



ANNUAL
REPORT
2006

building & construction

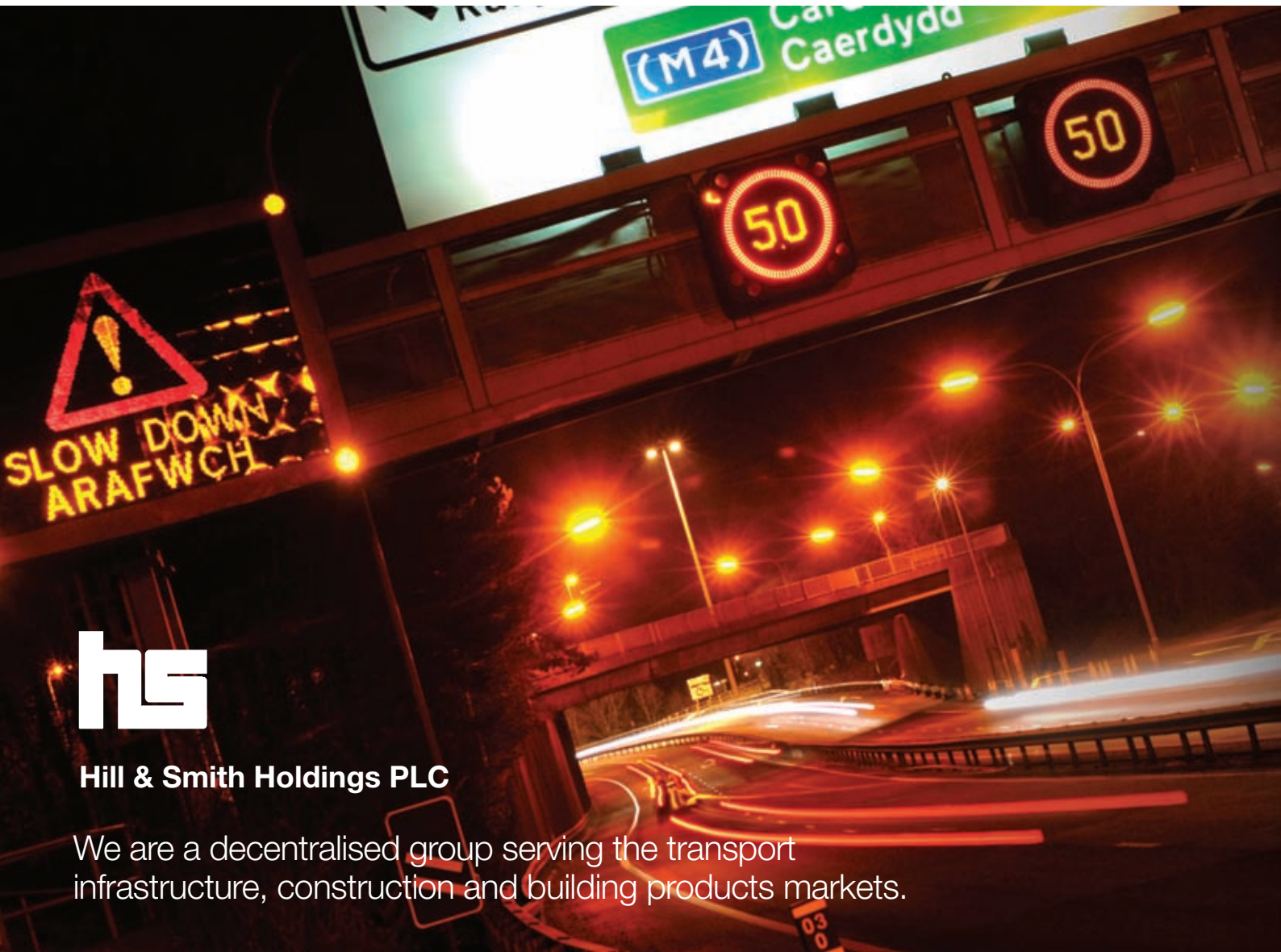
infrastructure

industrial

Innovative solutions provider



Hill & Smith Holdings PLC
Annual Report 2006



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.

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Revenue



up 10.4%

to £306.0m (2005: £277.3m)

Underlying profit
before taxation*



up 17.6%

to £18.5m (2005: £15.7m)

Underlying earnings
per share*



up 15.3%

to 20.7p (2005: 17.9p)

Dividends
per share



up 20.0%

to 7.2p (2005: 6.0p)

Profit
before taxation



up 9.4%

to £17.3m (2005: £15.8m)

Basic earnings
per share



down 11.9%

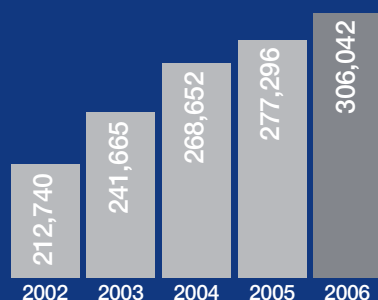
to 19.8p (2005: 22.5p)

- Record revenue, profits and dividends
- Acquisition of Counters & Accessories Limited
- Acquisition of Metnor Galvanizing Limited
- Disposal of two non-core businesses
- Successful share issue to support development plans

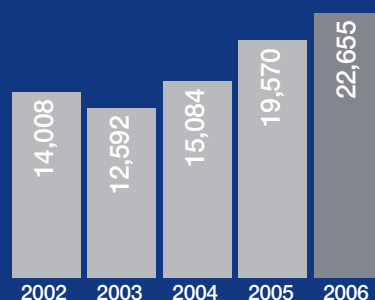
* Before reorganisation and property items.

2006 Highlights

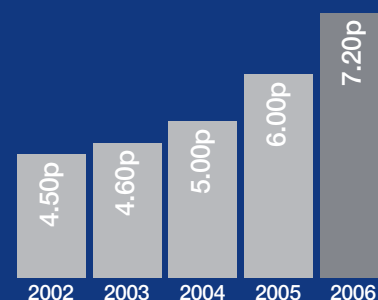
Revenue – £000



Underlying Operating Profit* – £000



Dividends per share – pence





Mallatite re-located on Metnor galvanizing village.

Investments, Major Projects and New Products in 2006



Development of Brifen cable guardrail for USA market.



Asset Weholite storm water retention tanks for Arbury Camp.



Highways Agency and UTMC contract success.

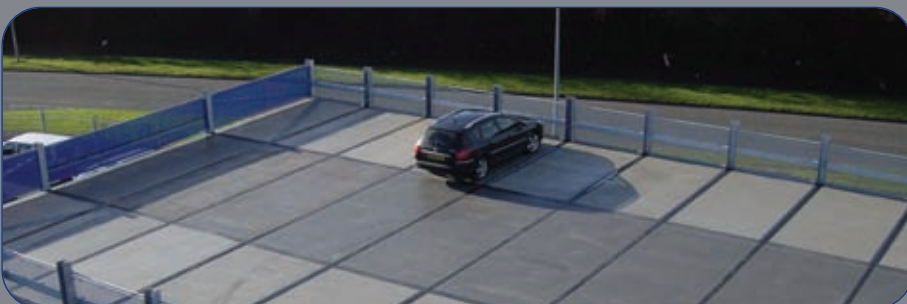


Pipe Supports' new expanded facility in Thailand.



Asset Varioguard emergency crossing points on Humber Bridge.

SPECIALISATIONS



Topdeck temporary parking solution developed in 2006, to be launched in 2007.

Chairman's Statement



General

I am pleased to be able to report another year of increased profitability and progress for the Group. In the year ended 31 December 2006 revenue increased by 10.4% to £306.0 million (2005: £277.3 million) and profit before taxation increased by 9.4% to £17.3 million (2005: £15.8 million). In the absence of last year's one-off tax benefits, earnings per share fell by 11.9% to 19.8p (2005: 22.5p)

The Group regards its underlying results, which exclude the effects of business reorganisation and property items, as the most appropriate measure of its financial performance. Underlying operating profit increased by 15.8% to £22.7 million (2005: £19.6 million) on revenue of £306.0 million (2005: £277.3 million). Underlying profit before taxation increased by 17.6% to £18.5 million (2005: £15.7 million). There was a further improvement in underlying earnings per share to 20.7p in 2006 (2005: 17.9p), representing an increase of 15.3%.

Dividends

If approved by shareholders, the proposed final dividend of 4.2p per share will result in a total dividend for the year of 7.2p, which is 20.0% ahead of last year (2005: 6.0p). Our progressive policy leaves the dividend covered 2.9 times by underlying earnings.

David Winterbottom
Chairman

Operations

Our focus on investing in more value-added products and services led to a further improvement in the Group's underlying operating margin to 7.4% (2005: 7.1%).

The performance of the Infrastructure Products division was excellent, with underlying operating profit increasing by 24.9%. This division has been the main beneficiary of our investment programme in recent years and it continues to provide excellent returns.

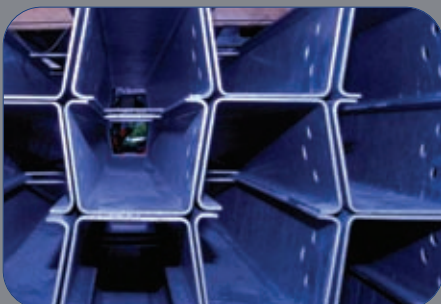
The Building Products division was hit by losses in our Express concrete reinforcement business which led to a fall in the division's underlying operating profit of 20.4% compared to 2005. Losses have now been eliminated at this operation, which returned to profitability in the last quarter of the year.

Underlying operating profit in the small Industrial Products division moved ahead by 47.3%. This performance was primarily attributable to the increasing profitability of our expanding Pipe Supports operation in Thailand.

Funding

To help finance our acquisition and organic growth plans, in October 2006 the Group raised some £26.8 million, net of expenses, by means of a Placing and Open Offer of new ordinary shares. This was well supported by existing shareholders and also introduced some new institutional holders.

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.



Acquisitions

In February 2006 we acquired Counters & Accessories Limited. This business designs and supplies traffic data recording equipment primarily for the public sector and complements our existing Techspan business in the growing transport information technology sector.

In October, we also acquired Metnor Galvanizing Limited, together with its freehold property. This acquisition will give our existing galvanizing businesses access to a long bath facility which will strengthen our market position.

Disposals

In line with our established corporate strategy, in October two of our non-core activities, W&S Allely Limited and Eden Material Services (UK) Limited, were sold at approximately net asset value.

Zinkinvent

The Group has owned 33.3% of this company since May 2005. As we announced on 1 March 2007, we have entered into an agreement with one of the other principal shareholders to acquire further shares in Zinkinvent, subject to approval by Hill & Smith's shareholders. If approved, this transaction will result in Zinkinvent becoming a subsidiary of the Group, trading through Vista NV, a leading galvanizer with facilities in mainland Europe and the USA.

Employees

Our innovative and entrepreneurial culture represents a calculated response to the

competitive challenges we face and I would like to thank all our employees for their support and efforts in meeting these challenges during the year.

Board Changes

As I announced last year, and following ten years as your Chairman, I will be retiring at the close of the 2007 AGM. I am proud to have made a contribution to the substantial progress achieved by the Group during my tenure and would like to thank my colleagues for all their support during this period. The Group is in a healthy position and I wish the new Chairman, David Grove, and his team, every success in the future. I would also like to congratulate Derek Muir, who will take over the position of Chief Executive from David Grove, following a career spanning nearly 20 years with the Group.

I would also like to extend a warm welcome to Clive Snowdon who will join the Board as a Non-Executive Director in May 2007.

Outlook

The current trading period has started in line with our expectations and, subject to market conditions remaining favourable, I look forward to another progressive performance in 2007.



David Winterbottom

Chairman

6 March 2007

INNOVATIVE PRODUCTS



Operational Review



Overview

2006 was another successful year for the Group during which we achieved all of our key strategic objectives, with further additions to our ever growing product portfolio supplying expanding markets both in the UK and, more recently, overseas.

Infrastructure Products Group ('IPG')

Our largest division continues to be the main engine for profit growth with its active product development programme generating organic growth, complemented by selected acquisitions.

Revenue increased to £117.4 million, 9.3% higher than in the previous year. The underlying operating profit increased by 24.9% to £16.2 million (2005: £13.0 million).

Hill & Smith's new range of vehicle restraint systems continued to enhance its market leadership with increased demand for its Flexbeam crash barrier range of products. The Brifen wire rope brand made further progress in the USA where it is now used in 25 states as the system of choice to prevent cross-over accidents. During the year we were awarded various contracts on the M1 widening scheme. We anticipate these will generate sales for our Flexbeam, Varioguard and Multiplate products

over the next three years. Berry Systems also had another very successful year as it continued to provide innovative solutions for our off-highway customers.

A new technology division within IPG has been created following the recent acquisitions of Techspan Systems and Counters & Accessories. We are now able to offer a range of electronic highway information and vehicle logging and detection systems to complement our more traditional metal-based products, to the same customer base. In December Techspan was one of three successful bidders for a contract with the Highways Agency worth in total approximately £180 million over four years from 2007, for the supply and installation of variable message signs. Counters & Accessories has now been successfully integrated into the Group and a new management team has been created following the retirement of the previous owner. We are combining these excellent engineering teams to provide new solutions to help reduce congestion on the nation's roads.

Varley & Gulliver again delivered an excellent performance despite a downturn in exports. Further new products, including our fully tested high containment parapet system, are now available to the market.

David Grove
Chief Executive



Barkers Engineering made further progress in its fencing and security products markets with the development of the Inceptor range of access control gates for the Homeland security market.

Mallatite was relocated to a single site within our new Metnor 'galvanizing village'. The latest technology for manufacturing and finishing has been installed to allow us to follow our strategy of being the lowest cost producer. This world class facility will secure our status as a market leader in the UK lighting column market. Disruption arising from the relocation hampered the performance in 2006 but with recent contract wins in Portsmouth, Ealing and Dorset, the single site operation should not disappoint.

Asset International continued to win new approvals for its Weholite product and its record performance in 2006 included the completion of its largest ever single contract of nearly £1 million. In order to support the expansion of this business, further investment has now been committed to acquire a fourth extruding line.

Our galvanizing operations made considerable progress in the year despite having to contend with the unprecedented increase in zinc raw material prices. The acquisition of Metnor Galvanizing Limited late in the year has given Joseph Ash the advantage of a long bath facility in its portfolio.



CULTURE AND VALUES

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

Operational Review continued



Joseph Ash's Envirotanks division had another excellent year and has secured a strong order book to carry forward into 2007.

Building and Construction Products

Revenue increased by 10.9% to £146.2 million in 2006 (2005: £131.8 million) although underlying operating profit at £3.8 million fell by 20.4% (2005: £4.8 million).

The losses made in the Express reinforcing bar and mesh business more than offset the progress made in the remainder of the division. Express was adversely affected by major steel price increases and margin erosion in the year. However, the business returned to profitability in the last quarter of the year and this trend is expected to continue in 2007.

Further growth and gains in market share led to another increase in profitability for Ash & Lacy Building Systems. Highlights in the year include the relocation of its depot in the South to larger premises and the opening of a new depot in Leeds to serve the North of England.

Birtley Building Products continued to grow its product portfolio and improve efficiencies as a result of the investment in the site infrastructure.

The industrial flooring and related products of Access Engineering, Redman Fisher and Lionweld Kennedy produced an excellent performance and we continue to invest in new products for the future.

The record level of profits in 2006 clearly indicates that the Group's investment strategy continues to deliver shareholder value.



Industrial Products

Revenue increased to £42.5 million which was an 11.6% improvement on the 2005 figure (£38.1 million). Underlying operating profits also increased by 47.3% to £2.6 million (2005: £1.8 million).

