zinkinvent. The due diligence process, which is now substantially complete, has identified a number of environmental and other issues on which the Hill & Smith Board wishes to be satisfied before asking shareholders to approve the acquisition of the outstanding shares. The Board’s objective remains the acquisition of the whole of Zinkinvent and discussions with the vendors continue to be actively progressed.

Acquisitions
In August 2005 we acquired the business and certain of the assets of Techspan Systems Limited, which manufactures and supplies electronic information display signs for the road, rail and airport markets. This is an excellent fit with our IPG businesses, particularly in respect of the road market in the UK and the strategy of reducing congestion and increasing safety on the national road network. As anticipated, Techspan incurred a loss during 2005 but its order book is now increasing and it has re-established itself on a number of public sector tender lists from which it was previously excluded. Since the year end, we have also acquired Counters & Accessories Limited, which supplies traffic data recording equipment and which will complement the Techspan business.

Employees
I would like to thank all our employees for their valuable contribution to the Group’s performance in 2005.

Outlook
We will continue our strategy of growth by investing in our existing businesses and by acquisition in our core competences where above average growth can be anticipated. The current trading period has started in line with our expectations and, subject to market conditions remaining favourable, I look forward to another good performance in 2006.

David Winterbottom
Chairman
8 March 2006

Top: An example of Barkers V-Guard Mesh fencing for a car park in Italy.
Bottom left: Hill & Smith’s crash cushion in use on the A82 in Glasgow.
Bottom right: Varioguard in use on the M7 in Ireland.

Operational Review

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David Grove Chief Executive

Overview

In my operational review accompanying the 2004 accounts I commented that, "The significant advance in profitability in 2004 vindicates our investment strategy in recent years." The record level of profits in 2005 clearly indicates that the Group's investment strategy continues to deliver shareholder value. Our consistent and well-documented strategy remains unchanged and is very focused going forward into 2006.

Infrastructure Products

Sales increased by 12.2% in 2005 to £107.4 million (2004: £95.7 million) and underlying operating profit increased by 42.8% to £13.0 million (2004: £9.1 million), with a number of companies recording record profits. A number of new products were launched during the year and investments in automating our production processes and reducing our unit costs of production have led to a substantial improvement in the levels of profitability. A number of major contracts were won during the year and exports were at a record level.

Hill & Smith Limited introduced a new range of vehicle restraint barrier systems during the year and its new "Flexbeam" is already regarded as the industry standard. With increasing emphasis on health and safety on the road network in the UK our new crash cushion has been well received as an innovative product responding to market needs. The Brifen wire rope business also made further progress in the year, with an additional four new countries selling our product. Further investment in our Varioguard temporary crash barrier rental fleet was required during the year in response to an expanding market driven by health and safety requirements. Large contracts on the M25 around London and the M7 in Ireland were the highlights of the year. Berry Systems, which specialises in vehicle restraint systems in car parks, had an excellent year and extended its market penetration and product portfolio.

Varley & Gulliver introduced its new steel and aluminium parapet vehicle restraint systems and again recorded an excellent result. Barkers Engineering improved its financial performance following significant capital investment; there was a further extension to its product range during the year with the introduction of a new mesh system. Mallatite's performance was also significantly ahead of the previous year, with major contracts involving the supply of lighting columns for PFI projects in

Right: Varley & Gulliver's aluminium parapets on the Shaikh Khalifa Bridge, Bahrain.

“Our management teams remain very focused on delivering high-quality innovative products to our customers and providing value-for-money solutions.”

Sunderland, Manchester and Islington.

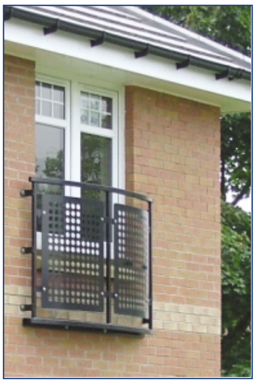
Despite a slow start to the year, Asset International was one of the companies to register a record operating profit, helped by its recent investment in new tooling which has increased production capacity. Continued investment in the nation’s water infrastructure should provide further growth opportunities for this business.

The Joseph Ash Galvanizing business had to contend with substantial increases in zinc prices and escalating energy costs during the year. We continue to concentrate our production and service on our more modern and efficient plants and this resulted in the closure during the year of the facilities at Birmingham and Hartlepool. Although we incurred substantial one-off costs as a result, we believe these closures will have a beneficial effect on our galvanizing business in future years.

Building and Construction Products
Underlying operating profit increased by 6.7% to £4.8 million (2004: £4.5 million) whereas sales reduced by 1.7% to £131.8 million (2004: £134.1 million).

There was an excellent performance from Ash & Lacy Building Systems as a result of increased sales of new products and improved cross-selling of our product portfolio. Further new product launches are in the pipeline. The industrial flooring and fabricating activities of Redman Fisher responded well to the management changes and restructuring which took place in 2004. Lionweld Kennedy, which was acquired in November 2004 and has a well-known brand image, made an excellent contribution to the Group’s profits in 2005 representing a very positive turnaround from its performance prior to its acquisition. Express Reinforcements had a disappointing year and a demanding restructuring programme has been put into effect in order to respond to market dynamics and the conclusion of the Terminal Five contract. Birtley Building Products fell a little short of our expectations during the year but nevertheless performed with much credit in a volatile market where we are developing a first-class portfolio to our customer base.

The challenge in this division is to improve its operating margins from their current low levels.



Top Left: Balconies supplied by Birtley Building Products and Ash & Lacy Perforators for housing developments nationwide.
Top Right: Techspan’s MS4 sign on the M4 South Wales.
Bottom Left: Ash & Lacy Building Systems “Ashfab” featuring as canopies at Guernsey Airport.
Bottom Right: Brifen’s wire rope product in use in Abu Dhabi.

Operational Review continued

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Top: Ricoh Arena Coventry City football stadium delineation for pedestrian safety.
Bottom: Hill & Smith's "Flexbeam" undergoing rigorous testing.

“The record level of profits in 2005 clearly indicates that the Group’s investment strategy continues to deliver shareholder value.”

Industrial Products
Underlying operating profit improved by 19.2% to £1.8 million (2004: £1.5 million). All the businesses in this division made a positive contribution during the year with the exception of Ash & Lacy Pressings where action has been taken to redress the problem.

Pipe Supports’ results demonstrated a significant improvement over the previous year following commencement of production from the new factory in Thailand in January. The success of this facility has led us to open a second factory to take advantage of the lower costs of production for our products which are sold worldwide, particularly into the rapidly-expanding LNG market.

Our stockholding operations performed satisfactorily during the year. Despite difficult market conditions, we continue to examine product opportunities for enhancing the returns from these businesses.

Zinkinvent
As expected at the time of the original investment, the Group is now beginning to derive commercial benefits from its association with Zinkinvent. Zinkinvent is the holding company of the Vista group which has galvanizing and fabricating operations in Benelux, France and the USA. Negotiations are actively continuing with a view to acquiring the 67% of Zinkinvent which we do not already own. In the meantime, the Group has two representatives on the Boards of both Zinkinvent and Vista and during the period of our investment we have gained a good understanding of the operations of this business.

Acquisitions
In August 2005 we acquired the operations of Techspan Systems Limited and in February 2006 we completed the purchase of Counters & Accessories Limited. These businesses are involved in the manufacture of electronic highway information and vehicle logging and detection systems. In common with our more traditional fabricated product businesses, both these companies supply customers for the road and infrastructure markets. This marketplace is showing significant growth and we are likely to add to this portfolio in the future as we develop the necessary technology to supply the demands of the market.

Shareholder Value
Over the five years to 31 December 2005, the share price of Hill & Smith ordinary shares has risen from 65p to 217p, an increase of 233%. This compares with a decline over this period of 4% in the FTSE All Share Index and an increase of 2% in the FTSE Small Cap Index. Over the same period total shareholder return, including dividends, has matched or outperformed both these indices in four of the five years.

The Future
We will continue to invest in opportunities which will enhance shareholder value, both organically and by acquisition. Our product development programme is being energetically pursued and new product launches will be evident in 2006. Our major customers are very active in the infrastructure and construction markets and we are increasingly focusing on products aimed at the health and safety and security demands of this market. Our management teams remain very focused on delivering high-quality innovative products to our customers and providing value-for-money solutions.

David Grove
Chief Executive
8 March 2006

Top: Ash & Lacy Building Systems aluminium aerofoil bullnoses with a powder coating finish in use at IKEA, Cardiff.
Middle: Ash & Lacy Building Systems roofing at Elmhurst Ballet School, Birmingham.
Bottom: A 3m diameter tank supplied by Asset International for a housing development in Cornwall.

Financial Review

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Chris Burr Finance Director

Basis of consolidation

The results cover the twelve months to 31 December 2005. They include a first full year's trading of the Lionweld Kennedy operation which we acquired towards the end of 2004. They also include a seven month contribution from our Zinkinvent investment which is being accounted for as an associate.

The financial statements, including the prior year comparatives, are presented for the first time in accordance with International Financial Reporting Standards.

Summary of Results

The Group's 2005 results represent another record year with sales, profits and earnings per share all at their highest ever levels. The rapid rise in the cost of our major raw material prices that we saw in 2004 abated somewhat, although some of our businesses were affected this year by the significant increase in energy costs. Nevertheless, and despite volatile market conditions for some of our businesses, we were able to improve overall operating margins significantly, due in large part to the benefits arising from our programmes of capital investment, business reorganisation and new product development over the past few years

Sales and Operating Profit

Group sales increased by 3.2% to £277.3 million (2004: £268.7 million). Adjusting for the first full year contribution from Lionweld Kennedy, like-for-like growth was 0.5%. Underlying sales in the Industrial Products division were flat but fell by 1.7% in the Building and Construction division, substantially all of the decrease arising in our steel reinforcing operations where the Heathrow T5 contract wound down in line with expectations. The main area of organic growth was in our core Infrastructure Products Group (IPG) division where sales grew by 12.2%, with only a minor contribution from the recently acquired Techspan business.

Underlying operating margins improved in all divisions but particularly in IPG, where they increased from 9.5% to 12.1% and absolute underlying operating profit grew by 42.8%, fuelled by efficiency improvements, new product launches and strong market demand both domestically and abroad. The other divisions overall delivered broadly unchanged like-for-like performances with most of the profit improvement attributable to the new Lionweld Kennedy Flooring business. Group underlying operating profit increased by 29.7% to £19.6 million (2004: £15.1 million).

Net reorganisation and property items at operating profit level amounted to £0.1 million. These include the cost of relocating galvanizing production at both Birtley Building Products and Joseph Ash, which involved the closures of factories at Hartlepool and Digbeth, and a reorganisation at Express Reinforcements where we carried out a major management and operational restructuring, including the closure of their Rainham depot. These costs were offset by profits on various property transactions, mainly the sale of the vacant sites at Wombwell and Digbeth and three sale and leaseback transactions covering five Group operating properties. These transactions generated total net proceeds of £13.8 million which will be used to help finance the Group's investment and acquisition programmes. Taken together with the resultant interest savings, these transactions will have a broadly neutral effect on annual future earnings.

Income from our investment in Zinkinvent GmbH amounted to £0.7 million which, in accordance with the requirements of international accounting standards, is stated after interest and tax even though included at the operating profit level. Taking into account the interest cost on the related new borrowings, this investment made a small net contribution to the year's earnings.

Financing costs

Net financing costs increased by £0.6 million, primarily as a result of the borrowings we took on to finance the Zinkinvent investment and the heavy capital investment programme. The sale and leaseback transaction came too late in the year to have any material effect on the year's interest costs. Underlying net interest cover improved to 5.1 times (2004: 4.6 times).

“Underlying earnings per share amounted to 17.92p, an increase of 34.7% over last year and the highest ever achieved by the Group.”

Profit before taxation
Underlying profit before taxation rose by 33.0% to a record £15.7 million (2004: £11.8 million). Including the effect of the net reorganisation and property items, profit before taxation increased by 56.5% to £15.8 million (2004: £10.1 million).

Taxation
The effective tax rate on underlying profits was 28.0% compared to the standard rate of 30%. This was due mainly to the benefit of tax relief on employee share option gains and the inclusion of the Zinkinvent post-tax profits at the pre-tax level. There was also a very significant overall tax credit arising on the net reorganisation and property items where we were able to shelter the profits arising on the property transactions.

Financing
Year end net borrowings increased to £47.3 million (2004: £37.9 million). The main cause of the increase was the £24.7 million of new Euro denominated debt which we took on to finance the investment in our associated company, Zinkinvent GmbH. Excluding these new borrowings, underlying net debt reduced by £15.3 million during the year. We took out an interest swap to fix the borrowing costs on these new borrowings until 30 June 2007 pending conclusion of negotiations with the vendors.

We continued our vigorous programme of capital expenditure, investing a total of £12.3 million, including £1.5 million on new product development costs. Property transactions during the year generated £13.8 million and tight management of working capital enabled us to generate a further £3.0 million, although this was impacted by a decrease during the year in the level of advance payments received in connection with our Terminal 5 Joint Venture.

Pensions
In line with the experience of most UK companies, there was an increase in the level of our year end net retirement benefit obligation. Although investment returns during the year exceeded expectations they were outweighed by improved mortality rates and the significant reduction in long-term interest rates.

Earnings per share
Underlying earnings per share amounted to 17.92p, an increase of 34.7% over last year and the highest ever achieved by the Group. Basic earnings per share grew by 85.2% to 22.52p which was also a record.

Dividends
In line with our progressive dividend policy, we again propose to increase the level of the distribution to shareholders. The recommended final dividend, together with the interim dividend already paid, makes a total for the year of 6.00p per share, an increase of 20.0% over last year. Based on underlying earnings, this level of dividend is covered 3.0 times (2004: 2.7 times).

Chris Burr
Finance Director
8 March 2006

Top: Berry Systems barrier and rail installed at the Ferrytoll Park & Ride, Inverkeithing.
Middle: Mallatite lighting columns supplied for the Sunderland PFI.
Bottom: Ash & Lacy Building Systems roofing at the Audi showroom, Glasgow.

Directors

D S Winterbottom FCA, FCT
Non-Executive Chairman
David, aged 69, joined the Board in October 1997. He is Chairman of CPL Industries Limited and recently retired from the Board of Electrocomponents PLC as the Senior Non-Executive Director.

D L Grove BA, FCA
Deputy Chairman and Chief Executive
David, aged 57, joined the Board in March 1998. He is a Non-Executive Director of a number of private manufacturing, distribution and investment companies. He is Chairman of the West Midlands Industrial Development Board.

C J Burr FCA
Finance Director
Chris, aged 56, joined the Board in November 2000. He was previously Group Finance Director of Ash & Lacy Plc, whom he joined in 1990 from European Home Products plc having previously held a variety of positions with The Singer Company Inc. in the UK and Continental Europe.

R E Richardson FCMI
Senior Non-Executive Director
Dick, aged 66, joined the Board in May 1997. He is Chairman of an industrial investment company, GW 685 Limited, and Chairman of Westech Instrument Holdings Plc. 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.

H C Marshall MSc, BSc
Non-Executive Director
Howard, aged 62, joined the Board in November 2000. He was previously Chief Executive of Ash & Lacy Plc and Chairman and Chief Executive of Bullough Plc. He is also a Governor of the University of Central England.

Contacts and Committees

Registered Office
2 Highlands Court, Cranmore Avenue,
Shirley, Solihull, B90 4LE

Company Number
671474

Company Secretary
J C Humphreys FCIS

Audit Committee
Messrs Winterbottom, Marshall and Richardson (Chairman)

Remuneration Committee
Messrs Winterbottom, Marshall (Chairman) and Richardson

Nominations Committee
Messrs Winterbottom (Chairman), Grove, Marshall and Richardson

Life President
John G Silk LLB (Lond)
John, aged 81, joined the Board in 1981 and was Chairman from 1983 to 1995. He retired from the Board and was appointed Life President in 1999.

Advisers

Auditor
KPMG Audit Plc, Birmingham

Bankers
Barclays Bank PLC, Birmingham

Financial Adviser
Stafford Corporate Consulting Limited, London

Insurance Brokers and Risk Management Advisers
Jardine Lloyd Thompson, Birmingham

Pensions Advisers
KPMG LLP, Birmingham

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

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

Stockbrokers
Arden Partners, Birmingham

Directors' Report

The Directors present their forty-fifth annual report together with the financial statements for the year ended 31 December 2005.

Business review and future developments
A full review of the Group's operations and performance during the financial year, setting out the position at the year end, significant changes during the year and providing an indication of the outlook for the future, is contained in the Chairman's Statement, the Operational Review and the Financial Review. Additional information relating to employees and the environment is given below under Corporate Social Responsibility.