Benefiting from recent capital expenditure, there was a significant expansion of our pipe supports operations in Thailand during the year, as they take advantage of the current activity in the building of liquid natural gas plants around the world.

The other smaller companies in this division traded adequately in difficult market conditions. Two of the smaller non-core metal stockholding businesses were sold during the year.

Zinkinvent

Our associated company, Zinkinvent GmbH, which we acquired in May 2005, had an excellent year. As explained in the Chairman's Statement, we have recently entered into a conditional agreement to acquire control of Zinkinvent. If approved by the shareholders, this acquisition will greatly expand the scope of our galvanizing and lighting column manufacturing operations and provide us with a platform for international expansion.

Acquisitions

In February 2006 we acquired Counters & Accessories and in October 2006 we acquired Metnor Galvanizing. As mentioned above,

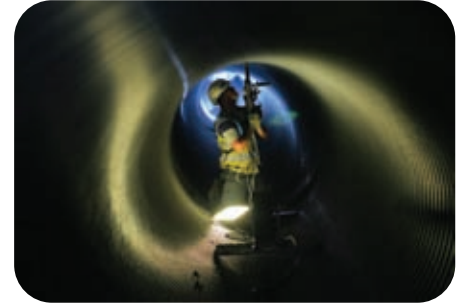
Counters & Accessories will work closely with Techspan Systems to form the core of our new technology division within IPG. Metnor Galvanizing is located near Chesterfield, an area which is not well served by our existing galvanizing activities. It also has a longer bath facility than any of the other plants, thus enabling us to process longer lengths of poles and structured steel. This plant is now the fourth galvanizing facility situated adjacent to one of our major manufacturing units.

The Future

Our infrastructure and construction markets remain buoyant and demand in the UK for our continually expanding product portfolio, aimed at health and safety, security and the environment, will continue to drive the Company's performance. The acquisition of Zinkinvent and our planned expansion into overseas markets will diversify our future earnings and provide further opportunities to develop the Group on an international basis.



David Grove
Chief Executive
6 March 2007



MARKET LEADERSHIP

Financial Review

Chris Burr
Finance Director



Basis of Consolidation

The results cover the twelve months to 31 December 2006. They include for the first time the results of Counters & Accessories Limited, which we acquired in February, and Metnor Galvanizing Limited, which we acquired in October, as well as a first full year contribution from our associated company, Zinkinvent GmbH, which was acquired in 2005. They also include the results of W&S Allely Limited and Eden Material Services (UK) Limited, both of which we disposed of in October 2006.

Summary of Results

The Group regards its underlying results, which exclude the effects of business reorganisation and property items, as the most appropriate measure of its financial performance.

The Group's 2006 results represent another record year with revenue and profit before tax at their highest ever levels. This performance was achieved despite major increases in energy and commodity prices, particularly zinc, which is used in our galvanizing operations, and some steel products. Although we were able in many instances to pass on these cost increases, they had the effect of reducing our overall trading profit margin. However, the higher full year contribution from Zinkinvent enabled us to maintain the growth in our underlying operating margin and profit before tax.

Revenue and Operating Profit

Revenue increased by 10.4% to £306.0 million (2005: £277.3 million). Adjusting for the effect of acquisitions and disposals, the like-for-like increase was 9.6%, with growth in all divisions. Revenue in our core Infrastructure Products Group division (IPG) increased by 9.3% due in part to the effects of the increase in the price of

zinc. The Building and Construction division increased revenue by 10.9%, reflecting the passing on of the increased cost of raw materials and the continued expansion in our Ash & Lacy Building Systems operation. Growth in the Industrial Products division was due almost entirely to our Pipe Supports businesses which increased revenue significantly on the back of the surging worldwide demand for power generation, in particular in the liquid natural gas market.

Underlying operating margins in IPG increased from 12.1% to 13.8% and underlying operating profit grew by 24.9%, fuelled by new product launches, strong market demand, both domestically and abroad, and the two acquisitions of Counters & Accessories Limited and Metnor Galvanizing Limited. Our Joseph Ash galvanizing operations benefited from the cost reductions arising from the closure of their Digbeth factory in 2005 and the Asset International plastic pipe business increased profits substantially, due to strong demand from the house building sector.

In the Building and Construction division profit advances in most businesses were offset by a substantially reduced performance from our concrete reinforcement operation, Express Reinforcements Limited, which was adversely affected by a rapid rise in the cost of raw materials in the first half of the year, which squeezed margins. Sales prices are now back at much more satisfactory levels and we look forward to a significantly improved performance from this business in 2007.

The improved results in the Industrial Products division were due primarily to the substantially increased contribution from our Pipe Supports

Underlying earnings per share amounted to 20.7p, an increase of 15.3% over last year and the highest ever achieved by the Group.



operations where operating profit nearly doubled due to strong customer demand.

There was also an increased contribution from our associated company, Zinkinvent GmbH, where our share of its post-tax profits increased by £2.5 million. Although this is due in part to it being a full year contribution, rather than only seven months in 2005, there was nevertheless a substantial improvement in its underlying full year performance with higher volumes and operating margins.

Group operating profit increased by 9.2% to £21.5 million (2005: £19.7 million) whilst underlying operating profit increased by 15.8% to £22.7 million (2005: £19.6 million).

Net reorganisation and property items at operating profit level amounted to £1.2 million. These include the cost of relocating our Mallatite lighting column operations to a new site at Chesterfield, which involved the closures of the existing factories in Levenshulme and Cresswell. These costs were partially offset by gains on the sale of two vacant sites in Glasgow and Hartlepool.

Financing Costs

Net financing costs increased by £0.3 million, primarily as a result of the higher average borrowings during the year and the base rate increases later in the year. Based on underlying profit, net interest cover was 5.4 times (2005: 5.1 times).

Profit Before Taxation

Underlying profit before taxation rose by 17.6% to a record £18.5 million (2005: £15.7 million). Including the effect of the net reorganisation and property items, profit before taxation increased by 9.4% to £17.3 million (2005: £15.8 million).

Taxation

The effective tax rate on both underlying and overall profits was lower than the standard rate of 30%. This was due mainly to the inclusion of the Zinkinvent post-tax profits at the pre-tax level as required by International Accounting Standards. The overall tax rate of 24.6% was higher than the previous year, which benefited additionally from the release of a deferred tax provision arising from property transactions.

Earnings per Share

Underlying earnings per share amounted to 20.7p, representing an increase of 15.3% over last year (2005: 17.9p) and the highest ever achieved by the Group. However, because of the higher tax charge, the year's basic earnings per share fell by 11.9% to 19.8p (2005: 22.5p).

Dividends

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 7.2p per share, an increase of 20.0% over last year. This level of dividend is covered 2.8 times by basic earnings per share. Based on underlying earnings per share, dividend cover is 2.9 times.

Financing and Investment

Year end net borrowings decreased slightly to £46.1 million (2005: £47.3 million). We continued our vigorous programme of capital expenditure and product development, investing a total of £19.0 million, £12.2 million in excess of the depreciation charge. Working capital increased by £13.5 million during the year primarily to support the higher costs of raw materials and the growth in revenue. We also made additional contributions totalling £1.5 million towards the Group's pension

deficit. The year end financing position benefited from the proceeds of the successful Placing and Open Offer in October 2006 which raised a total, net of costs, of £26.8 million. We also generated £3.1 million from the sale of properties and plant and equipment. £10.5 million was spent in making the acquisitions of Counters & Accessories Limited and Metnor Galvanizing Limited.

Pensions

Our year end net retirement obligation reduced by £3.4 million. Net investment returns during the year exceeded expectations and long-term bond rates increased, although these benefits were partially negated by the effect of new mortality assumptions. As noted above, we made additional contributions on account of the deficit amounting to £1.5 million. Further information is given in note 23 to the Financial Statements.



Chris Burr
Finance Director
6 March 2007

SUSTAINABILITY



Directors



1. D S Winterbottom FCA, FCT
Non-Executive Chairman

David, aged 70, joined the Board on 1 October 1997. He was more recently Chairman of Shiloh PLC, CPL Industries Limited and Wightlink Shipping Limited and a non-executive director of Electrocomponents PLC.

2. D L Grove BA, FCA
Deputy Chairman and Chief Executive

David, aged 58, joined the Board on 20 March 1998. He is a shareholder and non-executive director of a number of private manufacturing, distribution and investment companies. He is Chairman of the West Midlands Industrial Development Board.

3. D W Muir BSc, CEng, MICE
Executive Director (Chief Executive designate)

Derek, aged 46, joined the Board on 21 August 2006. He has been a senior manager within the Hill & Smith Group for many years. He was appointed Managing Director of Hill & Smith Limited, one of the Group's principal subsidiaries, in 1998. Since 2001 he has been Managing Director of the core Infrastructure Products Group division.

4. C J Burr FCA
Finance Director

Chris, aged 57, joined the Board on 2 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.

5. R E Richardson FCMl
Senior Non-Executive Director

Dick, aged 67, joined the Board on 1 May 1997. He is 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 Tace PLC.

6. H C Marshall MSc, BSc
Non-Executive Director

Howard, aged 63, joined the Board on 2 November 2000. Previously Chief Executive of Ash & Lacy Plc, he is also Chairman of Imaginatik Plc and, more recently, Chairman and Chief Executive of Bullough Plc. He also holds appointments as a Governor of the University of Central England, non-executive director of Heart of England Tourist Board and Chairman of Orchestra of the Swan.



Advisers

Bankers

Barclays Bank PLC
Royal Bank of Scotland PLC
Bank of Scotland PLC

Auditor

KPMG Audit Plc

Contacts and Committees

Registered Office

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

Website

www.hsholdings.co.uk

Company Secretary

C J Burr FCA

Company Number

671474

Audit Committee

Messrs Richardson (Chairman), Winterbottom
and Marshall

Remuneration Committee

Messrs Marshall (Chairman), Winterbottom
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.



FOCUSED

Stockbroker and Financial Adviser

Arden Partners plc

Solicitors

HBJ Gateley Wareing LLP
Howes Percival LLP
Silks Solicitors
Wragge & Co LLP

Pensions Advisers

KPMG LLP

Insurance Brokers and Risk Management Advisers

Jardine Lloyd Thompson

Registrars

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

Directors' Report

The Directors present their forty-sixth Annual Report together with the Financial Statements for the year ended 31 December 2006.

Business Review

The Company is required by Section 234ZZB of the Companies Act 1985 to set out in this report a fair review of the business of the Group during the financial year ended 31 December 2006 and of the position of the Group at the end of that financial year and a description of the principal risks and uncertainties facing the Group.

The information required to be disclosed as part of this Business Review, in addition to that reported below, can be found in the Operational Review on pages 6 to 9 and the Financial Review on pages 10 and 11 and which are incorporated into this report by reference.

Principal Activities

The principal activities of the Group are:

- Infrastructure Products
- Building and Construction Products
- Industrial Products

The Group profit for the year after taxation amounted to £13.1 million. Turnover and operating profit increased by 10.4% and 9.2% respectively compared to the previous year.

Business segment information is given on pages 39 and 40.

Dividends

The Directors recommend the payment of a final dividend of 4.2p per ordinary share (2005: 3.4p per ordinary share) which, together with the interim dividend of 3.0p per share paid on 12 January 2007, makes a total distribution for the year of 7.2p per share (2005: 6.0p per share). Subject to shareholders approving this recommendation at the Annual General Meeting, the dividend will be paid on 11 July 2007 to shareholders on the register at the close of business on 8 June 2007.

Risks and Uncertainties

There are a number of potential risks and uncertainties which could have an adverse impact on the Group's long-term performance.

Foreign Currency Risk

Several Group companies trade with overseas customers and suppliers. In addition, the results of its associated company, Zinkinvent GmbH, which are prepared in euros, are translated for the Group's reporting purposes into sterling. Accordingly, changes in the value of sterling against other currencies, particularly the US dollar and the euro, may affect the Group's reported financial performance. Other financial risks are detailed in note 19 to the Financial Statements on pages 51 to 53.

Raw Material Prices and Continuity of Supply

In the past two years, there has been a very steep rise in the price of certain of the Group's key raw materials, particularly steel, which is used in the fabrication of many of the Group's products, and zinc, which is used in the Group's hot dip galvanizing operations. The Group's financial performance is directly affected by its ability to mitigate or pass on these price increases to its customers and also to maintain continuity of supply. At times, the Group may need to hold higher stocks in order to mitigate the effects of price increases, which may increase its financial costs.

Technological and Regulatory Change

Any significant change in the technology or the regulatory environment affecting the markets in which the Group operates could have an adverse effect on the Group's financial performance.

Commercial Relationships

The Group benefits from close commercial relationships with a number of key customers and suppliers. The loss of any of these or a significant worsening of commercial terms could have an impact on the Group's reported results.

Pensions

As at 31 December 2006, the Group reported a deficit of £10.5 million in respect of its defined benefit pension obligation. The Group's net retirement benefit obligation is calculated on the basis of actuarial assumptions. Actual experience may vary significantly from these assumptions, which are also subject to changes in various factors outside the Company's control, including mortality rates, long-term interest and inflation rates, trustee cooperation and the regulatory environment, all of which may lead to an increase in the deficit, the level of Company contributions and its compliance costs.

Environmental and Health and Safety Risks

Some of the Group's businesses operate in industries which involve the use of potentially polluting materials; they may also operate from sites affected by historical pollution. Changes in legislation and environmental standards or the Group's failure adequately to control these risks may have an adverse effect on the Group's financial position.

Like all businesses, the Group's operations are subject to legislation relating to the provision of a safe working environment for its employees, contractors and other third parties. A serious failure on the part of the Group adequately to control its health and safety risks could have an adverse impact on its operations and hence its financial performance.

Reputational Risk

Many of the Group's products are supplied to the public sector for the benefit of members of the public. To the extent that any of the Group's products fail, or are not manufactured to the appropriate standard, a health and safety incident could occur which could generate adverse publicity and have an adverse effect on the Group's reputation, its financial position and its ability to win new business.

Competitor Risk

As with most private sector businesses, the Group operates in a competitive environment. Its operations therefore are subject from time to time to actions taken by its competitors. These actions may be many and varied but can include aggressive pricing, new product introductions, cheap product sourcing, geographical expansion and sales and marketing campaigns. Prolonged competitive activity of this sort may adversely affect the Group's financial performance.

Energy Availability and Cost

In common with all manufacturing businesses, the Group's operations are dependent on the cost and availability of energy. Any supply interruptions or increase in energy costs will have an effect on its business.

Dependence on Key Facilities and Equipment

The Group has a number of production sites and individual items of plant and machinery which are key to its ability to service its customers and generally to enable it to operate efficiently. Although the Group has put in place insurance, contingency planning and other measures to mitigate against potential unforeseen events, there can be no certainty that these will prove to be adequate in all situations.

Acquisitions

The Company is an active acquirer. Acquisitions can involve risks that might have a material impact on the Company. Although these risks are usually mitigated by extensive due diligence and, where practical, by contractual representations, warranties and indemnities from the vendors, there is nevertheless a risk that a poorly judged or unsuccessful acquisition could have an adverse effect on the Group.

Inability to Supply

The inability of the Group to supply against contractual commitments is a risk which could have an adverse impact on the business. The Group endeavours to mitigate this risk by good management, contingency planning and, where practicable, through business interruption insurance.

Human Resources

The ability of the Company to mitigate those risk factors within its control depends on the skill and efforts of its employees and management teams across the Group. Future success will depend, to a large degree, on the ability of the Group to attract and retain skilled and qualified personnel. If the Group loses the services of key people or is unable to attract and retain employees with the right capabilities and experience, it could have a material impact on the Group's business.

Key Performance Indicators

The Board of Hill & Smith Holdings PLC uses the following financial and non-financial key performance indicators ('KPIs') to measure the strategic and operational progress of the Group. The diversified and varied nature of our operations means that these and other KPIs, both financial and non-financial, are also measured at the subsidiary level.

Group KPIs

Financial KPIs

Turnover

Our aim is to increase turnover each year through a combination of price and volume growth, organic expansion and acquisitions.

In 2006, we increased our Group turnover by 10.4% to £306.0m. Organic growth, excluding the effect of acquisitions and disposals, contributed 9.6% of this growth.

Operating Margin

This represents the Group underlying operating profit, before property and reorganisation items and excluding our share of profits from associates, divided by group turnover.

In 2006 our operating margin was 6.4% compared to 6.8% in the previous year. This reduction was due principally to the effects of the increase in the cost of our principal raw materials, higher energy costs and the poor performance in the year of Express Reinforcements Limited.

Profitability

Our main profitability KPIs are underlying profit before tax and underlying earnings per share. These measures increased in 2006 by 17.6% and 15.3% respectively compared to the previous year. These are discussed in more detail in the Financial Review section of this report.

Net Cash from Operating Activities

The Company actively monitors working capital levels in all its operations. In 2006 Group net cash inflow from operating activities was £4.3m compared to £16.5m in 2005. This reduction included an adverse movement in working capital of £13.5m which was primarily due to the effects of the expansion of the Group's operations and higher raw material costs.

Non-financial KPIs

Health and Safety

The safety performance of each subsidiary is tracked and reviewed and reported regularly to the Board. Essential statistics on incidents and accidents are being compiled to form the basis for future target setting by the Group which will drive improved performance. Periodic reviews of insurance claims data are also made to identify underlying problems and trends which in turn will help the monitoring of our management and reduction of risks.

Sustainability

Our sustainability strategy is being developed and will include a set of non-financial KPIs. In doing so we will prioritise the measurement of energy efficiency, CO₂ emissions, the use of recycled material, the management of waste and the quality of water that leaves our sites.

Further information on these non-financial KPIs is given in the Corporate Social Responsibility section of this report.

Subsidiary KPIs

At a subsidiary level, in addition to a focus on year on year profit growth, attention is directed towards working capital management, including stock turnover rates, debtor and creditor days, and return on operating capital employed.

Directors' Report

Various other indicators relating to production efficiency and customer service levels are monitored where these are relevant to a subsidiary's business.

Corporate Social Responsibility

Our Philosophy and Approach

We take seriously our responsibilities to the environment and the communities in which we operate (commonly referred to as Corporate Social Responsibility or 'CSR'). We believe that these responsibilities can have a positive impact on profitability and therefore on shareholder returns as well as on our reputation and growth prospects. We further believe that neither business growth nor efficiency need be compromised by striving to achieve high standards of social and environmental responsibility.

During 2006, the Board embarked upon a project to implement a suite of policies dealing with the Group's responsibilities to the environment and relationships with its various stakeholder groups, including its employees. These policies, which were adopted by the Board of Hill & Smith Holdings PLC in March 2007, are based upon a combination of custom and practice from around the Group and industry best practice. The policies are being progressively implemented across all our major manufacturing sites. Accordingly, what follows should be regarded as work in progress as it is the Board's intention that in 2007 work will continue to extend and broaden the reporting of environmental performance at all the Group's major operating facilities.

This report sets out details of our CSR activities during the 2006 financial year during which the Group began the work of developing systems and processes for gathering and analysing performance data which will enable us to measure more effectively the cost and benefits of addressing our regulatory obligations.

In preparing this report, consideration has been given to the Association of British Insurers' disclosure guidelines on socially responsible investment. These guidelines were developed to help provide a basic benchmark for companies wishing to develop best practice in this area.

Responsibilities and Accountabilities

At a corporate level, the various aspects of CSR are assigned to different layers of management. The Board of Hill & Smith Holdings PLC sets Group policies. These include the environment, equal opportunities, discrimination and diversity, training and development, supply chain and a code of business ethics, all of which are published on the corporate website. These policies are reviewed within the normal business planning cycle and, as and when necessary, updated to reflect changes to legislation, emerging best practice and the needs of the business. D W Muir is the main Board Director responsible for CSR in the Group.

Operating entity managing directors are responsible for the implementation of these policies, their communication across the business units and compliance with the policies and supporting principles, delegating as appropriate to designated individuals in their part of the business.

Implementation of the policies is effected at each facility in order to ensure that the overall activities of each site are compatible with, and conform to, the policies and international standards as these apply to individual businesses.

All our employees have a responsibility to be aware of, and to comply with, the Group's policies and processes which have been developed for their guidance and in order to regulate the conduct of the day-to-day operations of the business. Employees are encouraged to make suggestions to improve these policies and procedures.

Process for Identifying and Assessing Risks

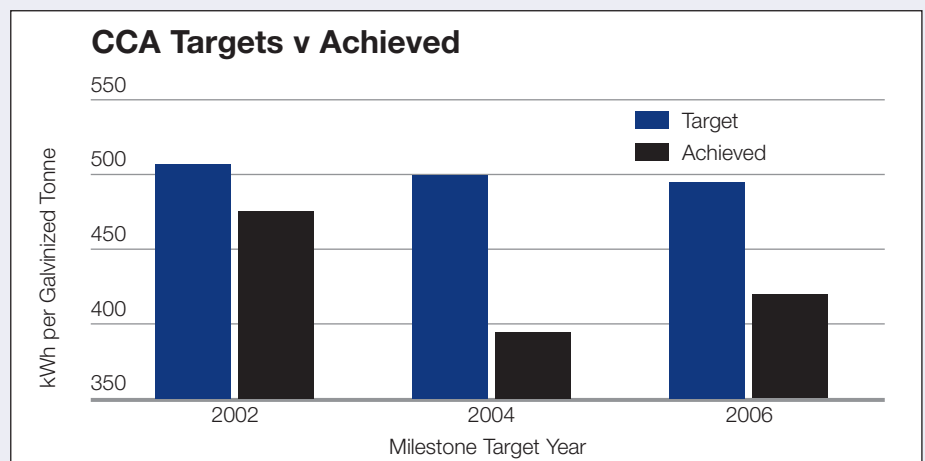
The Group is a major supplier to the Highways Agency. The Agency encourages its suppliers to comply with ISO14001, which specifies the actual requirements for an Environmental Management System ('EMS') and applies to those environmental aspects over which the organisation has control and can be expected to have an influence.

At the time of writing, only Techspan Systems is ISO14001-compliant. Accordingly, the Group is moving towards ensuring that all subsidiaries supplying the Highways Agency work towards achieving compliance by the end of 2008. The cornerstone of each manufacturing facility's EMS will be its Aspects and Impacts Register, identifying in respect of each stage of every process the associated risks and allocating a severity rating depending upon the significance of each risk in terms of its impact on the business. The allocation of a severity rating will be the starting point in determining how best to address each risk in turn.

The Environment

1. Mallatite Limited

Pursuant to the Group's strategic objective of reducing the transport of product between sites, Mallatite's Levenshulme and Cresswell manufacturing plants have been relocated to a new site adjacent to our Chesterfield galvanizing plant. This project was completed in January 2007.



Lighting columns were formerly transported by road from Levenshulme to Chesterfield for galvanizing. By relocating the manufacturing plant to a site adjacent to the Chesterfield galvanizing plant, Mallatite is able to reduce the number of road journeys by 500 per annum (65,000 miles) resulting in a 6,000 tonnes per annum reduction in the volume of product transported by road. This plant is now our fourth galvanizing facility to be located on a site adjacent to its own manufacturing unit.

2. *Company Car Policy*

A company car policy is being developed, the objective of which is to encourage employees to select cars with lower CO₂ emissions, thereby also reducing running costs to the Group.

3. *Climate Change Agreement*

The UK Climate Change Programme was published on 17 November 2000, setting out the Government's proposals for meeting the UK's legally binding target of a 12.5% reduction in greenhouse gas emissions (Kyoto Protocol) and for moving towards the Government's domestic goal of a 20% reduction in carbon dioxide emissions.

The Climate Change Levy is a tax on the use of energy in industry, commerce and the public sector, with offsetting cuts in employers' National Insurance Contributions and additional support for energy efficiency schemes and renewable sources of energy. The levy forms a key part of the Government's overall Climate Change Programme.

Companies participating in the Climate Change Agreement ('CCA') have this charge reduced by up to 80%. By meeting energy usage reduction targets and meeting responsibilities set out in the CCA, sites are able to claim this reduction from the date they join the scheme up until the end of March 2013.

The Joseph Ash group of galvanizers joined the scheme at its inception. Targets, which were based on progressive biennial

reductions in process energy consumption of 1%, 2%, 3%, 5% and 6%, were agreed and set by Defra for milestone target years against a base year for the industry (1998). These targets were expressed as annual usage in kWh per tonne galvanized and they extend to 2010.

Since that time, by raising awareness of energy usage and by employing an effective energy management strategy, Joseph Ash has consistently met its biennial targets. Furthermore, those savings have translated into a CO₂ surplus that currently stands at 3,396 tonnes and which may be traded under the UK Greenhouse Gas Emissions Trading Scheme.

For the future, by employing ever more effective means of process control and by adopting more rigorous management of energy consumption, Joseph Ash believes it will achieve its consumption reduction targets for the remainder of the CCA.

On the facing page is a graphical illustration of Joseph Ash's CCA performance to date. It should be noted that in galvanizing there are a number of factors that affect overall performance, not least of which is product mix and output. For this reason, 2006 saw an increase in energy consumption over 2004 although it was still well below the 495 kWh per tonne target.

Health and Safety

The Board endeavours to ensure that Hill & Smith's activities do not result in injury or illness to any employee, contractor or member of the public. The Board approves policies designed to achieve high standards of health and safety and these are regularly reviewed to monitor their continued suitability and effectiveness.

All Hill & Smith subsidiaries must comply with our health and safety policies in addition to meeting requirements specific to their businesses, for example, ISO14001 and the Control of Substances Hazardous to Health ('COSHH') as well as customers' expectations. The Board is committed to ensuring that these principles are articulated to all employees and that they are effectively implemented.

The Group has engaged health and safety consultants to audit its existing systems and health and safety performance, and implement a new health and safety management system. This system is now fully operational and is providing the anticipated benefits. The system is supported by the Group Health and Safety Committee that met twice during the year under review.

Each of our businesses maintains accident reporting systems. These systems are used to identify trends with a view to developing strategies for reducing the number of reportable as well as non-reportable accidents and near misses.

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. Subsidiary companies 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 Scheme.

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

All employees are encouraged to raise genuine concerns about possible improprieties in the conduct of our business, whether in matters of financial reporting or other malpractices, at the earliest opportunity and in an appropriate way. Accordingly, the Group adopted a whistleblowing policy in October 2004.

Directors' Report

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.

Training and Development

Our businesses are increasingly knowledge-based. Employing the right people and encouraging the continuous development of the skills of our employees is key to developing a successful business. Accordingly, the development of individuals at all levels is encouraged with the objective of maximising the overall performance of the business. This is achieved through a combination of work-based learning together with the provision of development opportunities, supported by a formal programme of coaching and mentoring.

Share Capital

Information concerning the issued share capital of the Company is set out in note 20 to the Financial Statements on pages 53 and 54.

Directors' Interests

In October 2006, the Group raised approximately £28.0 million before expenses by means of a Placing and Open Offer of 12,280,702 new ordinary shares at 228p per share. The net proceeds are being utilised to strengthen the Group's capital base, thereby enabling it to take advantage of suitable acquisition opportunities and provide funding for the organic expansion of the Group's existing businesses.

During the year, 69,554 new ordinary shares were issued under employee share schemes, 13,554 under the 1995 Save As You Earn Scheme and 56,000 under the 1999 Executive Share Options Scheme.

Directors and Directors' Interests

The Directors who served during the year ended 31 December 2006 and to the current date are as follows:

Name	Date of Appointment
D S Winterbottom	1 October 1997
D L Grove	20 March 1998
D W Muir	21 August 2006
C J Burr	2 November 2000
H C Marshall	2 November 2000
R E Richardson	1 May 1997

Biographical details of the Directors are shown on page 12. The Director retiring by rotation at the forthcoming Annual General Meeting is H C Marshall who, being eligible, offers himself for re-election. D W Muir was appointed as a Director by the Board on 21 August 2006 and, pursuant to the Company's Articles of Association, will retire and offer himself for election at the Annual General Meeting.

As recommended by the Combined Code, Non-Executive Directors who have been in office for more than nine years will stand for re-election at the next Annual General Meeting. On this basis, R E Richardson will be seeking re-election at the Annual General Meeting.

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 27) at the beginning and end of the financial year were as follows:

	Number of Ordinary Shares at 31 December 2006	Number of Ordinary Shares at 31 December 2005 (or on appointment)
C J Burr	137,628	137,628
D L Grove	1,259,969*	1,210,945
H C Marshall	71,930*	68,601
D W Muir (appointed 21 August 2006)	9,714*	8,855
R E Richardson	3,859*	3,518
D S Winterbottom	17,213*	15,690

All interests are beneficial.

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

* The Directors' increased shareholdings arose from their taking up some or all of their entitlement under the terms of the Company's Placing and Open offer on 16 October 2006 at a price of 228p per ordinary share.

No Director had any interest in any material contract or arrangement in relation to the business of the Company and any of its subsidiaries during the year. Details of the Directors' service contracts are set out in the Directors' Remuneration Report on page 25.

Substantial Shareholdings

As at 6 March 2007, the Company had been notified under Rule 9.8.6R(2) of the Listing Rules as follows:

	Number of Voting Rights		Percentage of Issued Voting Rights	
	Direct	Indirect	Direct	Indirect
J P Morgan Asset Management (UK) Limited	—	6,761,196	—	8.95
Legal & General Group Plc	2,421,200	—	3.20	—
Aviva plc	2,386,740	—	3.16	—

Research and Development

During the year, the Group spent a total of £1,591,000 (2005: £1,490,000) on research and development.

Political and Charitable Donations

Charitable donations amounting to £9,000 (2005: £11,000) were made in the year. There were no political contributions.

Supplier Payment Policy

Individual operating companies within the Group are responsible for establishing and adhering to appropriate policies 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, provided 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 90 days (2005: 87 days). The Company's average credit period was 32 days (2005: 30 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 25p each at 31 March 1982 was 12p.

Independent Auditors

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

Disclosure of Information to Auditors

In accordance with Section 234ZA of the Companies Act 1985, the Directors who held office at the date of approval of this Directors'

Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Special Business of the Annual General Meeting

The Annual General Meeting of the Company will be held at 10.30 a.m. on Friday 11 May 2007 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

C J Burr
Company Secretary

6 March 2007

Corporate Governance

Introduction

The Board continues to review the governance requirements in the context of the size, organisational 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
- 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 Group's strategy, the reduction of risks and the protection of the long-term interests of shareholders.

Statement of Compliance

With the exception of the following matters, the Company has throughout 2006 fully complied with the principles set out in Section 1 of the UK Financial Reporting Council's Combined Code on Corporate Governance adopted in July 2003:

- *Code Requirement (Code A.2) — The roles of chairman and chief executive should not be exercised by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established, set out in writing and agreed by the board.*

At the Group's Annual General Meeting to be held on 11 May 2007, D L Grove is to become Executive Chairman following the retirement of the present Chairman, D S Winterbottom. The Code requires an explanation in cases where an individual who was previously chief executive officer of a company is appointed chairman of the board. As required by the Code, this appointment has been discussed in advance with major shareholders. In reaching its decision to appoint Mr Grove, the Board considered the significant benefits of continuity as well as the leadership that he will bring to the role of Chairman.