Results and trading review
The Group profit for the year after taxation amounted to £14.2 million. Turnover and operating profit increased by 3.2% and 47.2% respectively compared to the previous year. 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.

Dividends
The Directors recommend the payment of a final dividend of 3.40 pence per ordinary share (2004: 2.75 pence per ordinary share) which, together with the interim dividend of 2.60 pence per share paid on 13 January 2006, makes a total distribution for the year of 6.00 pence per share (2004: 5.00 pence per share). Subject to shareholders approving this recommendation at the Annual General Meeting, the dividend will be paid on 12 July 2006 to shareholders on the register at the close of business on 7 June 2006.

Principal activities and review of the business
The principal activities of the Group are:

- Infrastructure Products
- Building and Construction Products
- Industrial Products

Analyses of turnover, profit on ordinary activities and net assets are given in note 1 to the Financial Statements on pages 42 and 43.

Share capital
Information concerning the issued share capital of the Company is set out in note 20 to the financial statements on pages 53 to 55. During the year 1,122,109 new ordinary shares were issued under employee share schemes, 3,150 under the 1995 Save As You Earn scheme and 1,118,959 under the 1985, 1995 and 1999 Executive Share Option Schemes.

Directors and Directors' interests
The Directors who served during the year ended 31 December 2005 and to the current date are as follows:

Name	Date of Appointment
David S Winterbottom	1 October 1997
David L Grove	20 March 1998
Christopher J Burr	2 November 2000
Howard C Marshall	2 November 2000
Richard E Richardson	1 May 1997

Biographical details of the Directors are shown on page 12. The Directors retiring by rotation at the forthcoming Annual General Meeting are R E Richardson and C J Burr who, being eligible, offer themselves for re-election.

The interests of the Directors and their families in the ordinary share capital of the Company (excluding the share options detailed in the Directors' Remuneration Report on page 28) at the beginning and end of the financial year were as follows:

	Number of Ordinary Shares at 31 December 2004	**Number of Ordinary Shares at 31 December 2005**
C J Burr	62,628	137,628†
D L Grove	1,125,945	1,210,945*
H C Marshall	68,601	68,601
R E Richardson	3,518	3,518
D S Winterbottom	15,690	15,690

All interests are beneficial.

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

* Net increase of 85,000 shares following the exercise of share options on 9 March 2005 (500,000 shares) and subsequent disposals on 10 March 2005 (350,000 shares) and on 15 March 2005 (65,000 shares).

† Net increase of 75,000 shares following the exercise of share options on 9 March 2005 (200,000 shares) and subsequent disposal on 10 March 2005 (125,000 shares).

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. Details of the Directors' service contracts are incorporated in the Directors' Remuneration Report on pages 26 and 27.

Substantial shareholdings

As at 8 March 2006, the Company had been notified in accordance with sections 198 and 208 of the Companies Act 1985 that the following shareholders held, or were beneficially interested in, 3% or more of the issued share capital of the Company:

	Number of Ordinary Shares	**Percentage of Issued Share Capital**
Aviva plc	2,684,393	4.25
P Hampson Silk	2,193,002	3.47
G Hampson Silk	2,187,201	3.46
Barclays PLC	2,179,241	3.45
Legal & General Group Plc	2,035,368	3.22

Mr G Hampson Silk holds 1,840,159 ordinary shares either in his own name or his wife's name. Mr P J Hampson Silk holds 1,840,960 ordinary shares either in his own name or his wife's name and a further 5,000 ordinary shares are held in the name of a nominee company Brewin Dolphin. Of the remaining shares beneficially owned by both gentlemen, 240,376 are registered in the name of a private limited company of which they are both directors and of which they control more than a third of the voting power at general meetings, and a further 106,666 are held in discretionary trusts of which they are both trustees.

Corporate social responsibility

Environmental

The Company supports the protection of a sustainable environment and recognises its responsibilities in this respect.

Directors' Report continued

Hill & Smith Holdings PLC is therefore committed to:

- Complying with the relevant environmental legislation, regulations and industry standards.
- Reducing the output of emissions that may adversely impact on the environment.
- Minimising the consumption of energy and water used in its facilities.
- Reducing waste and, wherever practicable, reusing and recycling consumables and disposing of non-recyclable items in an environmentally acceptable manner.

In order to achieve these objectives, the Company is building awareness and promoting initiatives to encourage implementation of its policy.

Employment
The value of the contribution of all employees is recognised by the Board and this is reflected in the high levels of involvement, autonomy and accountability that are encouraged throughout the Group. The subsidiary undertakings are made aware of the financial, economic and other performance objectives through good communications and employee relations across all the operations. Each company in the Group is therefore encouraged to implement comprehensive employment policies designed to involve employees in its achievements and to determine ways in which their knowledge and skills can best contribute towards its success.

It is the Company's policy to operate share plans to involve, motivate and reward Directors and employees and to align their interests with those of the shareholders. To this end the Company operates an Executive Share Option Scheme and a Sharesave (SAYE) Scheme.

On 4 October 2005, the date of grant, a total of 583,012 share options were granted to employees under the 2005 Executive Share Option Scheme at a price of 204.83p. These share options are exercisable after a period of three years from the date of grant, subject to achievement first of the performance criterion set by the Remuneration Committee, and expire ten years after the date of grant. Further details of the 2005 Executive Share Option Scheme are given in the Directors' Remuneration Report on pages 25 and 26.

No share options have been issued under the 2005 Sharesave (SAYE) Scheme.

Employee involvement and communication programmes continue to be developed, providing equal opportunity to all, irrespective of sex, race, religion or colour.

Disabled persons
Each company in the Group endeavours to provide equality of opportunity in recruiting, training, promoting and developing the careers of disabled persons. It is also Group practice, wherever possible, to continue the employment of any employees who become disabled during the course of their employment.

Health and safety
The Group has engaged health and safety consultants to review existing systems, audit the health and safety performance and implement a new health and safety management system. The programme of implementation is now complete and the new system will facilitate improved management of health and safety risks. This initiative is being supported by the formation of a Group Health & Safety Committee that met three times during the year under review. The Committee is chaired by the Company Secretary. Early indications are that the system is playing its part in the overall improvement seen throughout the Group in health and safety management.

Suppliers
Supplier KPIs, primarily relating to the delivery and quality of product, are used throughout the Group, along with initiatives to improve supplier performance, following regular discussions with suppliers.

Events since the balance sheet date
On 16 February 2006 the Company completed the acquisition of Counters & Accessories Ltd for a cash consideration of £5.0 million. The consideration is subject to adjustment on finalisation of completion accounts. In the year ended 30 September 2005 Counters & Accessories Ltd made a profit before taxation of £1.4 million. The book value of the gross assets, being acquired by the Company, amounted to £1.6 million as at 30 September 2005.

Research and development
During the year the Group spent a total of £1,490,000 (2004: £494,000) on research and development.

Political and charitable donations
Charitable donations amounting to £11,000 (2004: £9,000) were made in the year. There were no political contributions.

Financial instruments
The Group's financial risk management objectives and policies and its exposure to these risks are detailed in note 19 to the financial statements on page 52.

Supplier payment policy
Individual operating companies within the Group are responsible for establishing and adhering to appropriate policies for 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, providing a supplier is complying with the relevant terms and conditions, including the prompt and complete submission of all required documentation, payment will be made in accordance with the agreed terms. It is the Group's policy to ensure that suppliers know the terms on which payments will take place when transactions are agreed. The average credit period was 87 days (2004: 96 days). The Company's average credit period was 30 days (2004: 31 days).

Directors' and officers' liability insurance
The Company purchases and maintains liability insurance for its Directors and officers and those of the subsidiaries of the Group, as permitted by Sections 309A, B and C and Section 337A of the Companies Act 1985.

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

Independent auditors
In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditor of the Company will be proposed at the forthcoming Annual General Meeting.

Special business of the annual general meeting
The Annual General Meeting of the Company will be held at 10.30 a.m. on Friday 12 May 2006 at The Balcony Suite, The National Motorcycle Museum, Solihull. Notice is sent to shareholders separately with this Report together with an explanation of the special business to be considered at the meeting.

By order of the Board

J C Humphreys
Company Secretary
8 March 2006

Corporate Governance

Introduction

Following the Corporate Governance review undertaken in 2004 (reported upon in the 2004 Corporate Governance report), the Board has continued to review the governance requirements in the context of the size, organisation structure and commercial strengths of the Group.

During this review process the purpose of good governance has remained paramount, namely to provide the framework of business principles, structures and controls within the Group, which enable the Directors, management and shareholders to ensure:

- accountability;
- transparency of responsibility;
- the appropriate management of conflicts of interest; and
- effective relationships between the Board, its committees and shareholders.

All of the above support the overall objective of creating shareholder value through the delivery of the strategy, reducing risks and protecting the long-term interests of shareholders.

This report sets out the governance structures and practical elements the Company has put in place for compliance with the Combined Code published by the UK Listing Authority in July 2003.

Statement of compliance

With the exception of the matters noted below, the Company has fully complied with the principles set out in section 1 of the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003.

Code Requirement (Code A.1) — The non-executive Directors are to appraise the Chairman's performance at least annually.

Explanation

The Senior Independent Director is responsible for appraising the performance of the Chairman of the Board. A formal appraisal of the Chairman has not taken place in 2005 as this will be included as part of the Board evaluation exercise undertaken in 2006.

Code Requirement (Code A.3) — The Board is to assess the non-executive Directors' independence.

Explanation

D S Winterbottom is a member of the Audit and Remuneration Committees. The Combined Code suggests that the Chairman of the Board should not be considered as independent for the purposes of the independence test. Given the devolved nature of the Group and the non-executive role performed by D S Winterbottom, the Board does not consider this to be an issue of concern as he has no interests or relationships that affect his independent status. Indeed, the Board considers that D S Winterbottom's financial skills as a chartered accountant, his experience, independent judgement and status make him a valuable member of the Committees.

Code Requirement (Code A.4) — A formal rigorous transparent procedure should be in place for the appointment of new Directors to the Board.

Explanation

An appointments procedure will be developed in 2006, including the setting of criteria for the appointment of new Directors.

Code Requirement (A.6) — An annual evaluation of the Board, its Committees and individual Directors is to be undertaken.

Explanation

An evaluation exercise was undertaken in November 2004 and a follow-up exercise is planned for 2006 thus allowing sufficient time to ensure effective evaluation.

The Directors and the Board

The Board is composed of five Directors — two executive and three non-executive. The current composition is as follows:

D S Winterbottom	Non-Executive (Chairman)	Appointed 1 October 1997
D L Grove	Chief Executive (Deputy Chairman)	Appointed 20 March 1998
C J Burr	Finance Director	Appointed 2 November 2000
H C Marshall	Non-Executive	Appointed 2 November 2000
R E Richardson	Non-Executive (Senior Independent Director)	Appointed 1 May 1997

Biographical details of all the Directors are set out on page 12.

There have been no changes in the Board during or since the year ended 31 December 2005. During the year the roles of Finance Director and Company Secretary have been split with the appointment of J C Humphreys FCIS as Company Secretary. The Company Secretary is responsible for assisting the Chairman in all matters relating to Corporate Governance.

Details of the terms of appointment of both the executive and non-executive Directors are set out in the Directors' Remuneration Report, which refers to executive service contracts and non-executive letters of appointment, copies of which are available for inspection at the Company's registered office and which will be available for inspection at the forthcoming Annual General Meeting to be held on 12 May 2006.

The Board

The Directors ensure the effectiveness of the Board through formally operating regular Board meetings and having frequent and full communication. During the period under review the Board met eleven times for main Board meetings, had one Strategy meeting early in the year and received detailed presentations from the Managing Directors of the main subsidiaries. Details of the main Board meeting attendances are set out below:

D S Winterbottom	10 out of 11 attended
D L Grove	11 out of 11 attended
C J Burr	11 out of 11 attended
H C Marshall	10 out of 11 attended
R E Richardson	11 out of 11 attended

Every Board member attended the Strategy meeting.

The Board is responsible to the Company's shareholders for strategic direction, financial performance, resource allocation, risk management, governance and internal controls. The schedule of matters reserved to the Board for its own and its Committees' decisions ensures exclusive decision making powers over these responsibilities as well as such matters as remuneration policies, accounting policies, capital expenditure, acquisitions, disposals and debt facilities.

The Board is supplied in a timely manner with the appropriate information to enable it to discharge its duties, including providing constructive challenge to, and scrutiny of, management. Further information is obtained by the Board from the executive Directors and other relevant senior executives as the Board, particularly its non-executive members, considers appropriate. Procedures are in place for Directors to take independent professional advice, when necessary, at the Company's expense.

The Board is supported by the Company Secretary who, under the direction of the Chairman, ensures good communication and information flows within the Board, including between executive and non-executive Directors and between the Board and its Committees (to which he acts as Secretary for the Audit and Nominations Committees).

Corporate Governance continued

Board balance and independence
The Board has assessed the three non-executive Directors against the criteria set out in the Combined Code and considers them to be independent. All three non-executive Directors are independent of management and free from any business or other relationship that would materially interfere with the exercise of their independent judgement.

Whilst it is recognised that H C Marshall used to be the Chief Executive of one of the Group's subsidiaries — Ash & Lacy Plc — prior to its acquisition by the Group in 2000, his membership of the Hill & Smith Board has always been as a non-executive Director and his Board colleagues have consistently recognised him as being independent in his approach to the role and in his judgement and character. Furthermore, he has no interests or relationships that alter his independent status.

Re-election of Directors
In accordance with the Company's Articles, not more than one-third of the Directors are required to be re-elected at each Annual General Meeting of the Company, the Directors so doing being those who have been longest in office since their last appointment or re-election. Every Director must in any event be re-elected at least every three years.

R E Richardson and C J Burr are the Directors retiring by rotation at the forthcoming Annual General Meeting of the Company and, being eligible, offer themselves for re-appointment. As well as recognising the importance of an individual's contribution, the Board is also mindful of the value of an appropriate level of continuity on Board and Committee memberships. The Board and Nominations Committee support R E Richardson's and C J Burr's re-appointment having assessed their performance, value to the Board and, in the case of R E Richardson, its Committees and his ability to continue to operate as an independent Director. Furthermore, R E Richardson has no interests or relationships that are relevant to his independence and there are no circumstances that require his independent status to be altered. The Board therefore considers him to be independent in judgement and character.

Board development
The Board believes that the benefit of its collective experience is a valuable asset but accepts that Directors need to keep their professional knowledge up to date from time to time. Consequently, the Board has recently agreed guidelines for meeting its own training needs. The Board has also adopted a procedure to enable directors to take professional advice at the Company's expense.

During the year under review the Board did not consider a formal and rigorous evaluation to be necessary in view of the work that was undertaken in November 2004. Plans are, however, in hand for an evaluation exercise to be undertaken in 2006 when it will be more appropriate and of greater value in terms of its relevance and timing.

Committees of the Board
The Board has three Committees, as follows:

Audit Committee
The membership of the Audit Committee comprises the three non-executive Directors and is chaired by R E Richardson. D S Winterbottom is a chartered accountant and is deemed to have recent and relevant financial experience. The Company Secretary acts as secretary of the Committee.

The objectives of the Audit Committee have been confirmed in the terms of reference as:

- ensuring the integrity of the financial statements of the Company;
- reviewing and monitoring the Group's internal control systems;
- overseeing the effectiveness of the Group's internal audit activity;
- overseeing the Group's relationship with its external auditors; and
- ensuring that Group reporting complies in all respects with relevant statutory and required financial reporting standards, including corporate governance disclosures.

A copy of the terms of reference is available on the Company's website.

Financial Reporting: A procedure setting out responsibilities for the preparation of the Group's financial statements and their review by the external auditor and the Audit Committee has been documented. This also sets out the basis on which the Board make its statement on "Going Concern". The Audit Committee reviewed the preliminary and interim statements prior to their approval by the Board. The Committee has also considered the external auditor's management letter and the assumptions underlying the financial statements prior to recommending their approval to the Board.

External Reporting: The Audit Committee has an agreed procedure setting out the basis upon which the Committee will consider and make recommendations as appropriate concerning the appointment, re-appointment or removal of the external auditor. The Committee assesses the qualification, expertise, independence and objectivity of the auditor on an annual basis and has set down a timetable and criteria for making those assessments. Policies concerning the employment of former employees of the external auditor and the use of the external auditor to perform non-audit services have been adopted. In regard to the latter, the Committee believe that there are certain non-audit services where it is cost-effective for the external auditor to be used. These primarily include merger and acquisition due diligence work and tax advisory services. A number of activities are prohibited including work on accounting records, internal audit, IT consultancy and advice to the Remuneration Committee. The policy is consistent with the ethical standards recommended by the Accounting Practices Board.