- *Code Requirement (Code A.3) — The board is to assess the non-executive directors' independence.*

R E Richardson, Senior Independent Director, was appointed to the Board on 1 May 1997. His length of service on the Board exceeds the nine years referred to in the Combined Code, which provides that an explanation be made to shareholders concerning his continued independence. The Board considers that Mr Richardson maintains an independent and rigorous approach to the Group's business. Mr Richardson's length of service is not considered to impair his independence but rather to provide a depth of knowledge, insight into the business and commitment to the Group which enables him more fully to carry out his non-executive duties. In accordance with the Code, he is standing for re-election at the forthcoming AGM.

D S Winterbottom, Non-Executive Chairman, joined the Board on 1 October 1997. His length of service therefore exceeds nine years. As stated above, Mr Winterbottom will be retiring at the forthcoming Annual General Meeting.

- *Code Requirement (Code A.4) — For the appointment of a chairman, the nominations committee should prepare a job specification including an assessment of the time commitment expected.*

The appointment of D L Grove as Executive Chairman was made in accordance with Code principles. A description of the role, responsibilities and expected time commitment has been prepared subject to final approval by the Nominations Committee.

The Directors and the Board

The Board comprises the Chairman, three Executive Directors and two Non-Executive Directors. The Chairman is D S Winterbottom, the Chief Executive is D L Grove and R E Richardson is the Senior Independent Director.

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

D W Muir was appointed an executive Director during the year ended 31 December 2006 and will take over the position of Chief Executive from D L Grove following the latter's appointment as Executive Chairman when D S Winterbottom retires at the Annual General Meeting. A description of the role of Chief Executive has been approved by the Nominations Committee.

On 6 March 2007, it was announced that Clive John Snowdon will join the Board as a Non-

Executive Director immediately following the Annual General Meeting to be held on 11 May 2007. Mr Snowdon, a chartered accountant, has been the Chief Executive of Umeco plc, a publicly quoted company, since 1997. Following these changes, the Board considers that it has the correct balance of executive and non-executive Directors to comply with the spirit of the Code.

For the months of November and December, C J Burr combined the roles of Finance Director and Company Secretary as an interim measure following the departure of the previous Company Secretary. An appointment has been made since the year end of a permanent replacement who will take office on joining the Company. 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 on page 25 of 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 11 May 2007.

Board Effectiveness

The Directors ensure the effectiveness of the Board through regular Board meetings and by having open lines of communication between Board members. During the period under review, the Board met fourteen times for main Board meetings. Details of attendances at these meetings are set out below:

D S Winterbottom	13 out of 14 attended
D L Grove	14 out of 14 attended
C J Burr	14 out of 14 attended
H C Marshall	12 out of 14 attended
D W Muir (appointed 21 August 2006)	5 out of 6 attended
R E Richardson	14 out of 14 attended

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 financing.

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.

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.

H C Marshall is the Director retiring by rotation at the forthcoming Annual General Meeting of

the Company and, being eligible, offers himself for reappointment. 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 the Nominations Committee support H C Marshall's reappointment having assessed his performance, value to the Board and its Committees and his ability to continue to operate as an independent Director.

As recommended by the Combined Code, Non-Executive Directors who have been in office for more than nine years will stand for re-election at the next Annual General Meeting. On this basis, R E Richardson will be seeking re-election at the Annual General Meeting.

Election of a Director

D W Muir was appointed as a Director by the Board on 21 August 2006 and, pursuant to the Company's Articles, will retire and offer himself for election at the Annual General Meeting.

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 agreed guidelines for meeting their 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 and each of the Audit, Nominations and Remuneration Committees initiated a process of undertaking performance evaluations. A questionnaire has been circulated to Directors concerning the performance of the Board as a whole and its main committees. Once all questionnaires have been completed, the results will be compiled and summarised by the Company Secretary and the Chairman will report the collective findings to the Board and agree any actions required. The areas covered include effectiveness of individual contributions, relationships, communication and development.

Committees of the Board

The Board has three Committees, as follows:

Audit Committee

The Audit Committee consists of the three non-executive Directors and is chaired by R E Richardson. Following the retirement of D S

Winterbottom at the forthcoming Annual General Meeting, C J Snowdon will join the Audit Committee. Mr Snowdon is a chartered accountant and is deemed to have recent and relevant financial experience. The Company Secretary acts as secretary to 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, reappointment 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 believes that there are certain non-audit services where it is cost-

Corporate Governance

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 and terms of engagement of each audit, and then reviews the performance of the auditor following the completion of each audit.

The Audit Committee met three times 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. Following the retirement of D S Winterbottom at the forthcoming Annual General Meeting, C J Snowdon will join the Remuneration Committee. 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 27.

The Remuneration Committee met once during the period and all members were present.

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 the necessity to refresh its membership and, to that end, has established a 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. During the year, using external consultants, the Committee conducted a search for an independent Director. This reached a successful conclusion early in 2007 with the appointment of C J Snowdon immediately following this year's Annual General Meeting. The search process involved members of the Committee interviewing a number of candidates and making their final recommendation to the Board. 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.

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' investments 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 and these are reviewed at regular intervals.

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 divisional 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.
- 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 Audit 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 receivables and trade payables 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. Copies of all major press releases and interim and annual reports are posted on the Company's website together with additional detail on major contracts and projects, key financial information, company products, structure and background.

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

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 11 May 2007.

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 ('DRRR'), which set 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 once in the period under review and was fully attended.

The Committee used the external services of Buck Consultants as its principal external adviser during 2006 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 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 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 and D W Muir 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 their individual performances and responsibilities in their roles as executive Directors.

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.

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', may 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.

For options outstanding under this Scheme see the table on page 27.

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.

Long-term Incentive Plan ('LTIP')

The Remuneration Committee believes that, in addition to the provision of share options, it is appropriate to operate an LTIP to encourage executive Directors and a small number of senior personnel to meet the Group's long-term strategic and financial objectives set by the Board. Buck Consultants has been commissioned to design an LTIP for which shareholder approval is sought at the forthcoming Annual General Meeting. The terms of the proposed LTIP are set out in the circular accompanying this report.

A consequential change is required to the 2005 Executive Share Option Scheme as set out in the circular accompanying this report.

Directors' Pension Provision

C J Burr and D W Muir participate in the Hill & Smith Executive Pension Scheme, a defined benefit 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 or D W Muir'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 three executive Directors have service agreements with the Company. The agreements provide for twelve months' notice if terminated by the Company.

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.

D W Muir may terminate his service agreement with the Company by giving six months' notice. The Company may terminate the agreement by giving twelve months' notice. There are no change in control provisions in D W Muir's service agreement.

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
D W Muir	2 June 1999

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.

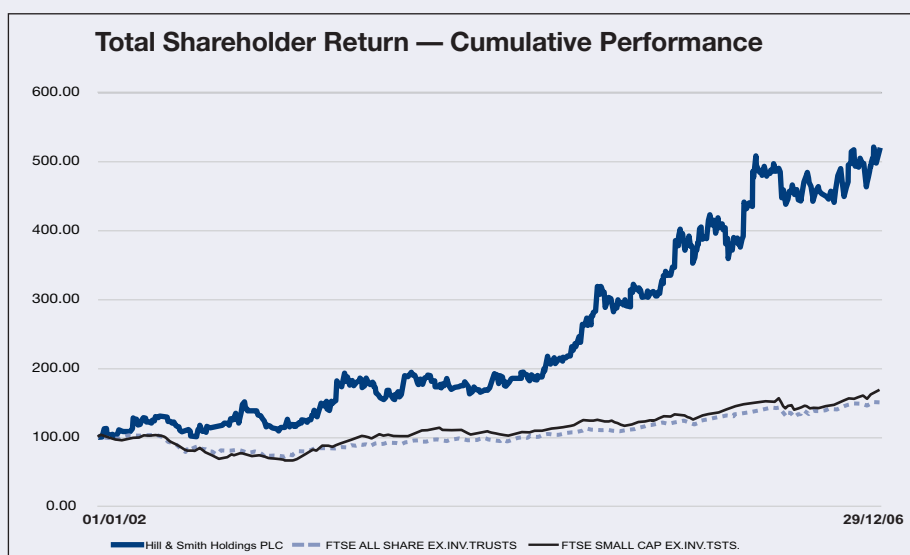
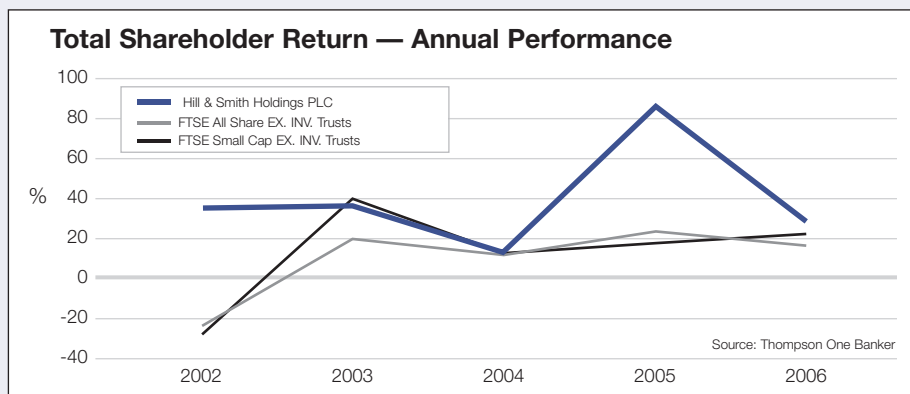
The date of the Chairman's contract is 4 March 1999.

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. Overleaf are two graphs showing the Total Shareholder Return on both an annual and cumulative basis over the five year period from 2002 to 2006 inclusive. The comparable indices selected are the FTSE All Share Index and the FTSE Small Capitalisation Index, which are broadly based indices of shareholder return.

Directors' Remuneration Report



INFORMATION SUBJECT TO AUDIT Directors' Remuneration

	Basic Salary/ Fees £'000	Value of Benefits £'000	Performance Related Bonus £'000	Total for Year to 31.12.06 £'000	Total for Year to 31.12.05 £'000
Executive					
D L Grove	400	17	276	693	649
C J Burr	184	12	55	251	281
D W Muir (appointed 21 August 2006)	73	8	34	115	—
Non executive					
D S Winterbottom	72	—	—	72	65
H C Marshall	34	—	—	34	30
R E Richardson	36	—	—	36	32
Total	799	37	365	1,201	1,057

Directors' Share Options — Options Outstanding

	No of shares at 31 December 2005 and 2006	Exercise price (p)	Date first exercisable	Expiry date
C J Burr	12,360‡	100	1 Oct 2010	1 Oct 2010
D L Grove	12,360‡	100	1 Oct 2010	1 Oct 2010
D W Muir (appointed 21 August 2006)	12,360‡	100	1 Oct 2010	1 Oct 2010
	14,646*	205	4 Oct 2008	4 Oct 2015
	63,468†	205	4 Oct 2008	4 Oct 2015

* 2005 Executive Share Option Scheme

† 2005 Non-Approved Executive Share Option Scheme

‡ 1995 Savings Related Share Option Scheme

No options were granted to Directors during the year and no options were exercised by the Directors. Variations in the terms and conditions of options shown in the above tables were made.

At 31 December 2006 the mid-market price of the Company's shares was 271.0p. During the year, the Company's mid-market share price ranged between a low of 193.5p and a high of 272.5p.

Directors' Pensions

Pension benefits earned by the Directors

	D W Muir	C J Burr
Age at year end	46	57
Accrued benefit at 31 December 2006	£68,783 p.a.	£58,523 p.a.
Increase in accrued benefits excluding inflation	£8,037 p.a.	£3,214 p.a.
Increase in accrued benefits including inflation	£10,148 p.a.	£5,136 p.a.
Directors' contributions	£10,257	£10,785
Transfer value of accrued benefits at 1 January 2006	£379,194	£975,235
Transfer value of accrued benefits at 31 December 2006	£616,532	£1,136,308

- The pension entitlement is that which would be paid annually on retirement based on service to the period end.
- The individual has the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits are included in the above table.
- The transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.
- The following is additional information relating to D W Muir's pension:
 - Normal Retirement Age: 60 (prior to appointment as a main Board Director, this was 65)
 - Spouse's pension: 2/3 pension on death after retirement
 - Early retirement rights: None
 - Pension increases:
 - post-April 1997 pension: Increase in line with RPI, limited to 5% per annum, subject to a minimum of 3% per annum on pension accrued post-1 October 1998
 - pre-April 1997 pension: nil
 - Discretionary benefits: None
- The following is additional information relating to C J Burr's pension:
 - Normal Retirement Age: 60
 - Spouse's pension: 2/3 pension on death after retirement
 - Pension increases: Pension increase in line with RPI, limited to 5% per annum, subject to a minimum of 3% per annum
 - Discretionary benefits: None

D L Grove does not have any pension benefits.

Howard Marshall

Chairman, Remuneration Committee

6 March 2007

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 they are required to prepare the Group Financial Statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company Financial Statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group Financial Statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the 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 and of the profit or loss of the Parent Company for that period.

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; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

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 Auditors' 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 2006 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 28.

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, as regards the Group Financial Statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Financial Statements. The information given in the Directors' Report includes that specific information presented in the Operational Review and the Financial Review that is cross-referenced from the Business Review section of the Directors' Report.

In addition, we report to you if, in our opinion, 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 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 the 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.

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 2006 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 2006;
- 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; and
- the information given in the Directors' Report is consistent with the Financial Statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
2 Cornwall Street
Birmingham
B3 2DL
6 March 2007

Consolidated Income Statement

Year ended 31 December 2006

	Notes	Year ended 31 December 2006			Year ended 31 December 2005		
		Underlying results £000	Reorganisation and property items £000	Total £000	Underlying results £000	Reorganisation and property items £000	Total £000
Revenue	1,2	306,042	—	306,042	277,296	—	277,296
Trading profit		19,464	—	19,464	18,893	—	18,893
Share of profits from associate	12	3,191	—	3,191	677	—	677
Business reorganisation costs	3	—	(2,175)	(2,175)	—	(4,260)	(4,260)
Profit on sale of properties	3	—	1,025	1,025	—	4,389	4,389
Operating profit	1,2	22,655	(1,150)	21,505	19,570	129	19,699
Financial income	5	4,413	—	4,413	4,294	—	4,294
Financial expense	5	(8,602)	—	(8,602)	(8,166)	—	(8,166)
Profit before taxation		18,466	(1,150)	17,316	15,698	129	15,827
Taxation	7	(4,861)	605	(4,256)	(4,397)	2,766	(1,631)
Profit for the year		13,605	(545)	13,060	11,301	2,895	14,196
Attributable to:							
Equity holders of the parent				13,056			14,176
Minority interest				4			20
Profit for the year				13,060			14,196
Basic earnings per share	8			19.8p			22.5p
Diluted earnings per share	8			19.3p			21.8p
Dividend per share — Interim	9			3.0p			2.6p
Dividend per share — Final proposed	9			4.2p			3.4p
Total	9			7.2p			6.0p

Consolidated Statement of Recognised Income and Expenses

Year ended 31 December 2006

	Notes	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Exchange differences on translation of foreign operations		110	18
Share of exchange differences on translation of foreign operations from associate	12	(275)	—
Actuarial gain/(loss) on defined benefit pension schemes	23	1,522	(8,094)
Taxation on items taken directly to equity	7	(318)	2,491
Net income/(expense) recognised directly in equity		1,039	(5,585)
Profit for the year		13,060	14,196
Total recognised income and expense for the year		14,099	8,611
Attributable to:			
Equity holders of the parent		14,095	8,591
Minority interest		4	20
Total recognised income and expense for the year	21	14,099	8,611