The Committee approves the scope of each audit, approves the terms of engagement and then reviews the performance of the auditor following the completion of each audit.

The Audit Committee met twice during the period under review and there was a hundred per cent attendance on each occasion.

Remuneration Committee

The membership of the Remuneration Committee comprises the three non-executive Directors and is chaired by H C Marshall, who also acts as its secretary. D L Grove is invited to attend meetings as necessary.

Under its terms of reference, the Remuneration Committee is responsible for:

- ensuring that the Company's executive Directors and certain other agreed senior executives are fairly rewarded for their individual contributions to the Company's overall performance;
- demonstrating to shareholders and other interested parties that the remuneration (including all benefits and terms of employment) of the executive Directors of the Company are set by a committee of Board members who have no personal interest in the outcome of their decisions and who will give due regard to the interests of the shareholders and to the financial and commercial health of the Company; and
- assessing how the Company should comply with established best practice in Directors' remuneration.

A copy of the terms of reference is available on the Company's website.

Full details of the role, policies and activities of the Remuneration Committee are set out in the Directors' Remuneration Report on pages 24 to 29.

The Remuneration Committee met three times during the period under review and the attendance record was as follows:

H C Marshall (Chairman)	3 out of 3 attended
D S Winterbottom	2 out of 3 attended
R E Richardson	3 out of 3 attended

Corporate Governance continued

Nominations Committee
The Nominations Committee comprises the three non-executive Directors and D L Grove (Chief Executive). The Chairman of the Committee is D S Winterbottom and the Company Secretary acts as the secretary of the Committee.

The Board understands that it will clearly be necessary in the medium term to develop the membership of the Board and have put part of the infrastructure in place to enable that process to be implemented at the appropriate time. In particular, they have established the Nominations Committee whose objectives are:

- ensuring that the size and composition of the Board is appropriate to the needs of the Group;
- selecting the most suitable candidate or candidates for appointment to the Board; and
- overseeing succession planning for the Board.

The terms of reference for the Nominations Committee are available on the Company's website.

The Nominations Committee will agree a formal process for making Board appointments, including a decision on whether external assistance would be appropriate, when it deems it necessary to make new appointments. The terms of reference of the Nominations Committee make it clear that the appointment of the Chairman of the Board is a matter for the Board as a whole to consider.

The Board has also approved a standard letter for future non-executive appointments to the Board (including expected time commitments), a fee structure and a standard programme for the induction of new Directors.

One Nominations Committee meeting was held during the period under review to discuss a succession plan and this will be followed up in 2006. Part of the succession plan process will include a review of the job specification for the role of Chairman. All Committee members attended the meeting.

Internal controls
The Directors have overall responsibility for ensuring that the Group maintains a sound system of internal control to provide them with reasonable assurance that all information used within the business and for external publication is adequate. This includes financial, operational and compliance control and risk management, ensuring that assets are safeguarded and shareholders' investment protected.

In line with past practice, the Board has reviewed the internal control system in place during the year and until the date of the approval of this report, which through internal consultation led by the Board ensures that it remains effective. Where weaknesses are identified as a result of the reviews, new procedures are put in place to strengthen controls.

The Board has in place risk assessment processes within all the Group's operations, and procedures have been established to implement the guidance from the Turnbull Report and more recently the Smith Report. There is a process for identifying, managing and reviewing any changes in the risks faced by the business. This process, which is kept under continual review and improvement, has been in place during the year under review and remains in place as at the date of approval of this report. The process operates under the direction of the Board and is reviewed by the Audit Committee.

The key procedures that the Directors have established and which are designed to provide effective internal control for the Group are:

- Regular Board meetings to consider a schedule of matters reserved for the Directors' consideration.
- The Audit Committee of the Board considers significant financial control matters as appropriate.

- Monitoring of the financial performance of operating companies and divisions through analysis of regular financial and management reports together with continuous direct contact with operating company and division management. Consolidated reports and independent commentaries are prepared and submitted to the Board for review at formal monthly Board meetings.
- Maintenance of local operating boards and divisional management teams, enabling the Board to delegate appropriate levels of authority to a small number of subsidiary company directors and managers, all of whom are accountable to the Board.
- The application of a rigorous annual budgeting process. All budgets are subject to approval at Group Board level.
- The review and comparison of detailed monthly management reports, received from each business unit, against budgets and forecasts.
- Adoption of a Group Risk Management Framework that identifies responsibilities at both Group and subsidiary level for the ongoing management of risk across the business.
- The use of a Risk Forum, chaired by the Internal Auditor.
- Programming internal audit work to take account of the risk assessment results and processes.
- The use of external professional advisers to carry out due diligence for potential acquisitions.

The Board is satisfied with the effectiveness of the Group's current system of internal control.

Internal audit
The Committee has set down the criteria by which it will assess the effectiveness of the internal audit function on an annual basis.

In addition to the above areas of activity set out in its terms of reference, the Committee has also approved arrangements by which staff may raise concerns about possible improprieties in matters of financial reporting. This "Whistleblowing Policy" has been communicated to subsidiary companies and employees along with the Group's new disciplinary and grievance procedures.

Group treasury management
The Group's financial instruments comprise borrowing, cash and liquid resources and various items such as trade debtors and trade creditors that arise directly from, and finance, operations.

It is, and has been throughout the period under review and up to the date of approval of this report, the Group's policy that no speculative trading in financial instruments shall be undertaken.

Shareholder communications and relations
The Board recognises the importance of good communications with shareholders and steps have been taken to invite shareholders to meet with more Board members. The Chairman and Senior Independent Director are available to meet with shareholders concerning corporate governance issues, if so required.

The Board wishes to encourage the constructive use of the Company's Annual General Meeting for shareholder communication. Each of the Chairmen of the Audit, Nomination and Remuneration Committees will be in attendance at the forthcoming Annual General Meeting, which will be convened on at least 20 working days' notice.

The Board has again considered whether to make more use of electronic facilities for communication with shareholders and has concluded, in view of the costs involved, that any further steps would not warrant the time or expense.

As with previous practice, the level of proxies cast for each resolution will be communicated following approval of each resolution at the forthcoming Annual General Meeting.

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

Howard Marshall
Chairman of the Remuneration Committee

Dick Richardson
Senior Non-Executive Director

The Directors' Remuneration Report covers all Directors, both executive and non-executive.

The report has been approved by the Board and signed on its behalf by the Chairman of the Remuneration Committee. A resolution to approve this report will be proposed at the Company's Annual General Meeting to be held on 12 May 2006.

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 ("DRRR"), which sets out statutory requirements for the disclosure of Directors' remuneration. DRRR requires the auditor to report to the Company's shareholders on the auditable parts of the Remuneration Committee report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the Companies Act 1985.

INFORMATION NOT SUBJECT TO AUDIT

Remuneration committee and advisers

The Remuneration Committee (the "Committee") determines on behalf of the Board the Company's policy on the remuneration and terms of engagement of the executive Directors and senior executives.

The Committee comprises the non-executive Directors of the Company. The members of the Remuneration Committee during the year were:

H C Marshall (Chairman)
D S Winterbottom
R E Richardson

The Committee members have no personal financial interest, other than as shareholders, in the matters to be decided. They have no conflicts of interest arising from cross-directorships with the executive Directors nor from being involved in the day-to-day business of the Company. They do not participate in any bonus, share option or pension arrangements.

The Committee operates under clear written terms of reference, confirms that its constitution and operation comply with the principles set out in the Combined Code on Corporate Governance, and has applied the principles in section 1 of the Code throughout the year.

The Committee met three times in the period under review. There was a full attendance record for two of the meetings.

The Committee used the services of Buck Consultants as its principal external adviser during 2005 on matters of executive Directors' remuneration. The Committee will also, as necessary, consult with the Chief Executive.

Remuneration policy

Main principles

The Hill & Smith Holdings PLC Group of companies ("the Group") operates in highly competitive environments. For the Group to continue to compete successfully, it is essential that the level of remuneration and benefits offered achieve the objectives of attracting, retaining, motivating and rewarding the necessary high calibre of individuals at all levels across the Group.

The Group therefore sets out to provide competitive remuneration to all its employees, appropriate to the business environment in the markets in which it operates. To achieve this, the remuneration package is based upon the following principles:

- Total rewards should be set to provide a fair and attractive remuneration package.
- Appropriate elements of the remuneration package should be designed to reinforce the link between performance and reward.
- Executive Directors' incentives should be aligned with the interests of shareholders.

The remuneration strategy is designed to be in line with the Company's fundamental values of fairness, competitiveness and equity and also to support the Company's corporate strategy. A cohesive reward structure, consistently applied and with links to corporate performance is seen as critical in ensuring attainment of the Company's strategic goals.

The Company also seeks to align the interests of shareholders and employees at all levels by giving employees opportunities and encouragement to build up a shareholding interest in the Company through the 2005 Executive Share Option Scheme and the 2005 Sharesave Scheme.

Remuneration of executive Directors

Elements of remuneration

The executive Directors' total remuneration currently consists of:

- Fixed Elements: comprising basic salary, benefits and pensions; and
- Performance-Related Elements: comprising performance-related bonus and long-term performance arrangements satisfied by share options.

Each of the above elements of remuneration is explained below.

Basic salary

Basic annual salaries for executive Directors and key senior executives are reviewed annually on 1 January each year or when a material change of responsibility occurs. The level of salary is determined with reference to individual performance and the rates of salary offered for similar roles. Due account is also taken of the responsibilities, skills and experience required to fulfil the executive's role within the Company.

Benefits in kind

These principally comprise car benefits, life assurance, membership of the Group's healthcare insurance scheme and accident insurance. These benefits do not form part of pensionable earnings.

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 that take into account his individual performance and responsibilities in his role as an executive Director.

2005 Executive share option scheme

The 2005 Executive Share Option Scheme was approved by shareholders at the AGM held on 13 May 2005. Under this Scheme options may be awarded at the discretion of the Committee to acquire ordinary shares at an exercise price no lower than the market value (as determined in accordance with the Scheme rules) of a share at the date of grant, subject to an overall limit of grant in any calendar year of one times base salary. The options can only be exercised between three and ten years after the date of grant and following the attainment of a performance condition. The criterion for the performance condition, currently set by the Committee under the Scheme, 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 three year period is not less than the increase in the Retail Price Index plus nine 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. There is no re-testing of the attainment of the performance condition.

Directors' Remuneration Report continued

The Committee may also grant options subject to performance conditions which are significantly more stretching than those ordinarily applied by the Committee on the grant of options. These options, referred to as "High Performance Options", will be subject to a condition requiring top quartile performance by reference to a predetermined measure within a predetermined peer group over a measurement period of not less than three years, before full vesting is permitted.

No options have been granted to Directors under this scheme.

2005 Sharesave scheme
The 2005 Sharesave Scheme is open to all employees (including executive Directors) who have completed six months' continuous service. Under this Scheme the Company can, if it thinks fit, grant options at a price up to twenty per cent below the market price. Exercise of options under the Sharesave Scheme are not subject to any performance condition.

No options have been granted under this Scheme.

Directors' pension provision
C J Burr participates in the Hill & Smith Executive Pension Scheme, a defined benefits arrangement, which provides pensions and other benefits within Inland Revenue limits. The Scheme provides, at normal retirement age, a maximum pension of two-thirds of final pensionable salary, subject to completion of a sufficient number of years' service. Bonus is excluded from the definition of pensionable salary. There are no pension arrangements in place for other Directors and no change took place in C J Burr's arrangements during the year.

Remuneration policy for 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. The non-executives do not participate in any bonus, share option or pension arrangements.

Service agreements
The two executive Directors have service agreements with the Company. The agreements provide for twelve months' notice if terminated by the Company. In the event of a Change in Control the period of notice is also twelve months.

D L Grove's service agreement is terminable by either party on twelve months' notice. During the period of ninety days following a Change in Control the period of notice required to be given by the Company to D L Grove is twelve months and the period of notice required to be given by D L 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 D L Grove or is terminated by the Company without prior notice, D L Grove is entitled to a sum equal to twelve months' salary.

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. 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 is also twelve months. On termination of the service agreement by the Company without prior notice C J 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.

Apart from the above there are no special provisions in the executive Directors' contracts for compensation for loss of office. The Committee would consider the circumstances of any individual case of early termination and would determine compensation payments accordingly. A fair but robust principle of mitigation would be applied to the payment of compensation in the context of professional advice received as to contractual entitlement.

The dates of the contracts are as follows:

D L Grove	9 July 1999
C J Burr	20 June 2001

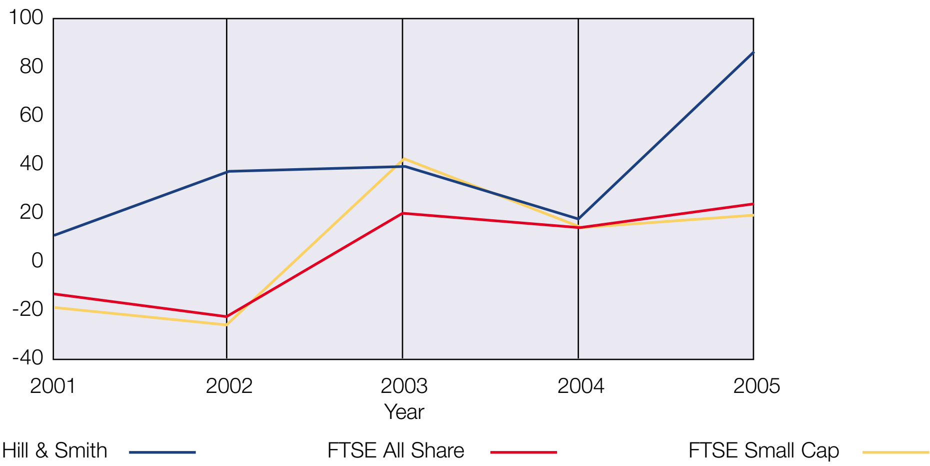
Non-executive appointments
The Chairman has a service agreement with the Company. The Chairman's service agreement is terminable by either party on twelve months' notice but if a Change in Control of the Company takes place the Chairman may at any time within the twelve month period immediately following 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.

The date of the Chairman's contract is 4 March 1999.

Neither H C Marshall nor R E Richardson has a Service Agreement; their appointments are governed by letters of engagement. Under the terms of their engagement, the notice period to be given by both H C Marshall and R E Richardson to the Company is three months and the Company is obliged to give the same length of notice to either H C Marshall or R E Richardson to terminate the engagement.

Total shareholder return
Under Statutory Instrument 2002 Number 1986, we are required to show the total shareholder return over 5 years in graphical form against a broad equity index; this 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.

Directors' Remuneration Report continued

INFORMATION SUBJECT TO AUDIT

Directors' remuneration

	Basic Salary/ Fees £000	Value of Benefits £000	Performance-Related Bonus £000	Total for Year to 31.12.05 £000	Total for Year to 31.12.04 £000
Executive					
D L Grove	360	19	270	649	934*
C J Burr	175	19	87	281	259
Non-executive					
D S Winterbottom	65	—	—	65	54
H C Marshall	30	—	—	30	27
R E Richardson	32	—	—	32	29
Total	662	38	357	1,057	1,303*

* Includes payment of £358,000 for a share option gain as detailed in the 2004 Remuneration Report.

Directors' share options

Options exercised during the year

	Scheme	Shares	Exercise price per share (p)	Date of exercise	Share price on exercise (p)
C J Burr	1995 Approved Executive Scheme	42,000	70.3	9/3/05	163.5
	1999 Non-Approved Executive Scheme	158,000	70.3	9/3/05	163.5
D L Grove	1999 Non-Approved Executive Scheme	500,000	67.1	9/3/05	163.5

The notional gains calculated as at the date of exercise of share options shown in the table above by reference to the middle market price in the London Stock Exchange Daily Official List were: D L Grove £482,000 and C J Burr £186,400.

No options were granted to directors during the year and no variations in the terms and conditions of options shown in the above tables were made.

At 31 December 2005 the mid-market price of the Company's shares was 217.0p. During the year the Company's mid-market share price ranged between a low of 120.5p and a high of 229.5p.

Options outstanding

	At 31 December 2004	Exercised in year	At 31 December 2005	Exercise price (p)	Date first exercisable	Expiry date
C J Burr	42,000*	42,000*	—	70.3	2/7/04	2/7/11
	158,000†	158,000†	—	70.3	2/7/04	2/7/08
	12,360‡	—	12,360‡	100.0	1/1/10	1/7/10
D L Grove	500,000†	500,000†	—	67.1	9/7/02	9/7/06
	12,360‡	—	12,360‡	100.0	1/1/10	1/7/10

* 1995 Executive Share Option Scheme
† 1999 Non-Approved Executive Share Option Scheme
‡ 1995 Savings Related Share Option Scheme

Options granted under the 1995 Executive Share Option Scheme must be exercised between three and ten years after the date of grant and options granted under the 1999 Non-Approved Executive Share Option Scheme must be exercised between three and seven years after the date of grant.

Options granted under these two executive share option schemes cannot be granted at less than market value and, subject to limited exceptions, can only be exercised if a specified performance criterion is met. The performance criterion currently set by the Remuneration Committee under both the 1995 and 1999 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 three year period is not less than the increase in the Retail Price Index plus six 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.

Directors' pensions

Pension benefits earned by the Directors

	C J Burr
Age at year end	56
Accrued benefit at 31 December 2005	£53,387
Increase in accrued benefits excluding inflation	£3,919
Increase in accrued benefits including inflation	£5,220
Directors' contributions	£10,470
Transfer value of accrued benefits at 1 January 2005	£796,168
Transfer value of accrued benefits at 31 December 2005	£975,235

1 The accrued pension entitlement is that which would be paid annually on retirement based on service to the year end.

2 C J Burr has 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 C J Burr's pensions:

(a)	Normal Retirement Age:	60
(b)	Spouse's pensions:	2/3 pension on death after retirement
(c)	Pension increases:	Pensions increase in line with RPI, limited to 5% per annum, subject to a minimum of 3% per annum
(d)	Discretionary benefits:	None

4 The transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. During the period the Scheme Actuary advised the Trustees that the recommended assumptions under GN11 have been revised, particularly in respect of the life expectancy tables and rates of investment returns. This contributed to a part of the increase in transfer value.

D L Grove does not have any pension benefits.

Howard Marshall
Chairman Remuneration Committee
8 March 2006

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards.

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Parent Company.

In preparing each of the Group and Parent Company 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;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Hill & Smith Holdings PLC

We have audited the Group and Parent Company financial statements (the "financial statements") of Hill & Smith Holdings PLC for the year ended 31 December 2005 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. 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' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the Parent Company financial statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 30.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 and whether, in addition, the Group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. 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 other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 other information contained in the Annual 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. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and Company's circumstances, consistently applied and adequately disclosed.

Independent Auditor's Report to the Members of Hill & Smith Holdings PLC continued

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 Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the Parent Company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 31 December 2005; and
- the Parent Company 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
2 Cornwall Street
Birmingham
B3 2DL
8 March 2006

Consolidated Income Statement

Year ended 31 December 2005

		Year ended 31 December 2005			Year ended 31 December 2004		
	Notes	**Underlying results £000**	**Reorganisation and property items £000**	**Total £000**	Underlying results £000	Reorganisation and property items £000	Total £000
Sales	1,2	**277,296**	**—**	**277,296**	268,652	—	268,652
Trading profit		**18,893**	**—**	**18,893**	15,084	—	15,084
Income from associated company	12	**677**	**—**	**677**	—	—	—
Business reorganisation costs	3	**—**	**(4,260)**	**(4,260)**	—	(1,460)	(1,460)
Special bonus and associated costs		**—**	**—**	**—**	—	(424)	(424)
Profit on sale of properties	3	**—**	**4,389**	**4,389**	—	187	187
Operating profit	1,2	**19,570**	**129**	**19,699**	15,084	(1,697)	13,387
Financial income	5	**4,294**	**—**	**4,294**	3,493	—	3,493
Financial expense	5	**(8,166)**	**—**	**(8,166)**	(6,770)	—	(6,770)
Profit before taxation		**15,698**	**129**	**15,827**	11,807	(1,697)	10,110
Taxation	7	**(4,397)**	**2,766**	**(1,631)**	(3,554)	991	(2,563)
Profit for the year		**11,301**	**2,895**	**14,196**	8,253	(706)	7,547
Attributable to:							
Equity holders of the parent				**14,176**			7,539
Minority interest				**20**			8
Profit for the year				**14,196**			7,547
Basic earnings per share	8			**22.52p**			12.16p
Diluted earnings per share	8			**21.82p**			11.63p
Dividend per share — Interim	9			**2.60p**			2.25p
Dividend per share — Final proposed	9			**3.40p**			2.75p
Total	9			**6.00p**			5.00p

Consolidated Statement of Recognised Income and Expense

Year ended 31 December 2005

	Notes	**Year ended 31 December 2005 £000**	Year ended 31 December 2004 £000
Exchange differences on translation of foreign operations		**18**	34
Actuarial loss on defined benefit pension schemes		**(8,094)**	(3,920)
Deferred tax on items taken directly to equity		**2,173**	904
Current tax on items taken directly to equity		**255**	272
Net expense recognised directly in equity		**(5,648)**	(2,710)
Profit for the year		**14,196**	7,547
Total recognised income and expense for the year		**8,548**	4,837
Attributable to:			
Equity holders of the parent	21	**8,528**	4,829
Minority interest		**20**	8
Total recognised income and expense for the year		**8,548**	4,837

Consolidated Balance Sheet

As at 31 December 2005

	Notes	31 December 2005 £000	31 December 2004 £000
Non-current assets			
Intangible assets	10	**29,727**	28,144
Property, plant and equipment	11	**40,972**	44,431
Investment in associated company	12	**24,832**	—
Deferred tax asset	13	**2,407**	—
		97,938	72,575
Current assets			
Assets held for sale — freehold land		**631**	1,746
Inventories	14	**24,804**	27,004
Trade and other receivables	15	**61,057**	58,002
Cash and cash equivalents	16	**16,313**	9,901
		102,805	96,653
Total assets	1	**200,743**	169,228
Current liabilities			
Trade and other liabilities	17	**(79,528)**	(75,596)
Current tax liabilities		**(2,088)**	(2,471)
Interest bearing borrowings	16–19	**(8,162)**	(11,806)
		(89,778)	(89,873)
Net current assets		**13,027**	6,780
Non-current liabilities			
Trade and other liabilities	18	**(427)**	—
Provisions for liabilities and charges	18	**(833)**	(1,629)
Deferred tax liability	13	**—**	(797)
Retirement benefit obligation	23	**(13,885)**	(6,642)
Interest bearing borrowings	16,18,19	**(55,408)**	(36,003)
		(70,553)	(45,071)
Total liabilities	1	**(160,331)**	(134,944)
Net assets	1	**40,412**	34,284
Equity			
Share capital	20	**15,799**	15,519
Share premium	21	**4,036**	3,519
Capital redemption reserve	21	**238**	238
Other reserves	21	**4,313**	4,313
Translation reserve	21	**(38)**	(56)
Equity reserves	21	**15,994**	10,701
Equity attributable to equity holders of the parent		**40,342**	34,234
Minority interests		**70**	50
Total equity		**40,412**	34,284

Approved by the Board of Directors on 8 March 2006 and signed on its behalf by:

D L Grove
Director

C J Burr
Director

Consolidated Statement of Cash Flows

Year ended 31 December 2005

	Notes	£000	Year ended 31 December 2005 £000	£000	Year ended 31 December 2004 £000
Operating profit	1		**19,699**		13,387
Adjusted for non-cash items					
Income from associated company		**(677)**		—	
Share-based payment		**100**		—	
Gain on disposal of property, plant and equipment		**(4,396)**		(223)	
Depreciation		**6,012**		5,522	
Amortisation of intangible assets		**183**		63	
			1,222		5,362
Operating cash flow before movement in working capital			**20,921**		18,749
Decrease/(increase) in inventories		**2,616**		(2,438)	
Increase in receivables		**(2,195)**		(10,667)	
Increase in payables		**2,591**		11,842	
Net movement in working capital			**3,012**		(1,263)
Cash generated by operations	1		**23,933**		17,486
Income taxes paid			**(2,727)**		(2,259)
Interest paid			**(4,676)**		(3,603)
Net cash from operating activities			**16,530**		11,624
Interest received		**455**		95	
Proceeds on disposal of property, plant and equipment		**13,788**		526	
Purchase of property, plant and equipment	1	**(10,776)**		(7,814)	
Purchase of intangible assets	1	**(1,506)**		(432)	
Acquisitions of subsidiaries and associates		**(25,219)**		(2,533)	
Net cash used in investing activities			**(23,258)**		(10,158)
Issue of new shares		**797**		191	
Dividends paid		**(3,134)**		(2,846)	
New loans raised		**25,516**		2,946	
Repayments of loans		**(7,750)**		(4,250)	
Repayment of loan notes		**(1,030)**		(827)	
Repayment of obligations under finance leases		**(1,259)**		(1,102)	
Net cash from/(used in) financing activities			**13,140**		(5,888)
Net increase/(decrease) in cash			**6,412**		(4,422)
Cash at the beginning of the year			**9,901**		14,323
Cash at the end of the year	16		**16,313**		9,901

Group Accounting Policies

Hill & Smith Holdings PLC is a company incorporated in the UK.

The Group considers a company a subsidiary when it holds at least 50% of the shares and voting rights, so that it can influence reasonable control over that entity. The Group considers a company to be an associate when it holds more than 25% of the shares and voting rights, so that it can influence the decisions of that entity. All other trade investments are held on the Balance Sheet in Assets held for sale under Non-current assets.

The Group financial statements consolidate the Company and its subsidiaries together and equity account the Group's interest in associates. The parent company financial statements present information about the Company as a separate entity and not about its Group.

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU. The Company has elected to prepare its parent company financial statements in accordance with UK GAAP — these are presented on pages 63 to 73.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements and in preparing an opening IFRS Balance Sheet at 31 December 2003 for the purposes of the transition to Adopted IFRSs. The principal exception is that, as more fully explained below, financial instruments accounting is determined on different bases in 31 December 2005 and 31 December 2004 due to the transitional provisions of IAS 32 and IAS 39.

Judgements made by the Directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 24.

Transition to Adopted IFRSs
The Group is preparing its financial statements in accordance with Adopted IFRS for the first time and consequently has applied IFRS 1. Examples of how the transition to Adopted IFRSs has affected the reported financial position of the Group is provided in note 27.

In addition to exempting companies from the requirement to restate comparatives for IAS 32 and IAS 39, IFRS 1 grants certain exemptions from the full requirements of IFRSs in the transition period. The following exemptions have been taken in these financial statements:

1. Business combinations — Business combinations that took place prior to 1 January 2004 have not been restated.
2. Fair value or revaluation as deemed cost — At 1 January 2004, fair value has been used as deemed cost for properties previously measured at fair value.
3. Employee benefits — All cumulative actuarial gains and losses on defined benefit plans have been recognised in equity at 1 January 2004.

Early adopted IFRS not authorised at 31 December 2005
The following IFRSs, which have been adopted since 31 December 2005, were available for early application and have been applied.

4. IAS 19 'Employee benefits': In addition, the adopted IFRSs that will be effective or available for early adoption in the annual financial statements for the year ended 31 December 2005 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual financial statements are prepared for the year ended 31 December 2005.

Adopted IFRS not yet applied
The following Adopted IFRSs were available for early application but have not been applied by the Group in these financial statements:

5. IFRS 7 'Financial instruments: Disclosure' applicable for years commencing on or after 1 January 2007.

The application of IFRS 7 in the year ended 31 December 2005 would not have affected the Balance Sheet or Income Statement as the standard is concerned only with disclosure. The Group plans to adopt it from 1 January 2007.

Measurement convention
The financial statements are prepared on the historical cost basis except that the following derivative financial instruments are stated at their fair value. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

Group Accounting Policies continued

Intangible assets
Goodwill on acquisition comprises the excess of fair value of the consideration plus any associated costs for the investment in subsidiary and associate undertakings and joint ventures over the Group's share of the fair value of the net identifiable assets acquired.

The Group has elected not to apply IFRS 3 retrospectively. Goodwill prior to 1 October 1998 was written off to reserves. Goodwill from 1 October 1998 to 31 December 2003 was amortised in line with UK GAAP. The deemed cost of Goodwill as at 1 January 2004 is subject to annual impairment testing.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Customer lists have been valued on acquisition and are amortised over their estimated useful life on an item by item basis.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the Income Statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. Amortisation is provided equally over its estimated useful economic lives.

Property, plant and equipment and depreciation
Depreciation is provided to write off the cost, deemed cost or fair value less the estimated residual value of property, plant and equipment ("PPE") 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.

Hill & Smith Holdings PLC has chosen to take the first time adoption exemption available under IFRS 1 to use a previous revaluation for an item of PPE as its deemed cost at the transition date.

Investments
In these financial statements investments are stated at cost, less amounts written off for impairment.

Assets held for resale
Resale properties are valued at the lower of fair value less cost to sell and their carrying amount. Any surplus, deficit or impairment arising is credited or charged to the Income Statement for the period. These assets are classed as current assets in line with IFRS 5, which was adopted early to give meaningful comparatives.

Inventories
Inventories 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 reliably estimated. Turnover for such contracts is stated as cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous periods. 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 Income Statement, 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.

Financial instruments

Financial assets and liabilities are recognised on the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Trade payables are stated at their nominal value.

Derivative financial instruments of the Group are used to hedge its exposure to interest rate risks arising from operational, financing and investment activities.

In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Income Statement.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the Balance Sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Income Statement over the period of the borrowings on an effective interest basis.

Where there is any significant foreign currency asset or liability a corresponding hedge liability or asset is set up in the same currency in order to minimise any exchange risk to the Group.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents are current assets and liabilities that are cash in hand, cash at bank or bank overdrafts.

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 Income Statement.

The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rate. Income Statements of such undertakings are consolidated at the average exchange rate during the period and the adjustment to period end rates is taken to reserves and reported in the Statement Of Recognised Income and Expense (SORIE).

Net investment hedges for exchange differences arising on the retranslation of the opening net assets of foreign subsidiaries are offset against the exchange differences on foreign currency loans designated to fund them. The ineffective portion of the hedge is recognised in the Income Statement for the period.

The Group has hedged the investment in its overseas associated companies with a fixed rate loan in Euros. Income from the associated company is recognised in the Income Statement, translated at the rate in force at the end of each relevant month, which is deemed a reasonable estimate of the average rate over the period of ownership in the financial year.

The Group has not taken advantage of the option to zero the translation effects of foreign currencies as allowed in IFRS 1 First time adoption of International Accounting Standards.

Group Accounting Policies continued

Provisions
A provision is recognised in the Balance Sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

In accordance with the Group's environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognised when the land is identified as contaminated.

The estimated cost of returning properties held under leases to their original condition in accordance with the terms of specific lease contracts is recognised as soon as such costs are able to be reliably estimated.

Impairment of assets
The carrying amount of the Group's assets is reviewed at each Balance Sheet date to determine whether there is an indication of impairment. Impairment reviews are undertaken at the level of each significant cash generating unit, which the Group generally considers to be each of its subsidiary undertakings. If such an indication exists, the relevant assets are written down to their estimated recoverable amount.

For goodwill, assets that have an indefinite life and intangible assets not yet available for use, the recoverable amount is estimated at each Balance Sheet date.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

Leases
Assets acquired under finance leases where the Group has substantially all the risks and rewards of ownership are capitalised. The outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the Income Statement on a straight-line basis over the period of the lease.

Sales
Except for work completed under long-term contracts (see above), sales represent the amount (excluding value added tax) invoiced to third party customers following the delivery of goods or provision of services.

Segmental reporting
The primary segmental analysis provided represents the whole of the Group's operations. The secondary geographical analysis is regarded by the management as unnecessary as substantially all of the Group's operations are performed in the UK.

Government grants
Government grants are recognised as a liability in the Balance Sheet and credited to operating profit over the estimated useful economic life or the length of employment specified in the grant.

Guarantees
The Group has not adopted amendments to IAS 39 and IFRS 4 in relation to financial guarantee contracts which will apply for periods commencing on or after 1 January 2006.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

The Group does not expect the amendments to have any impact on the financial statements for the period commencing 1 January 2006.

Retirement benefit costs
The Group operates pension schemes under which contributions by employees and by the sponsoring companies are held in trust funds separated from the Group's finances.

Obligations for contributions to defined contribution pension schemes are recognised as an expense in the Income Statement as incurred.

The Group's net obligation in respect of defined benefit pension schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any scheme assets is deducted. The discount rate is the yield at the Balance Sheet date on AA rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit method. Scheme assets are valued at bid price.

Current and past service costs are recognised in operating profit within the Income Statement. Also in the Income Statement, the expected return on pension scheme assets is included in financial income and the expected costs on pension scheme liabilities in financial expense.