Consolidated Balance Sheet

As at 31 December 2006

	Notes	31 December 2006 £000	31 December 2005 £000
Non-current assets			
Intangible assets	10	39,845	29,727
Property, plant and equipment	11	51,007	40,972
Investment in associate	12	27,163	24,832
Deferred tax asset	13	572	2,407
		118,587	97,938
Current assets			
Assets held for sale — freehold land		—	631
Inventories	14	33,248	24,804
Trade and other receivables	15	72,935	61,057
Cash and cash equivalents	16,18	14,176	16,313
		120,359	102,805
Total assets	1	238,946	200,743
Current liabilities			
Trade and other liabilities	17	(87,142)	(79,528)
Current tax liabilities		(2,798)	(2,088)
Interest bearing borrowings	16–19	(7,893)	(8,162)
		(97,833)	(89,778)
Net current assets		22,526	13,027
Non-current liabilities			
Other liabilities	18	(420)	(427)
Provisions for liabilities and charges	18	(810)	(833)
Retirement benefit obligation	23	(10,503)	(13,885)
Interest bearing borrowings	16,18,19	(52,341)	(55,408)
		(64,074)	(70,553)
Total liabilities	1	(161,907)	(160,331)
Net assets	1	77,039	40,412
Equity			
Share capital	20	18,887	15,799
Share premium	21	27,803	4,036
Capital redemption reserve	21	238	238
Other reserves	21	4,313	4,313
Translation reserve	21	(203)	(38)
Equity reserves	21	25,989	15,994
Equity attributable to equity holders of the parent		77,027	40,342
Minority interest	21	12	70
Total equity		77,039	40,412

Approved by the Board of Directors on 6 March 2007 and signed on its behalf by:

D L Grove

Director

C J Burr

Director

Consolidated Statement of Cash Flows

Year ended 31 December 2006

	Notes	Year ended 31 December 2006		Year ended 31 December 2005	
		£000	£000	£000	£000
Profit before tax			17,316		15,827
Add back net financing costs	5		4,189		<u>3,872</u>
Operating profit	1, 2		21,505		19,699
Adjusted for non-cash items					
Income from associated company	12	(3,191)		(677)	
Share-based payments	4	152		100	
Fair value of forward contracts	6	145		—	
Loss on disposal of subsidiaries	3	144		—	
Gain on disposal of property, plant and equipment	6	(1,137)		(4,396)	
Depreciation	6	6,404		6,012	
Amortisation of intangible assets	6	395		183	
			2,912		<u>1,222</u>
Operating cash flow before movement in working capital			24,417		20,921
(Increase)/decrease in inventories		(8,406)		2,616	
Increase in receivables		(11,351)		(2,195)	
Increase in payables		7,783		3,460	
Decrease in provisions and employee benefits		(1,549)		(869)	
Net movement in working capital			(13,523)		<u>3,012</u>
10,894	1		23,933	Cash generated by operations	
Income taxes paid			(2,720)		(2,727)
Interest paid			(3,848)		(4,676)
Net cash from operating activities			4,326		16,530
Interest received		684		455	
Proceeds on disposal of property, plant and equipment		3,129		13,788	
Purchase of property, plant and equipment		(17,456)		(10,776)	
Purchase of intangible assets		(1,559)		(1,506)	
Disposal of subsidiaries	3	359		—	
Acquisitions of minority interests		(59)		—	
Acquisitions of subsidiaries and associates	10	(10,452)		(25,219)	
Net cash used in investing activities			(25,354)		(23,258)
Issue of new shares		26,855		797	
Dividends paid		(3,793)		(3,134)	
New loans raised		4,812		25,516	
Repayments of loans		(7,250)		(7,750)	
Repayment of loan notes		(40)		(1,030)	
Repayment of obligations under finance leases		(1,693)		(1,259)	
Net cash from financing activities			18,891		13,140
Net (decrease)/increase in cash			(2,137)		6,412
Cash at the beginning of the year			16,313		9,901
Cash at the end of the year	16		14,176		16,313

Group Accounting Policies

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

The Group considers a company a subsidiary when it holds more than 50% of the shares and voting rights, so that it has the power to govern the operating and financial policies of that entity so as to obtain benefits from its activities. The Group considers a company to be an associate when it holds more than 20% of the shares and voting rights, so that it can significantly influence the decisions of that entity.

The Group Financial Statements consolidate the Company, its subsidiaries and any jointly controlled entities 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 the 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 ('Adopted IFRSs'). The Company has elected to prepare its Parent Company Financial Statements in accordance with UK GAAP; these are presented on pages 60 to 68.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group Financial Statements.

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.

New IFRS standards and interpretations adopted during 2006

In 2006 the following standards became effective and were adopted by the Group:

- IAS 21 Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates — Net Investment in a Foreign Operation
- IAS 39 Amendment to IAS 39 and IFRS 4 — Financial Guarantee Contracts
- IFRIC 4 Determining whether an arrangement contains a lease
- IFRIC 6 Liabilities arising from participating in a specific market — Waste Electrical and Electronic Equipment

The adoption of these standards has not had a significant impact on the results of the Group in 2006.

New IFRS standards and interpretations not adopted

The IASB and IFRIC have issued additional standards and interpretations which are effective for periods starting after the date of these Financial Statements. The following standards and interpretations have yet to be adopted by the Group, all of which are effective from 1 January 2007.

- IFRS 7 Financial Instruments: Disclosure
- IAS 1 Amendment to IAS 1 — Presentation of Financial Statements: Capital Disclosures
- IFRIC 8 Scope of IFRS 2

The Group does not anticipate that the adoption of these standards and interpretations will have a material effect on its Financial Statements on initial adoption. Upon adoption of IFRS 7, the Group will be required to disclose additional information about its financial instruments, their significance and the nature and extent of the risks to which they give rise, together with greater detail as to the fair value of its financial instruments and its risk exposure. There will be no effect on reported income or net assets. Apart from IFRS 7 and the IAS 1 Amendment, all the new standards and interpretations identified have yet to be adopted by the EU and the Group assumes they will be adopted in their current form, in line with the published timetable.

Measurement convention

The Financial Statements are prepared on the historical cost basis except where the measurement of balances at fair value is required as explained below.

Intangible assets

In respect of subsidiaries, jointly controlled entities and associated companies, goodwill on acquisition comprises the excess of the fair value of the purchase consideration and any associated acquisition costs for the investment 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. From 1 January 2004, goodwill 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 considered to be technically and commercially viable 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 the estimated useful economic life of the assets concerned, currently up to 7 years.

Trade licences are amortised over the specific term granted to each individual licence.

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 by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	20 to 50 years
Leasehold land and buildings	life of the 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 certain land and buildings as its deemed cost at the transition date. All other items of property plant and equipment are stated at cost unless it is felt that this value should be impaired.

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.

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 and trade payables are initially measured at fair value. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any impairment losses.

The Group's investment in unlisted ordinary shares is held at cost less provision for impairment, as its fair value cannot be reliably measured.

Derivative financial instruments of the Group are used to hedge its exposure to interest rate and foreign currency 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.

The fair value of foreign exchange contracts is the estimated amount that the Group would receive or pay to terminate such contracts at the Balance Sheet date, taking into account the forwards exchange rates prevailing at that date.

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 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 Consolidated Statement of Cash Flows, 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 of monetary foreign currency assets and liabilities arising from a movement in exchange rates subsequent to initial measurement 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 the cumulative translation reserve in equity and reported in the Statement Of Recognised Income and Expense.

The effective portion of exchange differences arising on the retranslation of the opening net assets of foreign subsidiaries is offset in the cumulative translation reserve in equity 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 company 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 exchange differences arising on translation of foreign operations as allowed in IFRS 1 First time adoption of International Accounting Standards.

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 or average cost method is used. Cost for work in progress and finished goods comprises direct materials, direct labour and an appropriate proportion of attributable overheads.

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 as an obligation arises.

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 subsidiaries. If such an indication exists, the relevant assets are written down to their estimated recoverable amount.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a post tax discount rate based on an internally assessed weighted average cost of capital which accounts for the time value of money and the risks specific to the asset.

For goodwill and other assets that have an indefinite life, the recoverable amount is assessed at each Balance Sheet date and 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

Leases for which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are classified as operating leases and the leased assets are not recognised on the Group's Balance Sheet. Payments made under operating leases are recognised in the Income Statement on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Rental income from operating leases is recognised as revenue in the Income Statement on an accruals basis.

Revenue

Revenue represents the amount (excluding value added tax) invoiced to third party customers following the delivery of goods or provision of services, adjusted by accruals and provisions where they are deemed necessary as described elsewhere in these accounting policies.

Segmental reporting

The primary segmental analysis provided represents the whole of the Group's operations. The secondary geographical analysis is provided for turnover, but further geographical analysis is regarded by the management as immaterial 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 no external guarantees.

Retirement benefits

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. This 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 defined benefit schemes are recognised annually in reserves and reported in the Statement Of Recognised Income and Expense.

Borrowing costs

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

Group Accounting Policies

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 during which the employees become unconditionally entitled to the shares/options. The Black-Scholes model has been adopted as the method of evaluating the fair value of the options, with the amount recognised as an expense being adjusted to reflect the actual number of options that vest.

In accordance with IFRS 2 transitional arrangements, no expense is recorded for equity settled options granted prior to 7 November 2002 or vested before 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 and represents 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 not resulting from a business combination 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 is 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.

Ordinary dividends

Dividends are accounted for in the Financial Statements when the Group is committed to the payment of the dividend.

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 2006			Year ended 31 December 2005		
	Segment revenue £000	Segment result £000	Underlying segment result* £000	Segment revenue £000	Segment result £000	Underlying segment result* £000
Infrastructure Products†	117,370	15,171	16,241	107,414	11,872	13,003
Building and Construction Products	146,171	3,544	3,835	131,797	4,353	4,816
Industrial Products	42,501	2,790	2,579	38,085	3,474	1,751
Total Group	306,042	21,505	22,655	277,296	19,699	19,570
Net financing costs		(4,189)	(4,189)		(3,872)	(3,872)
Profit before taxation		17,316	18,466		15,827	15,698
Taxation		(4,256)	(4,861)		(1,631)	(4,397)
Profit after taxation		13,060	13,605		14,196	11,301

* Underlying segment result is stated before reorganisation and property items.

† Includes £3,191,000 (2005: £677,000) share of profits from associate (net of tax).

Balance Sheet

	31 December 2006		31 December 2005	
	Total assets £000	Total liabilities £000	Total assets £000	Total liabilities £000
Infrastructure Products‡	118,273	(17,068)	94,598	(22,770)
Building and Construction Products	70,847	(49,092)	55,653	(36,676)
Industrial Products	35,078	(19,135)	31,772	(18,866)
Total segment assets/(liabilities)	224,198	(85,295)	182,023	(78,312)
Tax and dividends	572	(5,065)	2,407	(3,731)
Provisions and retirement benefits	—	(11,313)	—	(14,718)
Net debt	14,176	(60,234)	16,313	(63,570)
Total Group	238,946	(161,907)	200,743	(160,331)
Net assets		77,039		40,412

‡ 2006 includes £27,163,000 (2005: £24,832,000) investment in associate.

Cash flows

	Year ended 31 December 2006		Year ended 31 December 2005	
	Cash flow £000	Underlying cash flow§ £000	Cash flow £000	Underlying cash flow§ £000
Infrastructure Products	7,020	8,468	10,826	12,846
Building and Construction Products	1,507	1,798	10,087	11,282
Industrial Products	2,367	2,276	3,020	3,346
Cash generated by operations	10,894	12,542	23,933	27,474

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

Notes to the Consolidated Financial Statements

1. Segmental information continued

Capital expenditure and amortisation/depreciation

(excluding acquisitions)

	Year ended 31 December 2006		Year ended 31 December 2005	
	Capital expenditure £000	Amortisation and depreciation £000	Capital expenditure £000	Amortisation and depreciation £000
Infrastructure Products	10,138	3,716	7,979	3,058
Building and Construction Products	5,251	2,133	2,761	2,083
Industrial Products	3,626	950	1,550	1,054
Total Group capital expenditure	19,015	6,799	12,290	6,195
Purchase of property, plant and equipment (Note 11)	17,456	6,404	10,784	6,012
Purchase of intangible assets (Note 10)	1,559	395	1,506	183
Total Group capital expenditure	19,015	6,799	12,290	6,195

Geographical revenue

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

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
UK	276,606	249,440
Rest of Europe	17,538	18,259
Asia	8,351	7,291
USA	814	686
Rest of World	2,733	1,620
Total	306,042	277,296

2. Operating profit

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Revenue	306,042	277,296
Cost of sales	(232,517)	(207,943)
Gross profit	73,525	69,353
Share of profits from associate (net of tax)	3,191	677
Distribution costs	(22,613)	(21,039)
Administrative expenses	(31,742)	(29,538)
Profit on sale of fixed assets	112	7
Reorganisation and property items (see note 3)	(1,150)	129
Rental income from properties	182	110
Operating profit	21,505	19,699

3. Reorganisation and property items

Business reorganisation costs

In 2006 these costs relate primarily to the relocation of the production facilities of Mallatite Limited to Chesterfield and of the Kingston depot of Ash & Lacy Building Systems Limited to Chessington. In 2005 the costs related primarily to the relocation of 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. Also in 2006, a loss was realised on the disposal of W&S Allely Limited and Eden Material Services (UK) Limited, as shown below. There were no business disposals in 2005.

	Year ended 31 December 2006
	£000
Disposal of subsidiaries — W&S Allely Limited and Eden Material Services (UK) Limited	
Property, plant and equipment	30
Inventories	1,397
Current assets	2,130
Cash and cash equivalents	54
Current liabilities	(2,869)
Deferred tax	15
Net assets	757
Consideration	
Cash consideration	503
Deferred consideration	200
Expenses	(90)
Total net proceeds	613
Loss on sale	(144)
Cash flow effect	
Cash consideration	503
Cash left in the business	(54)
Expenses	(90)
Net cash consideration shown in the Consolidated Statement of Cash Flows	359

Profit on sale of properties

In 2006 this relates to the sale of two vacant properties located in Glasgow and Hartlepool. The profit in 2005 relates to the sale of two vacant properties located in Barnsley and Newcastle and the sale and leasebacks of five operating properties. In both years no tax liability arose on these sales due to the availability of indexation allowances and capital losses for offset. 2005 also benefited from the release of a deferred tax provision arising from property disposals.

4. Employees

	Year ended 31 December 2006	Year ended 31 December 2005
	£000	£000
The average number of people employed by the Group during the year		
Infrastructure Products	1,043	958
Building and Construction Products	904	927
Industrial Products	560	461
	2,507	2,346
	£000	£000
The aggregate remuneration for the year		
Wages and salaries	53,714	52,772
Share-based payments	152	100
Social security costs	5,391	5,346
Pension cost (see note 23)	1,838	1,794
	61,095	60,012

Details of the Directors' remuneration and share interests are given in the Directors' Remuneration Report on pages 24 to 27.

Notes to the Consolidated Financial Statements

5. Net financing costs

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Financial income		
Interest on bank deposits	681	578
Net change in fair value of financial assets and liabilities (see note 19)	—	160
Expected return on pension scheme assets (see note 23)	3,732	3,556
	4,413	4,294
Financial expense		
Interest on bank loans and overdrafts	4,471	4,418
Amortisation of arrangement fees	374	276
Interest on finance leases and hire purchase contracts	300	193
Net change in fair value of financial assets and liabilities (see note 19)	2	—
Expected interest cost on pension scheme obligations (see note 23)	3,391	3,205
Interest on other loans	64	74
	8,602	8,166
Net financing costs	4,189	3,872

6. Expenses and auditor's remuneration

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Income Statement charges		
Depreciation of tangible fixed assets:		
Owned	5,415	4,972
Leased	989	1,040
Operating lease rentals:		
Plant and machinery	1,268	1,270
Other	4,438	4,173
Research and development expenditure	44	—
Amortisation of development costs	378	175
Amortisation of other intangible assets	17	8
Auditor's remuneration (see below)	528	469
Fair value loss on forward exchange contracts	145	—
Foreign exchange loss	96	—
Income Statement credits		
Profit on disposal of properties	1,025	4,389
Profit on disposal of other fixed assets	112	7
Grants receivable	57	23
Rental income	3,761	3,144
Foreign exchange gain	—	81
A detailed analysis of the auditor's remuneration worldwide is as follows:		
Hill & Smith Holdings PLC		
Audit of the Company's annual accounts	76	55
Audit of the Company's subsidiaries	209	206
Other services pursuant to legislation*	153	95
Tax services	41	49
Valuation and actuarial services	124	64
Services relating to corporate finance transactions†	939	—
	1,542	469
Hill & Smith Holdings PLC pension schemes		
Valuation and actuarial services	208	91
Other services — pension administration	270	209
	478	300

* Includes amounts charged to the share premium reserve as this related to the Placing and Open Offer £75,000 (2005: £Nil).