All actuarial gains and losses in calculating the Group's obligation in respect of a scheme are recognised annually in reserves and reported in the Statement Of Recognised Income and Expense (SORIE).

Borrowing costs expensed
Borrowing costs are recognised in the Income Statement as they are incurred.

Share-based payment transactions
The fair value of shares/options granted is recognised as an employee expense, with a corresponding increase in equity reserves. The fair value is recognised at the grant date and spread over the period the employees become unconditionally entitled to the shares/options. The fair value is based on market value. The Black-Scholes model has been adopted as the method of evaluating the fair value of the options.

In accordance with IFRS 2 transitional arrangements, no expense is recorded for equity settled options granted prior to 7 November 2002, but not vested by 1 January 2005.

Income tax
Income tax on the profit or loss for the year represents the sum of the tax currently payable and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable profit for the year. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible. The Group's liability for current tax is calculated using tax rates enacted or substantially enacted at the Balance Sheet date, and any adjustments to tax payable in respect of previous years.

Deferred taxation
Deferred tax is provided in full using the Balance Sheet liability method. It is the tax expected to be payable or recoverable on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets and liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the Balance Sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of deferred tax assets are reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Notes to the Consolidated Financial Statements

1 Segmental information

The Group is currently organised into three main operating segments which represent its primary segmental information. All operations are continuing.

Income Statement	Year ended 31 December 2005 Sales £000	Operating profit £000	Underlying operating profit* £000	Year ended 31 December 2004 Sales £000	Operating profit £000	Underlying operating profit* £000
Infrastructure Products†	**107,414**	**11,872**	**13,003**	95,729	8,274	9,103
Building and Construction Products	**131,797**	**4,353**	**4,816**	134,120	3,834	4,512
Industrial Products	**38,085**	**3,474**	**1,751**	38,803	1,279	1,469
Total Group	**277,296**	**19,699**	**19,570**	268,652	13,387	15,084
Net financing costs		**(3,872)**	**(3,872)**		(3,277)	(3,277)
Profit before taxation		**15,827**	**15,698**		10,110	11,807
Taxation		**(1,631)**	**(4,397)**		(2,563)	(3,554)
Profit after taxation		**14,196**	**11,301**		7,547	8,253

* Underlying operating profit is stated before reorganisation and property items.

† 2005 includes £677,000 (2004: £Nil) income from associated company.

Balance Sheet	31 December 2005 Total assets £000	Total liabilities £000	31 December 2004 Total assets £000	Total liabilities £000
Infrastructure Products†	**94,993**	**(20,918)**	69,916	(21,535)
Building and Construction Products	**55,289**	**(33,973)**	58,671	(33,571)
Industrial Products	**31,741**	**(18,050)**	30,740	(16,564)
Total operations	**182,023**	**(72,941)**	159,327	(71,670)
Tax and dividends	**2,407**	**(9,102)**	—	(7,194)
Non-current items	**—**	**(14,718)**	—	(8,271)
Net debt	**16,313**	**(63,570)**	9,901	(47,809)
Total Group	**200,743**	**(160,331)**	169,228	(134,944)
Net assets		**40,412**		34,284

† 2005 includes £24,832,000 (2004: £Nil) investment in associated company.

Cash flows	Year ended 31 December 2005 Cash flow £000	Underlying cash flow* £000	Year ended 31 December 2004 Cash flow £000	Underlying cash flow* £000
Infrastructure Products	**10,826**	**12,846**	10,133	10,956
Building and Construction Products	**10,087**	**11,282**	5,112	5,794
Industrial Products	**3,020**	**3,346**	2,241	2,427
Cash generated by operations	**23,933**	**27,474**	17,486	19,177

* Underlying cash flow is stated before reorganisation and property items.

1 **Segmental information** continued

Capital expenditure included within cash flow from investing activities	**Year ended 31 December 2005 £000**	Year ended 31 December 2004 £000
Infrastructure Products	**(7,971)**	(5,118)
Building and Construction Products	**(2,761)**	(2,000)
Industrial Products	**(1,550)**	(1,128)
Total Group capital expenditure	**(12,282)**	(8,246)
Purchase of property, plant and equipment	**(10,776)**	(7,814)
Purchase of intangible assets	**(1,506)**	(432)
Total Group capital expenditure	**(12,282)**	(8,246)

Geographical sales

No secondary segmental split is presented as substantially all of the Group's operations are based in the UK, the only overseas based operations are in Ireland and Thailand. The Group's associated company Zinkinvent GmbH operates outside of the UK (see note 12). An analysis of sales by geographical market, irrespective of the origin, is shown below.

	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
UK	**249,440**	245,361
Rest of Europe	**18,259**	18,443
Asia	**7,291**	2,455
USA	**686**	770
Rest of World	**1,620**	1,623
Total	**277,296**	268,652

2 **Operating profit**

	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
Sales	**277,296**	268,652
Cost of sales	**(207,943)**	(206,993)
Gross profit	**69,353**	61,659
Income from associated company	**677**	—
Distribution costs	**(21,039)**	(20,839)
Administrative expenses	**(29,538)**	(25,896)
Profit on sale of fixed assets	**7**	36
Reorganisation and property items (see note 3)	**129**	(1,697)
Rental income from properties	**110**	124
Operating profit	**19,699**	13,387

3 **Reorganisation and property items**

Business reorganisation costs

These relate primarily to the costs of relocating galvanizing production from the Digbeth operation of Joseph Ash Limited and the Hartlepool operation of Birtley Building Products Limited to alternative locations, and the costs arising from the restructuring of Express Reinforcements Limited including the closure of its Rainham depot.

Profit on sale of properties

This relates to the sale of two vacant properties and the sale and leasebacks of five other operating properties. No tax liability arises on the profit on these sales due to the availability of indexation allowances and capital losses for offset. The tax credit for the year includes a deferred tax benefit of £1,363,000 relating to the grant of subordinated interest leases.

Notes to the Consolidated Financial Statements continued

4 Employees

	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
The average number of people employed by the Group during the year		
Infrastructure Products	**958**	999
Building and Construction Products	**927**	881
Industrial Products	**461**	440
	2,346	2,320

	£000	£000
The aggregate remuneration for the year		
Wages and salaries	**52,772**	49,923
Share-based payments	**100**	—
Social security costs	**5,346**	4,972
Pension cost (see note 23)	**1,794**	1,701
	60,012	56,596

Details of the Directors' remuneration and share interests are given in the Directors' Remuneration Report on pages 24 to 29.

5 Net financing costs

	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
Financial income		
Interest on bank deposits	**578**	95
Gain on interest rate swap (see note 19)	**160**	—
Expected return on pension scheme assets (see note 23)	**3,556**	3,398
	4,294	3,493
Financial expense		
Interest on bank loans and overdrafts	**4,418**	3,475
Amortisation of arrangement fees	**276**	138
Interest on finance leases and hire purchase contracts	**193**	187
Expected interest cost on pension scheme obligations (see note 23)	**3,205**	2,896
Interest on other loans	**74**	74
	8,166	6,770
Net financing costs	**3,872**	3,277

6 Expenses and auditor's remuneration

	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
Income Statement charges		
Depreciation of tangible fixed assets:		
Owned	**4,972**	5,110
Leased	**1,040**	475
Amortisation of intangible assets	**183**	—
Operating lease rentals:		
Plant and machinery	**1,270**	777
Other	**4,173**	4,388
Research and development expenditure	**—**	65
Auditor's remuneration (see below)	**469**	391
Income Statement credits		
Profit on disposal of properties	**4,389**	187
Profit on disposal of other fixed assets	**7**	36
Grants receivable	**23**	3
Rental income	**3,144**	1,988
Foreign exchange gain	**81**	197
A detailed analysis of the auditor's remuneration worldwide is as follows:		
Statutory audit	**261**	222
Further assurance services	**95**	64
Tax advisory services	**49**	60
Other services	**64**	45
	469	391

A description of the work of the Audit Committee is set out in the Corporate Governance Report on pages 20 and 21 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

7 Tax on profit

	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
Current tax		
UK corporation tax at 30% (2004: 30%)	**2,519**	2,558
Adjustments in respect of prior periods	**(30)**	—
Foreign tax at prevailing local rates	**110**	39
	2,599	2,597
Deferred tax (see note 13)		
Current year	**(980)**	128
Adjustments in respect of prior periods	**12**	(162)
Tax on profit in the Income Statement	**1,631**	2,563

Notes to the Consolidated Financial Statements continued

7 Tax on profit continued

The tax charge is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
Profit before taxation	**15,827**	10,110
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	**4,748**	3,033
Expenses not deductible for tax purposes	**360**	301
Deductible employee share option gains not charged against profit	**(309)**	(412)
Income from associated company already taxed	**(203)**	—
Capital profits less losses and write-downs not subject to tax	**(1,526)**	(98)
Deferred tax benefit arising from asset disposals	**(1,363)**	(110)
Overseas profits taxed at lower rates	**(58)**	(35)
Overseas losses not relieved	**—**	46
Adjustments in respect of previous periods	**(18)**	(162)
Tax charge	**1,631**	2,563

In addition to the deferred tax credit in the Income Statement, deferred tax of £63,000 (2004: £nil) has been credited direct to equity relating to share-based payments.

8 Earnings per share

The weighted average number of shares in issue during the year was 62,960,978 (2004: 61,999,081), diluted for the effects of outstanding share options 64,968,617 (2004: 64,805,705). Underlying earnings per share have been shown because the Directors consider that this gives a more meaningful indication of the underlying performance of the Group.

	Year ended 31 December 2005 Pence per share	**Year ended 31 December 2005 £000**	Year ended 31 December 2004 Pence per share	Year ended 31 December 2004 £000
Basic earnings	**22.52**	**14,176**	12.16	7,539
Less effect of reorganisation and property items	**4.60**	**2,895**	(1.14)	(706)
Underlying earnings	**17.92**	**11,281**	13.30	8,245
Diluted earnings	**21.82**	**14,176**	11.63	7,539
Less effect of reorganisation and property items	**4.46**	**2,895**	(1.09)	(706)
Underlying diluted earnings	**17.36**	**11,281**	12.72	8,245

9 Dividends

Dividends declared after the balance sheet date are not recognised as a liability, in accordance with IAS 10. The Directors have recommended a final dividend for the current year, subject to shareholder approval, as shown below. The Directors feel it is important that this information be disclosed even though the recommended figure no longer forms part of the financial statements under International Accounting Standards.

	Year ended 31 December 2005 Pence per share	**Year ended 31 December 2005 £000**	Year ended 31 December 2004 Pence per share	Year ended 31 December 2004 £000
Equity shares:				
Interim	**2.60**	**1,643**	2.25	1,397
Final proposed	**3.40**	**2,149**	2.75	1,737
Total	**6.00**	**3,792**	5.00	3,134

10 Intangible fixed assets

	Goodwill £000	Customer lists and licences £000	Capitalised development costs £000	Total £000
Cost				
At 1 January 2004	27,238	4	—	27,242
Acquisitions	350	122	—	472
Additions	—	3	429	432
At 31 December 2004	27,588	129	429	28,146
Acquisitions	240	20	—	260
Additions	5	11	1,490	1,506
At 31 December 2005	**27,833**	**160**	**1,919**	**29,912**
Amortisation and impairment losses				
At 1 January 2004	—	2	—	2
At 31 December 2004	—	2	—	2
Amortisation charge for the year	—	8	175	183
At 31 December 2005	**—**	**10**	**175**	**185**
Carrying values				
At 1 January 2004	27,238	2	—	27,240
At 31 December 2004	27,588	127	429	28,144
At 31 December 2005	**27,833**	**150**	**1,744**	**29,727**

The Group has elected to adopt the IFRS 1 exemption in relation to business combinations and will only apply IFRS 3 Business combinations prospectively from 1 January 2004. As a result, the balance of goodwill under UK GAAP as at 31 December 2003 will be deemed to be the cost of goodwill at 1 January 2004. Specific identified intangible assets from subsequent acquisitions and additions are being amortised over their useful lives, which is their contracted life in the case of licences, over a specific determination for customer lists and 7 years for development costs. Amortisation is charged through administrative expenses.

In August 2005 the Group acquired the business and certain assets of Techspan Systems Limited, a manufacturer of highway variable messaging signs and related products, for a cash consideration of £0.9 million. This operation now forms a division of Hill & Smith Limited.

Impairment tests analysing the carrying values of intangible fixed assets for each significant cash generating unit against future benefits generated by the respective unit, discounted at prevailing rates, have resulted in no impairment provision being necessary.

Notes to the Consolidated Financial Statements continued

11 Property, plant and equipment

	Land and buildings £000	Plant, machinery and vehicles £000	Total £000
Cost			
At 1 January 2004	17,407	80,518	97,925
Exchange adjustments	—	(16)	(16)
Acquisitions	911	400	1,311
Additions	1,077	6,494	7,571
Disposals	(66)	(4,236)	(4,302)
At 31 December 2004	19,329	83,160	102,489
Exchange adjustments	—	(2)	(2)
Acquisitions	—	46	46
Additions	661	10,123	10,784
Disposals	(8,430)	(6,550)	(14,980)
Reclassification	(7)	7	—
At 31 December 2005	**11,553**	**86,784**	**98,337**
Depreciation and impairment losses			
At 1 January 2004	1,364	55,124	56,488
Exchange adjustments	—	(4)	(4)
Disposals	—	(4,011)	(4,011)
Charge for the year	263	5,322	5,585
At 31 December 2004	1,627	56,431	58,058
Exchange adjustments	—	(2)	(2)
Disposals	(846)	(5,857)	(6,703)
Reclassification	(1)	1	—
Charge for the year	287	5,725	6,012
At 31 December 2005	**1,067**	**56,298**	**57,365**
Carrying values			
At 1 January 2004	16,043	25,394	41,437
At 31 December 2004	17,702	26,729	44,431
At 31 December 2005	**10,486**	**30,486**	**40,972**

IFRS state that any property, plant and equipment held at valuation as at 31 December 2003 will be deemed to be the cost as at 1 January 2004 (see note 10 re goodwill).

The gross book value of land and buildings includes freehold land of £3,921,000 (2004: £7,959,000).

Included in the carrying value of plant, machinery and vehicles is £4,528,000 (2004: £3,782,000) 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 £11,801,000 (2004: £7,497,000) and accumulated depreciation of £2,139,000 (2004: £1,240,000).

12 Investments in associates

	Investment £000	Loan £000	Total £000
Fair Value			
Additions	17,254	6,901	24,155
Income from associated company	677	—	677
At 31 December 2005	**17,931**	**6,901**	**24,832**
Carrying values			
At 31 December 2005	**17,931**	**6,901**	**24,832**

In May 2005 the Group invested €35,000,000 (€25,000,000 to acquire 33% of the ordinary shares and a €10,000,000 loan) in Zinkinvent GmbH, a German holding company which owns 86% of Vista NV, a Belgian company with galvanizing and lighting pole fabrication businesses in Benelux, France and the United States of America. The results of this business are being equity accounted into the results of the Group.

The Group's share of the post acquisition profit of Zinkinvent GmbH for the year ended 31 December 2005, which is stated net of local income tax, was £677,000 (2004: £Nil). The summary financial information of this associate, based on 100% is as follows:

	31 December 2005 £000	31 December 2004 £000
Assets	**131,192**	—
Liabilities	**(95,220)**	—
Equity	**35,972**	—
Revenues	**114,373**	—
Net profit	**4,773**	—

13 Deferred taxation

Details of amounts provided for deferred taxation are as follows:

	31 December 2005 £000	31 December 2004 £000
At 1 January	**(797)**	(1,735)
Credited for the year in the Income Statement	**968**	34
Credited for the year in the Statement of Recognised Income and Expense	**2,173**	904
Credited in the year through the Equity Reserve	**63**	—
At 31 December	**2,407**	(797)
Difference between accounts value and tax value of fixed assets	**(2,187)**	(3,305)
Retirement obligation	**4,166**	1,993
Other timing differences	**428**	515
Deferred tax asset/(liability)	**2,407**	(797)

Certain deferred tax assets and liabilities have been offset for financial reporting purposes as follows:

	31 December 2005 £000	31 December 2004 £000
Deferred tax assets	**5,978**	2,982
Deferred tax liabilities	**(3,571)**	(3,779)
Deferred tax asset/(liability)	**2,407**	(797)

At 31 December 2005 the Group had a deferred tax asset representing unused capital losses not recognised of £12,249,000 (2004: £15,218,000), of which £2,726,000 (2004: £3,863,000) are available for set off generally against future capital gains and £9,523,000 (2004: £11,355,000) are available for set off against certain future capital gains relating primarily to disposals of assets owned by companies when they were acquired by the Group.

Notes to the Consolidated Financial Statements continued

14 Inventories

	31 December 2005 £000	31 December 2004 £000
Raw materials and consumables	**10,910**	12,623
Work in progress	**2,752**	2,895
Finished goods and goods for resale	**11,142**	11,486
	24,804	27,004

15 Trade and other receivables

	31 December 2005 £000	31 December 2004 £000
Trade and other current receivables		
Trade receivables	**53,785**	53,692
Prepayments and accrued income	**3,673**	2,668
Fair value derivatives (see note 19)	**160**	—
Other receivables	**3,439**	1,642
	61,057	58,002

16 Cash and borrowings

	31 December 2005 £000	31 December 2004 £000
Cash and bank balances	**2,271**	7,322
Call deposits	**14,042**	2,579
Cash	**16,313**	9,901
Interest bearing loans and borrowings (see notes 17 - 19)		
Amounts due within one year	**(8,162)**	(11,806)
Amounts due after more than one year	**(55,408)**	(36,003)
Net debt	**(47,257)**	(37,908)
Add back borrowings taken on to finance the investment in Zinkinvent GmbH	**24,654**	—
Underlying net debt	**(22,603)**	(37,908)

17 Current liabilities

	31 December 2005 £000	31 December 2004 £000
Interest bearing loans and borrowings		
Current portion of long term borrowings	**6,876**	9,612
Finance lease and hire purchase obligations	**1,192**	1,070
Loan notes	**94**	1,124
	8,162	11,806
Other current liabilities		
Trade payables	**49,232**	48,552
Bills of exchange	**8,545**	8,067
Other taxation and social security	**5,371**	2,529
Accrued expenses	**11,000**	8,278
Payments received in advance	**317**	2,365
Dividend	**1,643**	1,397
Other payables	**3,420**	4,408
	79,528	75,596

18 Non-current liabilities

	31 December 2005 £000	31 December 2004 £000
Interest bearing loans and borrowings		
Long term borrowings	**53,261**	33,757
Finance lease and hire purchase obligations	**2,147**	2,246
	55,408	36,003
Other non-current liabilities		
Deferred government grants	**427**	—

Group net indebtedness and the effective interest rates at the balance sheet date for 2005 follow. The interest bearing loans and borrowings are also analysed into the periods in which they mature.

	Effective interest rate %	31 December 2005 Amount £000	31 December 2004 £000
Cash			
Cash and bank balances	**0.00**	**2,271**	7,322
Call deposits	**4.48**	**14,042**	2,579
		16,313	9,901
Bank borrowings			
Amounts due within one year	**5.61**	**6,876**	9,612
Amounts due after more than one year			
Between one and two years	**3.97**	**30,261**	5,112
Between two and five years	**5.61**	**23,000**	28,645
		53,261	33,757
		60,137	43,369
Loan notes			
Amounts due within one year	**3.64**	**94**	1,124

		31 December 2005		31 December 2004	
	Effective interest rate %	Minimum lease payment £000	Principal £000	Minimum lease payment £000	Principal £000
Finance leases and hire purchase obligations					
Amounts due within one year	**5.18**	**1,351**	**1,192**	1,227	1,070
Amounts due after more than one year					
Between one and two years	**5.18**	**1,204**	**1,062**	1,466	1,305
Between two and five years	**5.18**	**1,231**	**1,085**	1,057	941
		2,435	**2,147**	2,523	2,246
		3,786	**3,339**	3,750	3,316
Principal liability		**3,339**		3,316	
Finance charges payable on outstanding commitments		**447**		434	

The bank borrowings carry a rate of interest of up to 1.25% 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 borrowings due within one year is £2,000,000 (2004: £5,000,000) in respect of a revolving credit facility of which refinancing is permitted, the earliest date the lender can require repayment being 30 June 2008. In the absence of the refinancing facility, this amount would have been repayable on 31 January 2006.

Notes to the Consolidated Financial Statements continued

18 Non-current liabilities continued

Provisions for liabilities and charges

	Total £000
At 1 January 2004 and 31 December 2004	1,629
Provisions released during the year	(731)
Utilised during the year	(65)
At 31 December 2005	**833**

Provisions relate to potential property related liabilities such as environmental costs and dilapidations on leasehold properties.

19 Financial instruments

(a) Management of financial risks

The Group's major financial risks relate to movements of interest and exchange rates. Management continually reviews 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 used a sterling interest rate swap which expired on 30 December 2005 (2004: fixed approximately 20% of its year end gross borrowings at a base rate of 6.11%). It also used a euro interest rate swap to fix approximately 40% (2004: 0%) of its year end gross borrowings at an effective rate of 3.6%. This swap expires in May 2007.

Credit risk

It is the Group's policy to insure substantially all of the Group's trade debtors. Any residual risk is spread across a significant number of customers.

Currency exposure

The Group is subject to fluctuations in exchange rates on its net overseas investments and on transactional monetary assets and liabilities not denominated in the operating currency of the operating unit concerned.

The Group is predominantly UK based and undertakes the majority of its transactions in sterling. Consequently it has no material transactional monetary assets or liabilities denominated in currencies other than the functional currencies of its respective geographical areas of operation. The Group uses forward exchange contracts to hedge the majority of exposures that do exist.

(b) Financial assets

The Group's financial assets, excluding short term debtors, consist mainly of cash call deposit accounts 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, are set out below. Fixed rate financial liabilities comprise sterling and euro denominated finance leases and hire purchase agreements and bank loans. Floating rate financial liabilities comprise sterling and euro denominated bank loans and overdrafts, and sterling finance leases and hire purchase agreements. The floating rate financial liabilities bear interest at rates related to bank base rates or LIBOR.

	Exchange rate	Floating rate financial liabilities £000	€000	Fixed rate financial liabilities £000	Total £000
Currency					
Sterling at 31 December 2005		**38,916**		**—**	**38,916**
Euro at 31 December 2005	**1.449**	**—**	**35,724**	**24,654**	**24,654**
Total at 31 December 2005		**38,916**		**24,654**	**63,570**
Sterling at 31 December 2004		38,309		9,500	47,809

19 Financial instruments continued

	Fixed rate financial liabilities	
	Weighted average interest rate %	**Weighted average period for which rate is fixed years**
Euro at 31 December 2005	**4.4**	**1.4**
Sterling at 31 December 2004	5.4	0.8

(d) Maturity profile

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

At 31 December 2005 the Group had the following undrawn committed facilities, in respect of which all conditions precedent had been met:

	31 December 2005 £000	31 December 2004 £000
Undrawn committed borrowing facilities		
Expiring after more than two years	**20,500**	17,500

(e) Fair values

The gain on the fixed rate interest swap of £160,000 (2004: £Nil) is the result of euro interest rates being higher at 31 December 2005 than when the derivative was taken out. The value of the Group's other financial instruments at 31 December 2005 was not materially different to their carrying value. Fair values were calculated using market rates where available, otherwise cash flows were discounted at prevailing rates.

(f) Hedging

The Group has hedged the €35,000,000 investment in Zinkinvent GmbH (see note 12) by a €35,000,000 fixed rate loan in Euros (see above and note 16).

(g) Sensitivity analysis

In managing interest rate and currency risks the Group aims to reduce the impact of short term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates may have an impact on consolidated earnings.

20 Called up share capital

	31 December 2005 £000	31 December 2004 £000
Authorised		
80,000,000 Ordinary shares of 25p each (2004: 80,000,000)	**20,000**	20,000
Allotted, called up and fully paid		
63,197,403 Ordinary shares of 25p each (2004: 62,075,294)	**15,799**	15,519

During the year the Company issued 1,122,109 shares under its various share option schemes (2004: 377,810), realising £798,000 (2004: £191,000).

Notes to the Consolidated Financial Statements continued

20 Called up share capital continued

Options over the Company's shares outstanding at:

	31 December 2005		31 December 2004			
	Number of shares	**Option price (p)**	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	**—**	**—**	65,599	114	20 Feb 1999	20 Feb 2006
	23,000	**69**	74,000	69	4 Aug 2002	4 Aug 2009
	10,000	**70**	52,000	70	2 July 2004	2 July 2011
	15,000	**66**	173,000	66	21 Jan 2005	21 Jan 2012
1999 Non-Approved Executive Share Option Scheme	**—**	**—**	500,000	67	9 July 2002	9 July 2006
	—	**—**	4,000	69	4 Aug 2002	2 Aug 2006
	—	**—**	158,000	70	2 July 2004	2 July 2008
	32,000	**66**	177,000	66	21 Jan 2005	21 Jan 2012
2005 Executive Share Option Scheme (granted October 2005)*	**353,248**	**205**	—	—	4 Oct 2008	4 Oct 2015
2005 Non-Approved Executive Share Option Scheme (granted October 2005)*	**229,764**	**205**	—	—	4 Oct 2008	4 Oct 2015
1995 Savings Related Share Option Scheme (granted January 2005)*	**1,344,627**	**100**	1,458,759	100	1 Jan 2010	1 July 2010
Outstanding at the end of the year	**2,007,639**		2,730,411			
Exercisable at the year end	**80,000**		921,652			
Not exercisable at the year end	**1,927,639**		1,808,759			
Outstanding at the end of the year	**2,007,639**		2,730,411			

* Qualify as share-based payments under IFRS 2 (see below).

The movement and weighted average exercise prices of share options are as follows:

	Weighted average exercise price (p) 2005	**Number of options 2005**	Weighted average exercise price (p) 2004	Number of options 2004
At 1 January	**87**	**2,730,411**	68	1,772,500
Exercised during the year	**(71)**	**(1,122,109)**	(54)	(388,487)
Granted during the year	**205**	**583,012**	100	1,458,759
Lapsed during the year	**(99)**	**(183,675)**	(70)	(112,361)
At 31 December	**129**	**2,007,639**	87	2,730,411

The weighted average share price for the year ended 31 December 2005 was 177p (2004: 105p).

Share-based payments

All option schemes marked qualifying as share-based payments have 2005 as their first qualifying year.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model. The contractual life is the life of the option in question and growth in dividend yield is based on the best current estimate of future yields over the contractual period.

20 Called up share capital continued

	1995 Savings Related Share Option Scheme		2005 Share Option Schemes	
	2005	2004	**2005**	2004
Fair value at measurement date	**37p**	—	**78p**	—
Exercise price	**100p**	—	**205p**	—
Expected volatility	**36%**	—	**36%**	—
Option life	**5**	—	**10**	—
Dividend yield	**3.7%**	—	**3.7%**	—
Risk free interest rate	**4.5%**	—	**4.5%**	—

The expected volatility is wholly based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

Share options have been granted to qualifying employees in line with either Inland Revenue approved or non-approved schemes, as indicated above. The strike price for the option is made based on the market values of shares at the date the option is offered.

The total expenses recognised for the period arising from share based payments are as follows:

	2005 **£000**	2004 £000
Expensed during the year	**100**	—

21 Share premium and reserves

	Share premium £000	**Capital redemption reserve £000**	**Other reserves £000**	**Translation reserve £000**	**Equity reserves £000**
At 1 January 2004	3,423	238	4,313	(90)	8,841
Total recognised income and expense for the year	—	—	—	34	4,795
Dividends	—	—	—	—	(2,935)
Shares issued	96	—	—	—	—
At 31 December 2004	3,519	238	4,313	(56)	10,701
Total recognised income and expense for the year	—	—	—	18	8,510
Dividends	—	—	—	—	(3,380)
Deferred tax transfer	—	—	—	—	63
Reversal of share-based payment costs in the Income Statement	—	—	—	—	100
Shares issued	517	—	—	—	—
At 31 December 2005	**4,036**	**238**	**4,313**	**(38)**	**15,994**

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.

Notes to the Consolidated Financial Statements continued

22 Guarantees and other financial commitments

(a) Guarantees

The Group had guarantees outstanding to a bank in respect of performance bonds of £5,058,000 (2004: £4,122,000).

(b) Capital commitments

	31 December 2005 £000	31 December 2004 £000
Contracted for but not provided in the accounts	**1,410**	335

(c) Operating lease commitments

Annual commitments under non-cancellable operating leases expiring as follows:

	31 December 2005		31 December 2004	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Within one year	**3,306**	**1,679**	2,901	1,530
Between one and two years	**3,095**	**1,365**	2,556	1,201
Between two and five years	**7,692**	**1,560**	6,572	1,575
After five years	**26,254**	**1**	21,192	1
	40,347	**4,605**	33,221	4,307

23 Pensions

The Group operates two main pension schemes; one providing benefits accruing in the future on a defined benefit basis and a second 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 Group. 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. There is also a separate Group personal pension plan operated by one of the Group's subsidiaries.

The Income Statement for the year includes a pension charge of £1,794,000 (2004: £1,701,000), which includes the costs of the defined contribution scheme and the defined benefit scheme which are detailed below.

Composition of the scheme

The Group operates defined benefit schemes in the UK. A full actuarial valuation of the schemes was last carried out as at 5 April 2003 and updated to 31 December 2005 by a qualified actuary.

The principal assumptions used by the actuary

	31 December 2005	31 December 2004
Rate of increase in salaries	**4.00%**	3.90%
Rate of increase in pensions in payment	**2.80%**	2.65%
Discount rate	**4.75%**	5.60%
Inflation	**2.90%**	2.75%
Mortality table	**PA92C2005**	PA92Base
The mortality assumptions imply the following expected future lifetimes from age of 65		
Males	**18.5 years**	16.9 years
Females	**21.4 years**	19.9 years

The assumptions have been chosen by the Directors from a range of possible actuarial assumptions which, due to timescales covered, may not be borne out in practice.

23 Pensions continued

Assets and liabilities

One scheme holds assets and liabilities in respect of defined contribution benefits; these are equal in value and are excluded from the following figures. The fair value of scheme assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the value of the scheme liabilities, which is derived from cash flow projections over long periods and is therefore inherently uncertain, are as follows:

	Rate of return expected 31 December 2005 %	**Market Value 31 December 2005 £000**	Rate of return expected 31 December 2004 %	Market Value 31 December 2004 £000
Assets				
Equities	**7.50**	**36,138**	8.00	29,229
Bonds	**4.75**	**6,966**	5.60	6,220
Gilts	**4.10**	**3,430**	4.75	3,117
With Profits policies	**5.25**	**8,744**	6.10	10,122
Cash	**4.10**	**2,225**	4.75	1,501
Other	**—**	**—**	8.00	410
Total fair value of scheme assets	**6.49**	**57,503**	7.03	50,599
Present value of scheme funded obligations		**(71,388)**		(57,241)
Retirement benefit obligation		**(13,885)**		(6,642)

	Year ended 31 December 2005			Year ended 31 December 2004		
	Defined contribution schemes £000	**Defined benefit schemes £000**	**Total £000**	Defined contribution schemes £000	Defined benefit schemes £000	Total £000
Total expense recognised in the Income Statement						
Current service costs	**1,173**	**621**	**1,794**	1,031	717	1,748
Gain on curtailments and settlements	**—**	**—**	**—**	—	(47)	(47)
Charge to operating profit	**1,173**	**621**	**1,794**	1,031	670	1,701
Expected return on pension scheme assets	**—**	**(3,556)**	**(3,556)**	—	(3,398)	(3,398)
Expected interest cost on pension scheme obligations	**—**	**3,205**	**3,205**	—	2,896	2,896
Total charged to profit before tax	**1,173**	**270**	**1,443**	1,031	168	1,199

The majority of the current service costs of the defined benefit scheme are charged through administrative expenses.

	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
Change in the present value of the defined benefit obligations		
At 1 January	**57,241**	51,241
Current service costs	**621**	717
Interest cost	**3,205**	2,896
Actuarial losses	**13,142**	4,465
Gain on curtailments and settlements	**—**	(47)
Employee contributions	**167**	178
Benefits paid	**(2,988)**	(2,209)
At 31 December	**71,388**	57,241

Notes to the Consolidated Financial Statements continued

23 Pensions continued

	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
Changes in fair values of scheme assets		
At 1 January	**50,599**	47,571
Expected return on assets	**3,556**	3,398
Actuarial gains	**5,048**	545
Employer contributions	**1,121**	1,116
Employee contributions	**167**	178
Benefits paid	**(2,988)**	(2,209)
At 31 December	**57,503**	50,599
Actual return on scheme assets	**8,604**	3,943
Expected employer contributions in the following year:		
Defined benefit schemes	**1,143**	1,121
Defined contribution schemes	**1,230**	1,173

	% of scheme assets/ liabilities %	**Year ended 31 December 2005 £000**	% of scheme assets/ liabilities %	Year ended 31 December 2004 £000
Amounts recognised in the Statement of Recognised Income and Expense				
Difference between actual and expected return on scheme assets	**9**	**5,048**	1	545
Experienced (loss)/gain on scheme obligations	**0**	**(313)**	(1)	413
Changes in assumptions underlying the present value of scheme obligations	**(18)**	**(12,829)**	(9)	(4,878)
Annual amount recognised	**(11)**	**(8,094)**	(7)	(3,920)
Total amount recognised		**(12,014)**		(3,920)

24 Accounting estimates, assumptions and uncertainties

The principal accounting estimates, assumptions and uncertainties employed in the preparation of these financial statements are as follows:

Actuarial assumptions on pension obligations (see note 23).
Earnings, interest and volatility assumptions around share-based payments (see note 20).
An estimation of environmental and dilapidation costs provided, which have been derived on the basis of the most recent estimate of the likely cost (see note 18).
Future taxation payments and receipts, which have been estimated on the basis of the best information available (see note 13).