† This amount relates to due diligence assistance, principally in respect of the investment in Zinkinvent GmbH.

6. Expenses and auditor's remuneration continued

A description of the work of the Audit Committee is set out in the Corporate Governance Report on pages 21 and 22 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

The Group's jointly controlled entities are proportionately consolidated. No further disclosures are made as these entities are considered to be immaterial.

7. Taxation

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Current tax		
UK corporation tax at 30% (2005: 30%)	3,271	2,519
Adjustments in respect of prior periods	(174)	(30)
Foreign tax at prevailing local rates	156	110
	3,253	2,599
Deferred tax (see note 13)		
Current year	971	(980)
Adjustments in respect of prior periods	32	12
Tax on profit in the Income Statement	4,256	1,631

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Current tax		
Relating to defined benefit pension schemes	(558)	(255)
Relating to share-based payments	(2)	—
	(560)	(255)
Deferred tax (see note 13)		
Relating to defined benefit pension schemes	1,015	(2,173)
Relating to share-based payments	(137)	(63)
Tax on items taken directly to equity	318	(2,491)

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

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Profit before taxation	17,316	15,827
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 30%	5,195	4,748
Expenses not deductible for tax purposes	233	360
Deductible employee share option gains not charged against profit	(31)	(309)
Share of profit from associate already taxed	(677)	(203)
Capital profits less losses and write downs not subject to tax	(264)	(1,526)
Deferred tax benefit arising from asset disposals	—	(1,363)
Overseas profits taxed at lower rates	(58)	(58)
Adjustments in respect of previous periods	(142)	(18)
Tax charge	4,256	1,631

Notes to the Consolidated Financial Statements

8. Earnings per share

The weighted average number of shares in issue during the year was 65,834,026 (2005: 62,960,978), diluted for the effects of outstanding share options (see note 20) 67,604,552 (2005: 64,968,617). Underlying earnings per share have been shown because the Directors consider that this provides valuable additional information about the underlying performance of the Group.

	Year ended 31 December 2006		Year ended 31 December 2005	
	Pence per share	£000	Pence per share	£000
Basic earnings	19.8	13,056	22.5	14,176
Effect of reorganisation and property items	0.9	545	(4.6)	(2,895)
Underlying earnings	20.7	13,601	17.9	11,281
Diluted earnings	19.3	13,056	21.8	14,176
Effect of reorganisation and property items	0.8	545	(4.4)	(2,895)
Underlying diluted earnings	20.1	13,601	17.4	11,281

9. Dividends

Dividends declared after the balance sheet date are not recognised as a liability, in accordance with IAS 10. The Directors have proposed a final dividend for the current year, subject to shareholder approval, as shown below.

	Year ended 31 December 2006		Year ended 31 December 2005	
	Pence per share	£000	Pence per share	£000
Equity shares				
Interim	3.0	2,267	2.6	1,643
Final proposed	4.2	3,185	3.4	2,150
Total	7.2	5,452	6.0	3,793

10. Intangible fixed assets

	Goodwill £000	Customer lists £000	Capitalised development costs £000	Licences £000	Total £000
Cost					
At 1 January 2005	27,588	122	429	7	28,146
Acquisitions	240	—	—	20	260
Additions internal	—	—	84	—	84
Additions external	5	—	1,406	11	1,422
At 31 December 2005	27,833	122	1,919	38	29,912
Acquisitions	8,954	—	—	—	8,954
Additions internal	—	—	148	—	148
Additions external	—	—	1,399	12	1,411
At 31 December 2006	36,787	122	3,466	50	40,425
Amortisation and impairment losses					
At 1 January 2005	—	—	—	2	2
Amortisation charge for the year	—	7	175	1	183
At 31 December 2005	—	7	175	3	185
Amortisation charge for the year	—	6	378	11	395
At 31 December 2006	—	13	553	14	580
Carrying values					
At 1 January 2005	27,588	122	429	5	28,144
At 31 December 2005	27,833	115	1,744	35	29,727
At 31 December 2006	36,787	109	2,913	36	39,845

10. Intangible fixed assets continued

In February 2006 the Group acquired 100% of Counters & Accessories Limited, a manufacturer of traffic counting and classification equipment. No specific intangible assets have been recognised as the key factors influencing this acquisition were the geographical location, technological know-how and the commonality of the customer base with other subsidiaries.

In October 2006 the Group acquired 100% of Metnor Galvanizing Limited. The business and assets of this company now form a division of Joseph Ash Limited. The acquisition will provide an important strategic and geographical extension of the Group's galvanizing activities and will enable it to improve its service to its customers, particularly of long products. The other main factor for acquiring this company is the synergies that will be achieved through its location, which is adjacent to the production facilities of Mallatite Limited, another of the Group's subsidiaries. No specific intangible assets have been recognised as a result of considering these main acquisition drivers.

Table of 2006 subsidiary acquisitions (2005 acquisitions immaterial)

	Counters & Accessories Limited £000	Metnor Galvanizing Limited £000	Total £000
Property, plant and equipment	167	162	329
Inventories	425	1,010	1,435
Current assets	481	1,969	2,450
Cash and cash equivalents	753	1,048	1,801
Current liabilities	(748)	(1,346)	(2,094)
Deferred tax	5	56	61
Net Assets	1,083	2,899	3,982
Consideration			
Cash consideration	5,295	6,525	11,820
Deferred consideration	—	683	683
Expenses	83	350	433
Total cost	5,378	7,558	12,936
Goodwill	4,295	4,659	8,954
Cash flow effect			
Cash consideration	5,295	6,525	11,820
Cash received in the business	(753)	(1,048)	(1,801)
Expenses	83	350	433
Net cash consideration shown in the Consolidated Statement of Cash Flows	4,625	5,827	10,452
Post acquisition profit for the year included in the Consolidated Income Statement	412	109	521

It is estimated that if the above acquisitions had occurred on 1 January 2006, the results of the Group for the year would have been revenues of £313,787,000 and profit for the year of £14,079,000.

Impairment tests on the carrying values of goodwill with an indefinite life are performed by analysing the carrying value allocated to each significant cash generating unit against its value in use. Value in use is calculated for each cash generating unit as the net present value of that unit's discounted future cash flows. These cash flows are based on detailed budget and forecast cash flow information for the foreseeable future. Based on past experience and management judgement, a growth rate of 8.5% is applied for revenues and associated cost growth. The cash flows are discounted at prevailing rates based on internally measured weighted average cost of capital (6.99% gross and 6.11% net of tax). These tests have resulted in no impairments of goodwill as the payback period was less than five years in all cases.

There are no intangible assets with indefinite lives.

Goodwill analysed to significant cash generating units

	31 December 2006 £000	31 December 2005 £000
Joseph Ash Limited	14,271	9,612
Ash & Lacy Building Systems Limited	4,998	4,998
Counters & Accessories Limited	4,295	—
Hill & Smith Limited	3,723	3,723
Other cash generating units with no individual significant value	9,500	9,500
	36,787	27,833

Notes to the Consolidated Financial Statements

11. Property, plant and equipment

	Land and buildings £000	Plant, machinery and vehicles £000	Total £000
Cost			
At 1 January 2005	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
Exchange adjustments	27	21	48
Acquisitions	229	2,275	2,504
Disposal of subsidiaries	—	(1,000)	(1,000)
Additions	7,078	10,378	17,456
Disposals	(644)	(4,045)	(4,689)
At 31 December 2006	18,243	94,413	112,656
Depreciation and impairment losses			
At 1 January 2005	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
Exchange adjustments	—	3	3
Acquisitions	203	1,972	2,175
Disposal of subsidiaries	—	(970)	(970)
Disposals	(50)	(3,278)	(3,328)
Charge for the year	185	6,219	6,404
At 31 December 2006	1,405	60,244	61,649
Carrying values			
At 1 January 2005	17,702	26,729	44,431
At 31 December 2005	10,486	30,486	40,972
At 31 December 2006	16,838	34,169	51,007

The gross book value of land and buildings includes freehold land of £6,175,000 (2005: £3,921,000).

Included in the carrying value of plant, machinery and vehicles is £7,726,000 (2005: £4,528,000) in respect of assets held under finance lease and hire purchase contracts.

Included within plant, machinery and vehicles are assets held for hire with a cost of £14,401,000 (2005: £11,801,000) and accumulated depreciation of £3,507,000 (2005: £2,139,000).

12. Investment in associate

	Shares £000	Loan £000	Total £000
Fair value			
At 1 January 2005	—	—	—
Additions	17,254	6,901	24,155
Share of profit from associate (net of tax)	677	—	677
At 31 December 2005	17,931	6,901	24,832
Share of profits from associate (net of tax)	3,191	—	3,191
Share of exchange differences on translation of foreign operations from associate	(275)	—	(275)
Exchange adjustments	(418)	(167)	(585)
At 31 December 2006	20,429	6,734	27,163
Carrying values			
At 31 December 2005	17,931	6,901	24,832
At 31 December 2006	20,429	6,734	27,163

In May 2005 the Group invested €35,000,000 (€25,000,000 to acquire 33.3% of the ordinary shares and a €10,000,000 loan) in Zinkinvent GmbH, a German holding company, which owns 100% (2005: 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 company are being equity accounted into the results of the Group.

The Group's share of the profit of Zinkinvent GmbH for the year ended 31 December 2006, which is stated net of local taxes, was £3,191,000 (2005 post-acquisition: £677,000). The summary financial information of this associate, based on 100%, is as follows:

	31 December 2006 £000	31 December 2005 £000
Assets	154,420	131,192
Liabilities	(122,670)	(95,220)
Equity	31,750	35,972
Revenue	148,279	114,373
Net profit	11,842	4,773

13. Deferred taxation

	Difference between fixed asset tax and accounts values £000	Retirement obligation £000	Share-based payments £000	Unremitted income from associate company £000	Other timing differences £000	Total £000
At 1 January 2005	(3,305)	1,993	—	—	515	(797)
Credited/(charged) for the year in the Income Statement	1,118	—	30	—	(180)	968
Credited for the year in the Statement of Recognised Income and Expense	—	2,173	63	—	—	2,236
At 31 December 2005	(2,187)	4,166	93	—	335	2,407
Acquisition of subsidiaries (note 10)	61	—	—	—	—	61
Disposal of subsidiaries (note 3)	(13)	—	(1)	—	(1)	(15)
Credited/(charged) for the year in the Income Statement	(669)	—	46	(315)	(65)	(1,003)
Credited/(charged) for the year in the Statement of Recognised Income and Expense	—	(1,015)	137	—	—	(878)
At 31 December 2006	(2,808)	3,151	275	(315)	269	572

Notes to the Consolidated Financial Statements

13. Deferred taxation continued

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

	31 December 2006 £000	31 December 2005 £000
Deferred tax assets	4,938	5,978
Deferred tax liabilities	(4,366)	(3,571)
Deferred tax asset	572	2,407

At 31 December 2006 the Group had a deferred tax asset representing unused capital losses not recognised of £10,906,000 (2005: £12,249,000), of which £2,600,000 (2005: £2,726,000) are available for set off generally against future capital gains and £8,306,000 (2005: £9,523,000) 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.

No deferred tax liability has been recognised in respect of tax of £262,000 (2005: £176,000) on unremitted earnings of overseas subsidiaries, because the Group is in a position to control the timing of remittances and such tax is not expected to arise in the foreseeable future.

14. Inventories

	31 December 2006 £000	31 December 2005 £000
Raw materials and consumables	16,142	10,910
Work in progress	4,456	2,752
Finished goods and goods for resale	12,650	11,142
	33,248	24,804

The amount of inventories expensed to the Income Statement in the year was £230,192,000 (2005: £205,864,000). The value of inventories written down and expensed in the Income Statement during the year amounted to £301,000 (2005: £262,000). The amount of inventories held at fair value less cost to sell included in the above was £Nil (2005: £Nil).

15. Trade and other receivables

	31 December 2006 £000	31 December 2005 £000
Trade receivables	64,642	53,785
Prepayments and accrued income	3,754	3,673
Fair value derivatives (see note 19)	158	160
Other receivables	4,381	3,439
	72,935	61,057

The Group maintains fairly comprehensive credit insurance which renders any potential impairment losses on trade receivables immaterial.

16. Cash and borrowings

	31 December 2006 £000	31 December 2005 £000
Cash and cash equivalents in the balance sheet		
Cash and bank balances	6,706	2,271
Call deposits	7,470	14,042
	14,176	16,313
Interest bearing loans and borrowings (see notes 17–19)		
Amounts due within one year	(7,893)	(8,162)
Amounts due after more than one year	(52,341)	(55,408)
Net debt	(46,058)	(47,257)

17. Current liabilities

	31 December 2006 £000	31 December 2005 £000
Interest bearing loans and borrowings		
Current portion of long term borrowings	5,860	6,876
Finance lease and hire purchase obligations	1,979	1,192
Loan notes	54	94
	7,893	8,162
Trade and other current liabilities		
Trade payables	64,164	57,777
Other taxation and social security	5,197	5,371
Accrued expenses	12,060	11,000
Payments received in advance	—	317
Dividend	2,267	1,643
Fair value derivatives (see note 19)	145	—
Other payables	3,309	3,420
	87,142	79,528

18. Non-current liabilities

	31 December 2006 £000	31 December 2005 £000
Interest bearing loans and borrowings		
Long term borrowings	48,547	53,261
Finance lease and hire purchase obligations	3,794	2,147
	52,341	55,408
Other non-current liabilities		
Deferred government grants	420	427

Group net indebtedness and the effective interest rates at the Balance Sheet date for 2006 are detailed below. The interest bearing loans and borrowings are also analysed into the periods in which they mature.

	31 December 2006		31 December 2005	
	Effective interest rate %	Amount £000	Effective interest rate %	Amount £000
Cash				
Cash and bank balances	4.38	6,706	4.16	2,271
Call deposits	4.70	7,470	4.48	14,042
		14,176		16,313
Bank borrowings				
Amounts due within one year	6.16	5,860	5.61	6,876
Amounts due after more than one year				
Between one and two years	4.83	48,191	3.97	30,261
Between two and five years	6.16	356	5.61	23,000
		48,547		53,261
		54,407		60,137
Loan notes				
Amounts due within one year	4.23	54	3.64	94

Notes to the Consolidated Financial Statements

18. Non-current liabilities continued

	31 December 2006			31 December 2005		
	Effective interest rate %	Minimum lease payment £000	Principal £000	Effective interest rate %	Minimum lease payment £000	Principal £000
Finance leases and hire purchase obligations						
Amounts due within one year	5.68	2,277	1,979	5.18	1,351	1,192
Amounts due after more than one year						
Between one and two years	5.68	1,943	1,651	5.18	1,204	1,062
Between two and five years	5.68	2,309	2,143	5.18	1,231	1,085
		4,252	3,794		2,435	2,147
		6,529	5,773		3,786	3,339
Principal liability		5,773			3,339	
Finance charges payable on outstanding commitments		756			447	

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.