25 Related party transactions

The key management are considered to be the Board of Directors of Hill & Smith Holdings PLC, whose remuneration can be seen in the Directors' Remuneration Report on pages 24 to 29.

There were no transactions with the associated company.

During the year the Company had the following transactions with companies of which D L Grove is or was during the year a major shareholder. All of these transactions were undertaken on an arm's length basis.

	Year ended 31 December 2005		Year ended 31 December 2004	
	Purchases £000	**Current liabilities £000**	Purchases £000	Current liabilities £000
Drayparcs Limited	**13**	**—**	23	11
GIL Investments Limited	**12**	**2**	—	—
Tana Travel Limited	**23**	**20**	—	—
	48	**22**	23	11

26 Subsequent events

In February 2006 the Group acquired the entire share capital of Counters & Accessories Limited for a cash consideration of £5 million.

27 Adoption of International Financial Reporting Standards

In accordance with the European Union Regulation issued in 2002, the Company reports its consolidated results for the year ended 31 December 2005 under International Financial Reporting Standards (IFRS), as adopted by the European Union.

(a) Transitional arrangements

On transition to IFRS, an entity is generally required to apply IFRS retrospectively, except where an exemption is available under IFRS 1 (First time adoption of International Financial Reporting Standards). The following is a summary of the key elections from IFRS 1 that were made by the Group:

- The Group has elected to adopt the IFRS 1 exemption in relation to business combinations and will only apply IFRS 3 Business combinations prospectively from 1 January 2004. As a result, the balance of goodwill under UK GAAP as 31 December 2003 will be deemed the cost of goodwill at 1 January 2004.
- Hill & Smith Holdings PLC has chosen to take the first time adoption exemption available under IFRS 1 to use a previous revaluation for an item of property, plant and equipment as its deemed cost at the transition date.
- The Group has elected not to adopt the IFRS 1 option to reset foreign currency cumulative translation reserves to zero on transition to IFRS.

Furthermore, the Group has adopted the exemption in IFRS 1 not to prepare comparative information in accordance with IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement. These standards will therefore only apply from 1 January 2005 and in the comparative figures for the year ended 31 December 2004, financial instruments have been accounted for on a UK GAAP basis. The Group has also elected to adopt IFRS 5 Non-current Assets Held for Sale and Discontinued Operations from 1 January 2005.

(b) Principal areas of impact

The main areas of impact for Hill & Smith Holdings PLC are discussed below:

IFRS 2 Share-based payment

In accordance with IFRS 2 transitional allowance, no expense is recorded for equity settled options granted prior to 7 November 2002, but not vested by 1 January 2005. In the current period an annualised charge against the operating profit of £100,000 resulted from the fair value adjustment of SAYE options granted in January 2005. The effect of this charge has a corresponding increase in equity reserves.

IFRS 3 Business combinations

Goodwill is no longer amortised. The IFRS 1 adoption applied is as explained in the transitional arrangements above.

IAS 10 Events after the Balance Sheet date

Dividends declared after the balance sheet date are not recognised as a liability.

IAS 12 Income taxes

IAS12 requires all temporary differences rather than just timing differences (as required under UK GAAP) to be provided in deferred tax.

IAS 19 Employee benefits

As a result of adopting FRS 17 Retirement Benefits last year, the impact of IAS 19 is minimal. The differential between mid and bid price valuations resulted in an immaterial variance to the fund valuation, and as such has not been reflected in the comparatives. The only change is a Balance Sheet reclassification for the deferred tax, which under FRS 17 was netted against the pension liability, but under IAS 19 this has been transferred to deferred tax. The unendorsed amendment to IAS 19 allows the full actuarial gain and loss to be taken to the Statement of Recognised Income and Expenditure rather than the Income Statement for the year ended 31 December 2005.

Notes to the Consolidated Financial Statements continued

27 Adoption of International Financial Reporting Standards continued

The following summarises the effects of the IFRS restatements on the comparative numbers, i.e. the 2004 opening balance sheet and the 2004 income statement and closing balance sheet:

A) 2004 Opening Balances

i. Consolidated Balance Sheet as at 1 January 2004

	As published £000	IAS 10 Dividends £000	IAS 12 Income taxes £000	IAS 19 Pensions £000	Re-classified £000	IFRS Restated £000
Non-current assets						
Intangible assets	27,240	—	—	—	—	27,240
Property, plant and equipment	41,437	—	—	—	—	41,437
Assets held for sale	25	—	—	—	(25)	—
	68,702	**—**	**—**	**—**	**(25)**	**68,677**
Current assets						
Assets held for sale	1,407	—	—	—	—	1,407
Inventories	23,641	—	—	—	—	23,641
Trade and other receivables	47,226	—	—	—	25	47,251
Cash and cash equivalents	14,323	—	—	—	—	14,323
	86,597	**—**	**—**	**—**	**25**	**86,622**
Current liabilities						
Trade and other current payables	(64,363)	1,514	—	—	—	(62,849)
Current tax liabilities	(2,405)	—	—	—	—	(2,405)
Interest bearing borrowings	(10,370)	—	—	—	—	(10,370)
	(77,138)	**1,514**	**—**	**—**	**—**	**(75,624)**
Net current assets	**9,459**	**1,514**	**—**	**—**	**25**	**10,998**
Non-current liabilities						
Provisions for liabilities and charges	(4,343)	—	(134)	1,101	—	(3,376)
Retirement benefit obligation	(2,569)	—	—	(1,101)	—	(3,670)
Interest bearing borrowings	(40,438)	—	—	—	—	(40,438)
Net assets	**30,811**	**1,514**	**(134)**	**—**	**—**	**32,191**
Equity						
Called up share capital	15,424	—	—	—	—	15,424
Share premium	3,423	—	—	—	—	3,423
Capital redemption reserve	238	—	—	—	—	238
Revaluation reserve	739	—	—	—	(739)	—
Other reserves	4,313	—	—	—	—	4,313
Translation reserve	—	—	—	—	(90)	(90)
Equity reserves	6,632	1,514	(134)	—	829	8,841
Equity attributable to equity holders of the parent	**30,769**	**1,514**	**(134)**	**—**	**—**	**32,149**
Equity minority interests	42	—	—	—	—	42
Total equity	**30,811**	**1,514**	**(134)**	**—**	**—**	**32,191**

27 Adoption of International Financial Reporting Standards continued

B) 2004 Year End Accounts

i. Consolidated Income Statement for the year ended 31 December 2004

	As published £000	IFRS 3 Business combi-nations £000	IAS 12 Income taxes £000	Re-classified £000	IFRS Restated £000
Sales	**268,652**	**—**	**—**	**—**	**268,652**
Trading profit	**11,526**	**1,674**	**—**	**1,884**	**15,084**
Business reorganisation costs	—	—	—	(1,460)	(1,460)
Special bonuses and associated costs	—	—	—	(424)	(424)
Profit on sale of properties	187	—	—	—	187
Operating profit	**11,713**	**1,674**	**—**	**—**	**13,387**
Interest receivable	—	—	—	95	95
Interest payable	(3,779)	—	—	(95)	(3,874)
Other finance income	502	—	—	—	502
Profit before taxation	**8,436**	**1,674**	**—**	**—**	**10,110**
Tax on profit	(2,324)	(18)	(221)	—	(2,563)
Profit for the year	**6,112**	**1,656**	**(221)**	**—**	**7,547**

Notes to the Consolidated Financial Statements continued

27 Adoption of International Financial Reporting Standards continued

B) 2004 Year End Accounts continued

ii Consolidated Balance Sheet as at 31 December 2004

	As published £000	IFRS 3 Business combi-nations £000	IAS 10 Dividends £000	IAS 12 Income taxes £000	IAS 19 Pensions £000	Re-classified £000	IFRS Restated £000
Non-current assets							
Intangible assets	26,041	1,674	—	—	—	429	28,144
Property, plant and equipment	44,860	—	—	—	—	(429)	44,431
Assets held for sale	25	—	—	—	—	(25)	—
	70,926	**1,674**	**—**	**—**	**—**	**(25)**	**72,575**
Current assets							
Assets held for sale	1,746	—	—	—	—	—	1,746
Inventories	27,004	—	—	—	—	—	27,004
Trade and other receivables	57,977	—	—	—	—	25	58,002
Cash and cash equivalents	9,901	—	—	—	—	—	9,901
	96,628	**—**	**—**	**—**	**—**	**25**	**96,653**
Current liabilities							
Trade and other payables	(77,303)	—	1,707	—	—	—	(75,596)
Current tax liabilities	(2,471)	—	—	—	—	—	(2,471)
Interest bearing borrowings	(11,806)	—	—	—	—	—	(11,806)
	(91,580)	**—**	**1,707**	**—**	**—**	**—**	**(89,873)**
Net current assets	**5,048**	**—**	**1,707**	**—**	**—**	**25**	**6,780**
Non-current liabilities							
Provisions for liabilities and charges	(4,030)	(18)	—	(371)	1,993	—	(2,426)
Retirement benefit obligation	(4,649)	—	—	—	(1,993)	—	(6,642)
Interest bearing borrowings	(36,003)	—	—	—	—	—	(36,003)
Net assets	**31,292**	**1,656**	**1,707**	**(371)**	**—**	**—**	**34,284**
Equity							
Called up share capital	15,519	—	—	—	—	—	15,519
Share premium	3,519	—	—	—	—	—	3,519
Capital redemption reserve	238	—	—	—	—	—	238
Revaluation reserve	685	—	—	—	—	(685)	—
Other reserves	4,313	—	—	—	—	—	4,313
Translation reserve	—	—	—	—	—	(56)	(56)
Equity reserves	6,968	1,656	1,707	(371)	—	741	10,701
Equity attributable to equity holders of the parent	**31,242**	**1,656**	**1,707**	**(371)**	**—**	**—**	**34,234**
Equity minority interests	50	—	—	—	—	—	50
Total equity	**31,292**	**1,656**	**1,707**	**(371)**	**—**	**—**	**34,284**

Company Balance Sheet

As at 31 December 2005

	Notes	31 December 2005 £000	31 December 2004 (as restated) £000
Fixed assets			
Tangible assets	4	**46**	37
Investments	5	**128,177**	104,234
		128,223	104,271
Current assets			
Debtors	6	**10,864**	8,076
Cash and deposits		**13,015**	30
		23,879	8,106
Creditors: amounts falling due within one year			
Borrowings and finance leases	7–9	**(18,809)**	(29,998)
Other creditors	7	**(22,960)**	(3,742)
		(41,769)	(33,740)
Net current liabilities		**(17,890)**	(25,634)
Total assets less current liabilities		**110,333**	78,637
Creditors: amounts falling due after one year			
Borrowings and finance leases	8,9	**(53,486)**	(34,207)
Net assets		**56,847**	44,430
Share capital and reserves			
Called up share capital	11	**15,799**	15,519
Share premium	12	**4,036**	3,519
Capital redemption reserve	12	**238**	238
Profit and loss account	12	**36,774**	25,154
Equity shareholders' funds		**56,847**	44,430

Approved by the Board of Directors on 8 March 2006 and signed on its behalf by:

D L Grove
Director

C J Burr
Director

Company Principal Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

In these financial statements the following new standards have been adopted for the first time:

- FRS 20 'Share-based payments';
- FRS 21 'Events after the Balance Sheet date';
- FRS 23 'The effects of changes in foreign exchange rates';
- the presentation requirements of FRS 25 'Financial instruments: presentation and disclosure';
- FRS 26 'Financial instruments: measurement'; and
- FRS 28 'Corresponding amounts'.

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption. FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985. Likewise FRS 25 has had no material effect on these financial statements.

The effect of the adoption FRS 20 is detailed in note 11. No prior year adjustment is required in respect of the adoption of this standard because the share option scheme dealt with under this standard was only established in the year ended 31 December 2005.

The effects of the adoption of FRS 21 and the associated prior year adjustment are detailed in note 15.

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

Under Section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own Profit and Loss Account.

Goodwill and negative goodwill
Purchased goodwill (both positive and negative) arising 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 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 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.

Financial Instruments
Financial assets and liabilities are recognised on the Company's Balance Sheet when the Company becomes a party to the contractual provisions of the instrument.

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Trade payables are stated at their nominal value.

Derivative financial instruments of the Company are used to hedge its exposure to interest rate risks arising from operational, financing and investment activities.

In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Profit and Loss Account.

The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swap at the Balance Sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Profit and Loss Account over the period of the borrowings on an effective interest basis.

Where there is any significant foreign currency asset or liability a corresponding hedge liability or asset is set up in the same currency in order to minimise any exchange risk to the Company.

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.

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:

Leasehold improvements	life of lease
Plant, machinery and vehicles	4 to 20 years

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.

Dividends on shares presented within shareholders' funds
Dividends unpaid at the Balance Sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Share-based payments
The share option programme allows employees to acquire shares of the Company. The fair value of options granted after 7 November 2002 and those not yet vested by 31 December 2004 are not recognised as an employee expense, those vested 1 January 2005 onwards are expensed with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Company Principal Accounting Policies continued

For cash settled share-based payment transactions, with the exception of those awards settled before 1 January 2005, the fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value is measured based on an option pricing model taking into account the terms and conditions upon which the instruments were granted. The liability is revalued at each Balance Sheet date and settlement date with any changes to fair value being recognised in the Profit and Loss Account.

Pension scheme arrangements

The Company participates in the Hill & Smith Executive Pension Scheme and the Hill & Smith Pension Scheme, as described in note 14.

As the Company is unable to identify its share of the Group pension scheme assets in respect of the defined benefit sections on a consistent and reasonable basis, as permitted by FRS 17 the schemes are accounted for as if they are defined contribution schemes.

Contributions in respect of defined contribution schemes are charged to the profit and loss account in the period to which they relate.

Income tax

Income tax on the profit or loss for the year represents the sum of the tax currently payable and deferred tax. Income tax is recognised in the Profit and Loss Account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable profit for the year. Taxable profit differs from net profit as reported in the Profit and Loss Account because it excludes items of income or expense that are taxable or deductible. The Company's liability for current tax is calculated using tax rates enacted or substantially enacted at the Balance Sheet date, and any adjustments to tax payable in respect of previous years.

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 Company Financial Statements

1 Profit on ordinary activities before taxation

	31 December 2005 £000	31 December 2004 £000
The profit on ordinary activities is stated after charging		
Depreciation of owned tangible fixed assets	**19**	18
Operating lease rentals — Land and buildings	**50**	41
Auditor's remuneration	**55**	41

A detailed analysis of the auditor's remuneration worldwide is as follows:

	31 December 2005 £000	31 December 2004 £000
Audit services		
Statutory audit	**55**	41

A description of the work of the Audit Committee is set out in the Corporate Governance Report on pages 20 and 21 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

2 Employees

	31 December 2005 £000	31 December 2004 £000
The aggregate remuneration for the year		
Wages and salaries	**1,660**	1,658
Share-based payments	**11**	—
Social security costs	**199**	194
Pension cost	**607**	422
	2,477	2,274

Details of the Directors' remuneration and share interests are given in the Directors' Remuneration Report on pages 24 to 29.

3 Dividends

The Directors have recommended a final dividend for the current year, subject to shareholder approval, as shown below.