Provisions for liabilities and charges

	Total £000
At 1 January 2005	1,629
Provisions released during the year	(731)
Utilised during the year	(65)
At 31 December 2005	833
Utilised during the year	(23)
At 31 December 2006	810

Provisions relate to environmental costs of properties owned by the Group and dilapidation costs on leasehold properties, which are ongoing issues anticipated to be resolved over the next few years. The Group has sought independent expert valuations where appropriate on these matters, but there are many factors outside the Group's control that give rise to uncertainties surrounding these events. The Group does not expect to be reimbursed for any of these future costs.

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 euro interest rate swap to fix approximately 40% (2005: 40%) of its year end gross borrowings at an effective rate of 3.6% pa. 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 functional 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 main trading currencies beside sterling are euro, US dollar and Thai baht.

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 (see note 12). There is also a trade investment with a 19.5% holding in an unlisted company whose fair value cannot be accurately measured and is fully written down.

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.

Notes to the Consolidated Financial Statements

19. Financial instruments continued

	Exchange rate	Floating rate financial liabilities £000	€000	Fixed rate financial liabilities £000	Total £000
Currency					
Sterling at 31 December 2006		35,119		—	35,119
Euro at 31 December 2006	1.485	—	37,296	25,115	25,115
Total at 31 December 2006		35,119		25,115	60,234
2005					
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

Fixed rate financial liabilities

	Weighted average interest rate %	Weighted average period for which rate is fixed years
Euro at 31 December 2006	4.4	0.4
Euro at 31 December 2005	4.4	1.4

(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.

At 31 December 2006 the Group had the following undrawn committed facilities, in respect of which all conditions precedent had been met:

	31 December 2006 £000	31 December 2005 £000
Undrawn committed borrowing facilities		
Expiring after more than one year	22,500	20,500

(e) Fair values

The loss in the year on the fixed rate interest swap was £2,000 (2005: gain of £160,000) which is the result of euro interest rates remaining higher than when the derivative was taken out. The fair value of unhedged forward exchange contracts realised in the Income Statement amounted to a cost of £145,000 (2005: £Nil). The value of the Group's other financial instruments at 31 December 2006 was not materially different to the carrying value. Fair values were calculated using market rates where available, otherwise cash flows were discounted at prevailing rates.

19. Financial instruments continued

(f) Hedging

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

(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. Based on average month end net debt balances that are not subject to an interest rate swap, if interest rates had varied throughout the year by 0.5% the positive or negative variation on the year's result would have been £187,000 (2005: £159,000).

20. Called up share capital

	31 December 2006 £000	31 December 2005 £000
Authorised		
100,000,000 Ordinary shares of 25p each (2005: 80,000,000)	25,000	20,000
Allotted, called up and fully paid		
75,547,659 Ordinary shares of 25p each (2005: 63,197,403)	18,887	15,799

On 16 October 2006, the Company issued 12,280,702 ordinary shares at a price of 228p per share under the terms of a Placing and Open Offer. In addition, during the year the Company issued 69,554 shares under its various share option schemes (2005: 1,122,109), realising £51,000 (2005: £798,000).

Options outstanding over the Company's shares

	31 December 2006		31 December 2005			
	Number of shares	Option price (p)	Number of shares	Option price (p)	Date first exercisable	Expiry date
1995 Executive Share Option Scheme	14,000	69	23,000	69	4 Aug 2002	4 Aug 2009
	10,000	70	10,000	70	2 Jul 2004	2 Jul 2011
	—	66	15,000	66	21 Jan 2005	21 Jan 2012
1999 Non-Approved Executive Share Option Scheme	—	66	32,000	66	21 Jan 2005	21 Jan 2012
2005 Executive Share Option Scheme (granted October 2005)*	353,248	205	353,248	205	4 Oct 2008	4 Oct 2015
2005 Non-Approved Executive Share Option Scheme (granted October 2005)*	229,764	205	229,764	205	4 Oct 2008	4 Oct 2015
1995 Savings Related Share Option Scheme (granted January 2005)*†	1,163,514	100	1,344,627	100	1 Jan 2010	1 Jul 2010
Outstanding at the end of the year‡	1,770,526		2,007,639			
Exercisable at the year end	24,000		80,000			
Not exercisable at the year end	1,746,526		1,927,639			
Outstanding at the end of the year‡	1,770,526		2,007,639			

* Subject to share-based payments under IFRS2 (see below).

† Options may be exercised early under the terms of this scheme if people meet the criteria of 'good leaver', which encompass circumstances such as retirement or redundancy.

‡ Diluting factor on earnings per share (see note 8).

The remaining weighted average life of the outstanding share options is 5 years 3 months (2005: 6 years 1 month).

Notes to the Consolidated Financial Statements

20. Called up share capital continued

The movement and weighted average exercise prices of share options during the year

	Weighted average exercise price (p) 2006	Number of options 2006	Weighted average exercise price (p) 2005	Number of options 2005
Outstanding at the beginning of the year	129	2,007,639	87	2,730,411
Exercised during the year	(73)	(69,554)	(71)	(1,122,109)
Granted during the year	—	—	205	583,012
Lapsed during the year	(100)	(167,559)	(99)	(183,675)
Outstanding at the end of the year	134	1,770,526	129	2,007,639

The weighted average share price on the dates of exercise for the above share options in 2006 was 245p (2005: 177p).

Share-based payments

All option schemes marked as being subject to share-based payments (see above) have 2005 as their first qualifying year.

The fair value of services received in return for share options granted is measured by reference to the fair value of the 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 the growth in dividend yield is based on the best current estimate of future yields over the contractual period.

	1995 Savings Related Share Option Scheme	2005 Share Option Schemes
Fair value at measurement date	37p	34p
Exercise price	100p	205p
Expected volatility	36%	36%
Option life (years)	5	3
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 expense recognised for the period arising from share-based payments is as follows:

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Expensed during the year	152	100

21. Share premium and reserves

	Share premium £000	Capital redemption reserve £000	Other reserves £000	Translation reserve £000	Retained earnings £000	Minority interest £000
At 1 January 2005	3,519	238	4,313	(56)	10,701	50
Total recognised income and expense for the year	—	—	—	18	8,573	20
Dividends	—	—	—	—	(3,380)	—
Credit to equity of share-based payments	—	—	—	—	100	—
Shares issued	517	—	—	—	—	—
At 31 December 2005	4,036	238	4,313	(38)	15,994	70
Total recognised income and expense for the year	—	—	—	(165)	14,260	4
Dividends	—	—	—	—	(4,417)	—
Acquisition of minorities*	—	—	—	—	—	(62)
Credit to equity of share-based payments	—	—	—	—	152	—
Shares issued	23,767	—	—	—	—	—
At 31 December 2006	27,803	238	4,313	(203)	25,989	12

* The minority interest in Pipe Supports (Asia) Limited, a company incorporated in Thailand, was decreased from 13% to 1.5% on 24 February 2006.

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.

22. Guarantees and other financial commitments

(a) Guarantees

The Group had no financial guarantee contracts outstanding (2005: £Nil).

(b) Capital commitments

	31 December 2006 £000	31 December 2005 £000
Contracted for but not provided in the accounts	1,588	1,410

(c) Operating lease commitments

The total future minimum commitments payable under non-cancellable operating leases fall into the periods as follows:

	31 December 2006		31 December 2005	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Group				
Within one year	3,982	1,863	3,306	1,679
Between one and two years	3,821	1,542	3,095	1,365
Between two and five years	10,836	2,259	7,692	1,560
After five years	25,434	103	26,254	1
	44,073	5,767	40,347	4,605

The total future minimum commitments receivable under non-cancellable operating leases fall into the periods as follows:

	31 December 2006		31 December 2005	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Group				
Within one year	358	2,360	108	1,105
Between one and five years	1,418	1,000	25	—
After five years	1,478	—	—	—
	3,254	3,360	133	1,105

Notes to the Consolidated Financial Statements

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 £1,838,000 (2005: £1,794,000), which includes the costs of the defined contribution scheme and the defined benefit scheme which are detailed below.

All actuarial gains and losses are recognised immediately in the Statement of Recognised Income and Expense.

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 was updated to 31 December 2006 by a qualified actuary.

The principal assumptions used by the actuary

	31 December 2006	31 December 2005
Rate of increase in salaries	4.50%	4.00%
Rate of increase in pensions in payment	3.00%	2.80%
Discount rate	5.20%	4.75%
Inflation	3.10%	2.90%
Mortality table	PA92YOB	PA92C2005

The mortality assumptions imply the following expected future lifetimes from age of 65

	31 December 2006	31 December 2005
Males currently aged 45	20.9 years	18.5 years
Females currently aged 45	23.9 years	21.4 years
Males currently aged 65	19.6 years	18.5 years
Females currently aged 65	22.7 years	21.4 years

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

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 which is therefore inherently uncertain, are as follows:

	Rate of return expected	Market Value	Rate of return expected	Market Value	Rate of return expected	Market Value
	31 December 2006	31 December 2006	31 December 2005	31 December 2005	31 December 2004	31 December 2004
	%	£000	%	£000	%	£000
Assets						
Equities	8.00	39,994	7.50	36,138	8.00	29,229
Bonds	5.20	6,815	4.75	6,966	5.60	6,220
Gilts	4.60	3,486	4.10	3,430	4.75	3,117
With profits policies	5.80	9,066	5.25	8,744	6.10	10,122
Cash	4.60	3,012	4.10	2,225	4.75	1,501
Other	—	—	—	—	8.00	410
Total fair value of scheme assets	7.02	62,373	6.49	57,503	7.03	50,599
Present value of scheme funded obligations		(72,876)		(71,388)		(57,241)
Retirement benefit obligation		(10,503)		(13,885)		(6,642)

23. Pensions continued

The overall expected return on assets assumption has been calculated as an approximate weighted average of the expected returns of each asset class taking into account the asset allocation of the scheme. When setting an expected return for each asset class, the following factors have been considered:

Equities — A higher long term rate of return is expected on equity investments than that which is available on bonds. The extent to which equities are assumed to provide higher returns than bonds in the future is estimated based on the returns achieved above bond returns historically and market conditions as at the Balance Sheet date.

Bonds, Gilts and Cash — Where assets are held in bonds, gilts and cash, the expected long term rate of return is taken to be the yields generally prevailing on such assets as at the Balance Sheet date.

With profit policies — The underlying asset allocation of the policies and the overall rate is based on the expected long term rate of return on each of the asset classes with reference to this allocation.

Total expense recognised in the Income Statement

	Year ended 31 December 2006			Year ended 31 December 2005		
	Defined contribution schemes £000	Defined benefit schemes £000	Total £000	Defined contribution schemes £000	Defined benefit schemes £000	Total £000
Current service costs	1,228	770	1,998	1,173	621	1,794
Gain on curtailments and settlements	—	(160)	(160)	—	—	—
Charge to operating profit	1,228	610	1,838	1,173	621	1,794
Expected return on pension scheme assets	—	(3,732)	(3,732)	—	(3,556)	(3,556)
Expected interest cost on pension scheme obligations	—	3,391	3,391	—	3,205	3,205
Total charged to profit before tax	1,228	269	1,497	1,173	270	1,443

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

Change in the present value of the defined benefit obligation

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Opening defined benefit obligation	71,388	57,241
Current service costs	770	621
Interest cost	3,391	3,205
Actuarial losses	524	13,142
Gain on curtailments and settlements	(309)	—
Employee contributions	170	167
Benefits paid	(3,058)	(2,988)
Closing defined benefit obligation	72,876	71,388

Changes in fair values of scheme assets

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Opening fair value of assets	57,503	50,599
Expected return on assets	3,732	3,556
Actuarial gains	2,046	5,048
Employer contributions	2,129	1,121
Employee contributions	170	167
Benefits paid	(3,058)	(2,988)
Assets distributed on settlements	(149)	—
Closing fair value of assets	62,373	57,503
Actual return on scheme assets	5,778	8,604
Expected employer contributions in the following year		
Defined benefit schemes	1,145	1,143
Defined contribution schemes	1,150	1,230

Notes to the Consolidated Financial Statements

23. Pensions continued

Amounts recognised in the Statement of Recognised Income and Expense

	% of scheme assets/ liabilities %	Year ended 31 December 2006 £000	% of scheme assets/ liabilities %	Year ended 31 December 2005 £000	% of scheme assets/ liabilities %	Year ended 31 December 2004 £000
Difference between actual and expected return on scheme assets	3	2,046	9	5,048	1	545
Experienced gain/(loss) on scheme obligations	1	629	0	(313)	(1)	413
Changes in assumptions underlying the present value of scheme obligations	(2)	(1,153)	(18)	(12,829)	(9)	(4,878)
Annual amount recognised	2	1,522	(11)	(8,094)	(7)	(3,920)
Total amount recognised		(10,492)		(12,014)		(3,920)

24. Accounting estimates, assumptions and judgements

The principal accounting estimates, assumptions and judgements employed in the preparation of these Financial Statements which could affect the carrying amounts of assets and liabilities at the Balance Sheet date are as follows:

Actuarial assumptions on pension obligations

In determining the valuation of the defined benefit pension deficit, certain assumptions about the scheme have been made, notably the expected return on assets, inflation, discount rates, mortality, salary increases and pension increases. The factors affecting these assumptions are largely outside the Group's control (see note 23).

Impairment of goodwill

The determination of whether goodwill should be impaired requires the estimation of future cash flows, which in itself requires judgement in terms of timing and growth factors adopted by each cash generating unit. These cash flows are discounted to a net present value using a discount rate based in part on prevailing market interest rates. These factors are all affected by prevailing market and economic factors outside the Group's control (see note 10).

Share-based payments

In valuing the share-based payments realised in the Group's accounts, the Company has used the Black-Scholes calculation model, which makes various assumptions on factors outside the Group's control, such as share price volatility and risk-free interest rates. Details of the options and assumptions used in deriving the share-based payments are disclosed in note 20.

Environmental and dilapidation provisions

Estimated environmental and dilapidation costs have been derived on the basis of the most recent assessments of the likely cost. Some factors concerning these costs are outside of the Group's control. In making these assessments, the Group has sought the aid of independent experts where appropriate (see note 18).

Deferred taxation

Deferred taxation has been estimated using the best information available, including seeking the opinion of independent experts where applicable (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 27. The compensation in total for each category required by IAS24 is as follows:

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Salaries and short term employee benefits	1,098	930
Non-executive directors' fees	142	127
Post employment benefits	12	11
Share-based payments	8	5
	1,260	1,073

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 2006		Year ended 31 December 2005	
	Purchases £000	Current liabilities £000	Purchases £000	Current liabilities £000
Drayparcs Limited	—	—	13	—
GIL Investments Limited	41	3	12	2
Tana Consultants Limited	—	—	23	20
	41	3	48	22

26. Subsequent events

On 28 February 2007, the Group entered into an agreement with some of the other principal shareholders of its associate company, Zinkinvent GmbH, to acquire further shares in that company, subject to Hill & Smith Holdings PLC shareholder approval. If approved, this transaction will result in Zinkinvent GmbH becoming a subsidiary of the Group. Zinkinvent GmbH is an investment company owning 100% of Vista NV, a Belgian holding company with galvanizing and lighting column manufacturing operations in Benelux, France and the USA.