	31 December 2005 Pence per share	31 December 2005 £000	31 December 2004 Pence per share	31 December 2004 £000
Equity shares:				
Interim	**2.60**	**1,643**	2.25	1,397
Final proposed	**3.40**	**2,149**	2.75	1,737
Total	**6.00**	**3,792**	5.00	3,134

4 Tangible fixed assets

	Short leasehold properties £000	Plant, machinery and vehicles £000	Total £000
Cost or valuation			
At 31 December 2004	9	110	119
Additions	1	27	28
At 31 December 2005	**10**	**137**	**147**
Depreciation			
At 31 December 2004	2	80	82
Charge for the year	2	17	19
At 31 December 2005	**4**	**97**	**101**
Net book value			
At 31 December 2005	**6**	**40**	**46**
At 31 December 2004	7	30	37

Notes to the Company Financial Statements continued

5 Fixed asset investments

	Share in Group undertakings £000	Loans to Group undertakings £000	Investment in associated company £000	Trade investments £000	Other Loans £000	Total £000
Cost						
At 31 December 2004	83,667	23,793	—	750	250	108,460
Additions	5	—	23,938	—	—	23,943
Written off	—	—	—	—	(250)	(250)
At 31 December 2005	**83,672**	**23,793**	**23,938**	**750**	**—**	**132,153**
Provisions						
At 31 December 2004	1,910	1,316	—	750	250	4,226
Written off	—	—	—	—	(250)	(250)
At 31 December 2005	**1,910**	**1,316**	**—**	**750**	**—**	**3,976**
Net book value						
At 31 December 2005	**81,762**	**22,477**	**23,938**	**—**	**—**	**128,177**
At 31 December 2004	81,757	22,477	—	—	—	104,234

A list of the principal businesses owned by the Company is given on pages 74 and 75. All the Company's subsidiaries are wholly owned except for Pipe Supports (Asia) Limited, a company incorporated in Thailand, in which the Company has an indirect equity interest of 87%, which on 24 February 2006 increased to 98.5%. 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.

In May 2005 the Company invested €35,000,000 (€25,000,000 to acquire 33% of the ordinary shares and a €10,000,000 loan) in Zinkinvent GmbH, a German holding company which owns 86% of Vista NV, a Belgian company with galvanizing and lighting pole fabrication businesses in Benelux, France and the United States of America.

6 Debtors

	31 December 2005 £000	31 December 2004 (as restated) £000
Amounts owed by subsidiary undertakings (see note 15)	**7,031**	5,549
Corporation tax	**1,863**	1,768
Deferred tax (see note 10)	**47**	6
Fair value derivatives (see note 9)	**160**	—
Other debtors	**1,698**	644
Prepayments and accrued income	**65**	109
	10,864	8,076

7 Creditors: amounts falling due within one year

	31 December 2005 £000	31 December 2004 (as restated) £000
Borrowings and finance leases		
Bank loans and overdrafts	**11,614**	19,036
Current portion of long term bank loans	**6,876**	9,612
Finance lease and hire purchase obligations	**225**	226
Loan notes	**94**	1,124
	18,809	29,998
Other creditors		
Trade creditors	**2,329**	803
Other taxation and social security	**27**	10
Accruals and deferred income	**1,234**	1,049
Proposed dividend (see note 15)	**1,643**	1,397
Other creditors	**970**	483
Amounts owed to subsidiary undertakings	**16,757**	—
	22,960	3,742

8 Creditors: amounts falling due after one year

	31 December 2005 £000	31 December 2004 £000
Borrowings and finance leases		
Long-term bank loans	**53,261**	33,757
Finance lease and hire purchase obligations	**225**	450
	53,486	34,207

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

	31 December 2005 £000	31 December 2004 £000
Bank loans and overdraft		
Amounts due within one year	**18,490**	28,648
Amounts due after more than one year:		
Between one and two years	**30,261**	5,112
Between two and five years	**23,000**	28,645
	53,261	33,757
	71,751	62,405
Loan notes		
Amounts due within one year	**94**	1,124
	94	1,124
Finance leases and hire purchase obligations		
Amounts due within one year	**225**	226
Amounts due after more than one year:		
Between one and two years	**225**	225
Between two and five years	**—**	225
	225	450
	450	676

The bank loans carry a rate of interest of up to 1.25% 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 borrowings due within one year is £2,000,000 (2004: £5,000,000) in respect of a revolving credit facility of which refinancing is permitted, the earliest date the lender can require repayment being 30 June 2008. In the absence of the refinancing facility, this amount would have been repayable on 31 January 2006.

Notes to the Company Financial Statements continued

9 Financial instruments

(a) Management of financial risks

The Company's major financial risks relate to movements of interest and exchange rates. Management continually review the Company's exposure to these issues and will, if required, make appropriate use of derivative financial instruments to mitigate this exposure.

Interest rate risk

The Company used a sterling interest rate swap which expired on 30 December 2005, (2004: fixed approximately 20% of its year end gross borrowings at a base rate of 6.11%). It also used a euro interest rate swap to fix approximately 40% (2004: 0%) of its year end gross borrowings at an effective rate of 3.6%, this swap expires in May 2007.

Currency exposure

The Group is subject to fluctuations in exchange rates on its net overseas investments and on transactional monetary assets and liabilities not denominated in the operating currency of the operating unit concerned.

The Company is 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 Company uses forward exchange contracts to hedge the majority of exposures that do exist.

(b) Financial assets

The Company'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 5.

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 Company'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 Company's financial liabilities, excluding short term creditors, are set out below. Fixed rate financial liabilities comprise sterling and euro denominated finance leases and hire purchase agreements and bank loans. Floating rate financial liabilities comprise sterling and euro denominated bank loans and overdrafts, and sterling finance leases and hire purchase agreements. The floating rate financial liabilities bear interest at rates related to bank base rates or LIBOR.

	Exchange rate	Floating rate financial liabilities £000	€000	Fixed rate financial liabilities £000	Total £000
Currency					
Sterling at 31 December 2005		**38,916**		**—**	**38,916**
Euro at 31 December 2005	**1.449**	**—**	**35,724**	**24,654**	**24,654**
Total at 31 December 2005		**38,916**		**24,654**	**63,570**
Sterling at 31 December 2004		38,309		9,500	47,809

	Fixed rate financial liabilities	
	Weighted average interest rate %	Weighted average period for which rate is fixed years
Euro at 31 December 2005	**4.4**	**1.4**
Sterling at 31 December 2004	5.4	0.8

9 Financial instruments continued

(d) Maturity profile

The maturity profile of the Company's financial liabilities other than short term creditors such as trade creditors and accruals is shown in note 8 to the financial statements.

At 31 December 2005 the Company had the following undrawn committed facilities, in respect of which all conditions precedent had been met:

	31 December 2005 £000	31 December 2004 £000
Undrawn committed borrowing facilities		
Expiring after more than two years	**20,500**	17,500

(e) Fair values

At 31 December 2005 the fair value of the Company's financial instruments was not materially different to their book value. The fair value of the interest rate swap was calculated using market rates where available, otherwise cash flows were discounted at prevailing rates.

(f) Hedging

The Group has hedged the €35,000,000 investment in Zinkinvent GmbH (see note 5) by a €35,000,000 fixed rate loan in euros (see above).

10 Deferred tax

Details of amounts provided for deferred taxation are set out below:

	31 December 2005 £000	31 December 2004 £000
At 1 January	**(6)**	23
Credited for the year in the profit and loss account	**(41)**	(29)
At 31 December	**(47)**	(6)
Difference between accumulated depreciation, amortisation and capital allowances	**(7)**	(5)
Other timing differences	**(40)**	(1)
	(47)	(6)

11 Called up share capital

	31 December 2005 £000	31 December 2004 £000
Authorised		
80,000,000 Ordinary shares of 25p each (2004: 80,000,000)	**20,000**	20,000
Allotted, called up and fully paid		
63,197,403 Ordinary shares of 25p each (2004: 62,075,294)	**15,799**	15,519

During the year the Company issued 1,122,109 shares under its various share option schemes (2004: 377,810), realising £798,000 (2004: £191,000).

Options over the Company's shares outstanding at 31 December 2005

	Number of shares	**Option price (p)**	**Date first exercisable**	**Expiry date**
1995 Executive Share Option Scheme	23,000	69	4 Aug 2002	4 Aug 2009
	10,000	70	2 July 2004	2 July 2011
	15,000	66	21 Jan 2005	21 Jan 2012
1999 Non-Approved Executive Share Option Scheme	32,000	66	21 Jan 2005	21 Jan 2012
2005 Executive Share Option Scheme	353,248	205	4 Oct 2008	4 Oct 2015
2005 Non-Approved Executive Share Option Scheme	229,764	205	4 Oct 2008	4 Oct 2015
1995 Savings Related Share Option Scheme	1,344,627	100	1 Jan 2010	1 Jul 2010

The charge for the share-based payment in the Company for the year ended 31 December 2005 was £11,000 (2004: £Nil). Details of the assumptions and methodology used in calculating this charge can be seen in the Group notes.

Notes to the Company Financial Statements continued

12 Share premium and reserves

	Share premium £000	Capital redemption reserve £000	Profit and loss account £000
As previously reported	3,423	238	28,340
Prior year restatement (see note 15)	—	—	(7,370)
At 1 January 2004	3,423	238	20,970
Loss for the year	—	—	(1,781)
Dividends received	—	—	8,900
Dividends expensed	—	—	(2,935)
Shares issued	96	—	—
At 31 December 2004	3,519	238	25,154
Loss for the year	—	—	(2,057)
Dividends received	—	—	16,957
Reversal of share-based payments	—	—	100
Dividends expensed	—	—	(3,380)
Shares issued	517	—	—
At 31 December 2005	**4,036**	**238**	**36,774**

13 Guarantees and other financial commitments

(a) Guarantees

The Company had guarantees outstanding to a bank in respect of performance bonds of £2,894,000 (2004: £2,617,000).

The Company guarantees the bank loans and overdrafts of certain subsidiary undertakings. The amount outstanding at 31 December 2005 was £2,408,000 (2004: £2,363,000).

(b) Operating lease commitments

Annual commitments under non-cancellable operating leases expiring as follows:

	31 December 2005		31 December 2004	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Within one year	**—**	**22**	—	10
Between one and two years	**—**	**4**	—	23
Between two and five years	**—**	**—**	—	4
After five years	**34**	**—**	34	—
	34	**26**	34	37

14 Pensions

The Company contributes to two Group pension schemes; one providing benefits accruing in the future on a defined benefit basis and a second scheme providing benefits that are on a defined contribution basis. Details of the schemes and their most recent actuarial valuations are contained in note 23 to the Group accounts earlier in these financial statements.

The pension cost for the year represents contributions payable by the Company to the fund and amounted to £607,000 (2004: £422,000), of which £514,000 (2004: £375,000) related to additional deficit contributions. There were no outstanding or prepaid contributions at either the beginning or the end of the financial year.

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

Full details of the Group schemes can be seen in note 23 to the Group financial statements.

15 Prior year restatement

Following the adoption of FRS 21 Events After The Balance Sheet Date, dividends both receivable and payable, declared after the balance sheet date are not recognised. This has resulted in the equity reserve brought forward on 1 January 2004 decreasing by £7,370,000 (see note 12) the corresponding entries being a reduction in the 2004 year end accrual for dividends (see note 7) and a decrease in amounts owed by subsidiary undertakings (see note 6).

16 Related party transactions

During the year the Company had the following transactions with companies of which D L Grove is or was during the year a major shareholder. All of these transactions were undertaken on an arm's length basis.

	31 December 2005		31 December 2004	
	Purchases £000	**Creditor due within one year £000**	Purchases £000	Creditor due within one year £000
Drayparcs Limited	**13**	**—**	23	11
GIL Investments Limited	**11**	**1**	—	—
Tana Travel Limited	**3**	**—**	—	—
	27	**1**	23	11

17 Post-balance sheet events

In February 2006 the Company acquired the entire share capital of Counters & Accessories Limited for a cash consideration of £5 million.

Principal Group Businesses

www.hsholdings.co.uk

Infrastructure Products Group

ASSET INTERNATIONAL LIMITED
Large diameter plastic drainage pipes and storm water attenuation tanks
Stephenson Street, Newport,
Gwent, NP9 4XH
Tel: (01633) 273081 Fax: (01633) 281301
sales@assetint.co.uk
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
sales@barkers-engineering.co.uk
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
info@hill-smith.co.uk
www.hill-smith.co.uk

JOSEPH ASH LIMITED*
Galvanizing and the manufacture of steel storage tanks
Charles Henry Street,
Birmingham, B12 0SP
Tel: (0121) 666 4848 Fax: (0121) 666 6049
sales@josephash.co.uk
www.josephash.co.uk

MALLATITE LIMITED
Street and highway lighting columns
Sandfold Lane, Levenshulme,
Manchester, M19 3FT
Tel: (0161) 225 3100 Fax: (0161) 257 2625
sales@mallatite.co.uk
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
sales@v-and-g.co.uk
www.v-and-g.co.uk

COUNTERS & ACCESSORIES LIMITED‡
Traffic counting and classifying equipment
Lodge Farm Business Centre, Castlethorpe,
Milton Keynes, Bucks MK19 7ES
Tel: (01908) 511722 Fax: (01908) 511505
sales@c-a.co.uk
www.c-a.co.uk

TECHSPAN Systems†
Electronic information display systems
Griffin House, Gatehouse Way, Aylesbury,
Bucks, HP19 8BP
Tel: (01296) 673000 Fax: (01296) 673002
sales@techspan.co.uk
www.techspan.co.uk

BERRY Systems†
Car Park & Industrial Barriers, Spring Steel Barriers, Protection Bollards, Speed Ramps, Hand Rail Panels
Springvale Business & Industrial Park
Bilston, Wolverhampton, WV14 0QL
Tel: (01902) 491100 Fax: (01902) 494080
sales@berrysystems.co.uk
www.berrysystems.co.uk

Notes:
The above is a list of the Company's subsidiary undertakings, except for some intermediate holding companies and certain other undertakings of minor importance which are excluded by virtue of sub-Section 231(5) of the Companies Act 1985. Except where indicated, the undertakings are subsidiaries incorporated in Great Britain.

* The Company's effective interest is held indirectly for these undertakings.
† Techspan and Berry are operating divisions only, not limited companies.
‡ Counters & Accessories was acquired on 16 February 2006.

Building & Construction Products

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
sales@ashandlacy.com
www.ashandlacy.com

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
info@birtley-building.co.uk
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
sales@expressreinforcements.co.uk
www.expressreinforcements.co.uk

REDMAN FISHER ENGINEERING LIMITED*
Industrial flooring, handrail systems and structures
Birmingham New Road, Tipton,
West Midlands, DY4 9AQ
Tel: (01902) 880880 Fax: (01902) 880446
sales@redmanfisher.co.uk
www.redmanfisher.co.uk

LIONWELD KENNEDY FLOORING LTD
Handrail and flooring structures
Marsh Road, Middlesbrough, TS1 5JS
Tel: (01642) 245151 Fax: (01642) 224710
sales@lk-uk.com
www.lionweldkennedy.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
sales@allely.co.uk
www.allely.co.uk

ASH & LACY PERFORATORS LIMITED*
Perforated and expanded metal
PO Box 58, Alma Street, Smethwick
West Midlands, B66 2RP
Tel: (0121) 558 8921 Fax: (0121) 565 1354
sales@ashlacyperf.co.uk
www.ashlacyperf.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
enquiries@alpressings.co.uk
www.alpressings.co.uk

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
enquiries@bromfordsteels.co.uk
www.bromfordsteels.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
sales@dandjsteels.demon.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
sales@edenmaterials.co.uk
www.edenmaterials.co.uk

PIPE SUPPORTS LIMITED*
Constant and variable pipe support systems
Salwarpe Road, Droitwich,
Worcestershire, WR9 9BH
Tel: (01905) 795500 Fax: (01905) 794126
psl@pipesupports.com
www.pipesupports.com

Five Year Summary

	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000	15 months ended 31 December 2001 £000
Sales	**277,296**	268,652	241,665	212,740	241,849
Underlying operating profit	**19,570**	15,084	12,592	14,008	15,696
Underlying profit before taxation	**15,698**	11,807	9,076	10,019	10,085
Shareholders' funds	**40,342**	34,234	32,149	35,848	34,348
Underlying operating cash flow	**27,474**	19,177	21,267	24,244	30,244
	pence	pence	pence	pence	pence
Underlying earnings per share	**17.92**	13.30	10.69	11.79	12.01
Dividends per share	**6.00**	5.00	4.60	4.50	5.45
Accounting Basis	**Full IFRS**	Full IFRS	IFRS Transition	UK GAAP	UK GAAP

Financial Calendar

Annual General Meeting 2006	12 May 2006
Payment of final dividend for the year ended 31 December 2005 (ex dividend date 7 June 2006)	12 July 2006
Announcement of results for period to 30 June 2006	September 2006
Payment of interim dividend	January 2007
Preliminary Announcement of results to 31 December 2006	March 2007

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