Company Balance Sheet

As at 31 December 2006

	Notes	31 December 2006 £000	31 December 2005 £000
Fixed assets			
Tangible assets	4	37	46
Investments	5	180,725	128,177
		180,762	128,223
Current assets			
Debtors	6	35,101	10,864
Cash at bank and in hand		6,910	13,015
		42,011	23,879
Creditors: amounts falling due within one year			
Bank loans and overdrafts	7-9	(5,886)	(18,809)
Other creditors	7	(86,287)	(22,960)
		(92,173)	(41,769)
Net current liabilities			
		(50,162)	(17,890)
Total assets less current liabilities			
		130,600	110,333
Creditors: amounts falling due after one year			
Bank loans and overdrafts	8,9	(48,115)	(53,486)
Provisions for liabilities and charges		(38)	—
Net assets			
		82,447	56,847
Share capital and reserves			
Called up share capital	11	18,887	15,799
Share premium	12	27,803	4,036
Capital redemption reserve	12	238	238
Profit and loss account	12	35,519	36,774
Equity shareholders' funds			
		82,447	56,847

Approved by the Board of Directors on 6 March 2007 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.

Basis of preparation

The Financial Statements have been prepared in accordance with applicable UK GAAP 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.

Investments in subsidiary undertakings and participating interests in associated companies

In the Company's Financial Statements, investments in subsidiary undertakings and participating interests in associated companies are stated at cost, less amounts written off for impairment.

Foreign currencies

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

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 debtors and trade creditors are initially measured at fair value. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any impairment losses.

The Company's investment in unlisted ordinary shares is held at cost less provision for impairment, as its fair value cannot be reliably measured.

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.

Bank loans and overdrafts are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, bank loans and overdrafts 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.

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 the lease
Plant, machinery and vehicles	4 to 20 years

Company Principal Accounting Policies

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.

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, the Schemes are accounted for as if they are defined contribution schemes, as permitted by FRS 17.

Contributions in respect of defined contribution schemes are charged to the Profit and Loss Account in the period to which they relate.

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 since 1 January 2005 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.

Income tax

The charge for taxation on the profit or loss for the year represents the sum of the tax currently payable or recoverable and deferred tax. This charge 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 or recoverable on the taxable result for the year. The taxable result differs from net profit or loss as reported in the Profit and Loss Account because it excludes items of income or expense that are not taxable or not deductible. The Company's debtor for current tax is calculated using tax rates enacted or substantially enacted at the Balance Sheet date, and any adjustments 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 as required by FRS 19.

Ordinary dividends

Dividends payable are accounted in the Financial Statements when the Company is committed to the payment of the dividend. Dividends receivable are accounted for on a cash accounting basis.

Financial guarantees

Where the Company enters into financial guarantee contracts to secure the indebtedness of other companies within its Group, 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.

Notes to the Company Financial Statements

1. Profit on ordinary activities before taxation

	31 December 2006 £000	31 December 2005 £000
The profit on ordinary activities is stated after charging		
Depreciation of owned tangible fixed assets	13	19
Operating lease rentals — Land and buildings	50	50

Fees paid to KPMG Audit Plc and its associates for non-audit services to the Company itself are not disclosed in the individual Financial Statements of Hill & Smith Holdings PLC because the Company's Consolidated Financial Statements are required to disclose such fees on a consolidated basis.

A description of the work of the Audit Committee is set out in the Corporate Governance Report on pages 21 and 22 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 2006	31 December 2005
The average number of people employed by the Company during the year		
Administrative staff	11	10
	£000	£000
The aggregate remuneration for the year		
Wages and salaries	1,626	1,660
Share-based payments	8	11
Social security costs	200	199
Pension cost	1,610	607
	3,444	2,477

Details of the Directors' remuneration and share interests are given in the Directors' Remuneration Report on pages 24 to 27.

3. Dividends

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

	Year ended 31 December 2006		Year ended 31 December 2005	
	Pence per share	£000	Pence per share	£000
Equity shares				
Interim	3.0	2,267	2.6	1,643
Final proposed	4.2	3,185	3.4	2,150
Total	7.2	5,452	6.0	3,793

4. Tangible fixed assets

	Short leasehold properties £000	Plant, machinery and vehicles £000	Total £000
Cost or valuation			
At 31 December 2005	10	137	147
Additions	—	4	4
At 31 December 2006	10	141	151
Depreciation			
At 31 December 2005	4	97	101
Charge for the year	1	12	13
At 31 December 2006	5	109	114
Net book value			
At 31 December 2006	5	32	37
At 31 December 2005	6	40	46

Notes to the Company Financial Statements

5. Fixed asset investments

	Share in subsidiary undertakings £000	Loans to subsidiary undertakings £000	Participating interests £000	Trade investments £000	Total £000
Cost					
At 31 December 2005	83,672	23,793	23,938	750	132,153
Additions	52,548	—	—	—	52,548
At 31 December 2006	136,220	23,793	23,938	750	184,701
Provisions					
At 31 December 2005	1,910	1,316	—	750	3,976
At 31 December 2006	1,910	1,316	—	750	3,976
Net book value					
At 31 December 2006	134,310	22,477	23,938	—	180,725
At 31 December 2005	81,762	22,477	23,938	—	128,177

A list of the principal businesses owned by the Company is given on pages 70 and 71. 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 98.5%. Redman Fisher (Ireland) Limited is incorporated in the Republic of Ireland.

During the year the Company made further investments in certain of its wholly owned subsidiaries of £47,261,000 (2005: £Nil). This investment has been reflected through intercompany balances included in current assets and liabilities and serves to show a more accurate representation of the finances of those subsidiaries.

The Company also holds a trade investment of 19.5% in an unlisted company whose fair value cannot be accurately measured and is fully written down.

6. Debtors

	31 December 2006 £000	31 December 2005 £000
Amounts owed by subsidiary undertakings	29,207	7,031
Corporation tax	2,422	1,863
Deferred tax (see note 10)	—	47
Fair value derivatives (see note 9)	158	160
Other debtors	3,227	1,698
Prepayments and accrued income	87	65
	35,101	10,864

7. Creditors: amounts falling due within one year

	31 December 2006 £000	31 December 2005 £000
Bank loans and overdrafts		
Bank loans and overdrafts	—	11,614
Current portion of long term bank loans	5,607	6,876
Finance lease and hire purchase obligations	225	225
Loan notes	54	94
	5,886	18,809
Other creditors		
Trade creditors	1,882	2,329
Other taxation and social security	47	27
Accruals and deferred income	1,123	1,234
Proposed dividend	2,267	1,643
Other creditors	786	970
Amounts owed to subsidiary undertakings	80,182	16,757
	86,287	22,960

8. Creditors: amounts falling due after one year

	31 December 2006 £000	31 December 2005 £000
Bank loans and overdrafts		
Long term bank loans	48,115	53,261
Finance lease and hire purchase obligations	—	225
	48,115	53,486

Company net indebtedness and the effective interest rates at the Balance Sheet date for 2006 are detailed below. The interest bearing loans and borrowings are also analysed into the periods in which they mature.

	31 December 2006		31 December 2005	
	Effective interest rate %	Amount £000	Effective interest rate %	Amount £000
Bank loans and overdraft				
Amounts due within one year	6.16	5,607	5.61	18,490
Amounts due after more than one year:				
Between one and two years	4.82	48,115	3.97	30,261
Between two and five years	6.16	—	5.61	23,000
		48,115		53,261
		53,722		71,751
Loan notes				
Amounts due within one year	4.23	54	3.64	94
Finance leases and hire purchase obligations				
Amounts due within one year	5.68	225	5.18	225
Amounts due after more than one year:				
Between one and two years	5.68	—	5.18	225
		—		225
		225		450

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 Company's assets. Obligations under finance leases and hire purchase obligations are secured on the relevant assets.

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 euro interest rate swap to fix approximately 45% (2005: 40%) of its year end gross borrowings at an effective rate of 3.6%. This swap expires in May 2007.

Currency exposure

The Company 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.

Notes to the Company Financial Statements

9. Financial instruments continued

(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 2006		28,607		—	28,607
Euro at 31 December 2006	1.485	—	37,296	25,115	25,115
Total at 31 December 2006		28,607		25,115	53,722
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

Fixed rate financial liabilities

	Weighted average interest rate %	Weighted average period for which rate is fixed years
Euro at 31 December 2006	4.4	0.4
Euro at 31 December 2005	4.4	1.4

(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 2006, the Company had the following undrawn committed facilities in respect of which all conditions precedent had been met:

	31 December 2006 £000	31 December 2005 £000
Undrawn committed borrowing facilities		
Expiring after more than one year	22,500	20,500

(e) Fair values

At 31 December 2006 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.

10. Deferred tax

	31 December 2006 £000	31 December 2005 £000
At 1 January	(47)	(6)
Charged/(credited) for the year in the profit and loss account	85	(41)
At 31 December	38	(47)
Difference between accumulated depreciation, amortisation and capital allowances	(5)	(7)
Other timing differences	43	(40)
	38	(47)

11. Called up share capital

	31 December 2006 £000	31 December 2005 £000
Authorised		
100,000,000 Ordinary shares of 25p each (2005: 80,000,000)	25,000	20,000
Allotted, called up and fully paid		
75,547,659 Ordinary shares of 25p each (2005: 63,197,403)	18,887	15,799

On 16 October 2006, the Company issued 12,280,702 ordinary shares at a price of 228p per share under the terms of a Placing and Open Offer. In addition, during the year the Company issued 69,554 shares under its various share option schemes (2005: 1,122,109), realising £51,000 (2005: £798,000).

Options outstanding over the Company's shares at 31 December 2006

	Number of shares	Option price (p)	Date first exercisable	Expiry date
1995 Executive Share Option Scheme	14,000	69	4 Aug 2002	4 Aug 2009
	10,000	70	2 Jul 2004	2 Jul 2011
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†*	1,163,514	100	1 Jan 2010	1 Jul 2010

† The credit to equity for share-based payments relate to share options held in the Company, the charge relating to the share-based payments will arise in both the Company* and in relevant subsidiary companies, dependent on where the relevant employee is paid. The total credit to equity for the year ended 31 December 2006 was £152,000 (2005: £100,000). Details of the assumptions and methodology used in calculating this credit can be seen in the notes to the Group Financial Statements.

* The charge for the share-based payment in the Company for the year ended 31 December 2006 was £8,000 (2005: £11,000). Details of the assumptions and methodology used in calculating this charge can be seen in the notes to the Group Financial Statements.

12. Share premium and reserves

	Share premium £000	Capital redemption reserve £000	Profit and loss account £000
At 1 January 2005	3,519	238	25,154
Loss for the year	—	—	(2,057)
Dividends received	—	—	16,957
Credit to equity of share-based payments	—	—	100
Dividends expensed	—	—	(3,380)
Shares issued	517	—	—
At 31 December 2005	4,036	238	36,774
Loss for the year	—	—	(3,990)
Dividends received	—	—	7,000
Credit to equity of share-based payments	—	—	152
Dividends expensed	—	—	(4,417)
Shares issued	23,767	—	—
At 31 December 2006	27,803	238	35,519

Notes to the Company Financial Statements

13. Guarantees and other financial commitments

(a) Guarantees

The Company had no financial guarantee contracts outstanding (2005: £Nil).

The Company guarantees the bank loans and overdrafts of certain subsidiary undertakings. The amount outstanding at 31 December 2006 was £7,819,000 (2005: £2,408,000).

(b) Operating lease commitments

Annual commitments under non-cancellable operating leases expire in the periods as detailed below:

	31 December 2006		31 December 2005	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Within one year	—	—	—	22
Between one and two years	—	—	—	4
Between two and five years	—	25	—	—
After five years	37	—	34	—
	37	25	34	26

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 Financial Statements. 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.

The pension cost for the year represents contributions payable by the Company to the fund and amounted to £1,610,000 (2005: £607,000), of which £1,549,000 (2005: £514,000) related to additional deficit contributions. There were no outstanding or prepaid contributions at either the beginning or the end of the financial year.

Full details of the Group schemes are given in note 23 to the Group Financial Statements.

15. 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 2006		31 December 2005	
	Purchases £000	Creditors due within one year £000	Purchases £000	Creditors due within one year £000
Drayparcs Limited	—	—	13	—
GIL Investments Limited	10	3	11	1
Tana Consultants Limited	—	—	3	—
	10	3	27	1

16. Post balance sheet events

On 28 February 2007, the Company entered into an agreement with some of the other principal shareholders of its associate company, Zinkinvent GmbH, to acquire further shares in that company, subject to Hill & Smith Holdings PLC shareholder approval. If approved, this transaction will result in Zinkinvent GmbH becoming a subsidiary undertaking. Zinkinvent GmbH is an investment company owning 100% of Vista NV, a Belgian holding company with galvanizing and lighting column manufacturing operations in Benelux, France and the USA.

Five Year Summary

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Revenue	306,042	277,296	268,652	241,665	212,740
Underlying operating profit*	22,655	19,570	15,084	12,592	14,008
Underlying profit before taxation*	18,466	15,698	11,807	9,076	10,019
Shareholders' funds	77,027	40,342	34,234	32,149	35,848
Underlying operating cash flow*	12,542	27,474	19,177	21,267	24,244
	pence	pence	pence	pence	pence
Underlying earnings per share*	20.7	17.9	13.3	10.7	11.8
Dividends per share	7.2	6.0	5.0	4.6	4.5
GAAP basis	IFRS	IFRS	IFRS	IFRS Transition	UK GAAP

The main material adjustments that would need to be made to the years ended 2002 and 2003 to make them comply with IFRS would be the impact on pensions of IAS 19, not providing for any goodwill amortisation and not accruing for proposed dividends.

* Before reorganisation and property items.

Principal Group Businesses

Infrastructure Products Group



ASSET INTERNATIONAL LIMITED
Large diameter plastic drainage
pipes and storm water attenuation tanks

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Gwent, NP9 4XH
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JA ENVIROTANKS†
Manufacture of steel storage tanks

PO Box 16,
Charles Henry Street,
Birmingham B12 0SP
Tel: (0121) 622 4661
www.jjenvirotanks.com



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Etna Works, Duke Street, Fenton,
Stoke-on-Trent, Staffordshire, ST4 3NS
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Street and highway lighting columns

Hardwick View Road, Holmewood Industrial
Estate, Holmewood, Chesterfield, S42 5SA
Tel: (01246) 593280 Fax: (01246) 593281
sales@mallatite.co.uk
www.mallatite.co.uk



COUNTERS & ACCESSORIES LIMITED‡
Traffic counting and classifying
equipment

Lodge Farm Business Centre, Castlethorpe,
Milton Keynes, Bucks, MK19 7ES
Tel: (01908) 511122 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



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



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

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.

† Envirotanks, Techspan and Berry are operating divisions only, not limited companies.

‡ Counters & Accessories was acquired on 16 February 2006.

Principal Group Businesses

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

Eaglesbush Works, Midland Road, Neath, South Wales, SA11 1NJ
Tel: (01639) 645555 Fax: (01639) 645558
commercial@expressreinforcements.co.uk
www.expressreinforcements.co.uk



REDMAN FISHER ENGINEERING LIMITED*
Industrial flooring, handrail systems and structures

PO Box 12, Bean Road, 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 LIMITED
Handrail and flooring structures

Marsh Road, Middlesbrough, TS1 5JS
Tel: (01642) 245151 Fax: (01642) 224710
sales@lk-uk.com
www.lk-uk.com



ACCESS DESIGN & ENGINEERING LIMITED

Halsefield 18
Telford, Shropshire, 7FT 4JS
Tel: (01952) 588788
www.access-design.co.uk
Access Design is a division of Redman Fisher

Industrial Products



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



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

Financial Calendar

Annual General Meeting 2007	11 May 2007
Payment of final dividend for the year ended 31 December 2006 (ex dividend date 6 June 2007)	11 July 2007
Announcement of results for period to 30 June 2007	September 2007
Payment of interim dividend	January 2008
Preliminary announcement of results to 31 December 2007	March 2008



HILL & SMITH
HOLDINGS
PLC

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

Tel: (0121) 704 7430

Fax: (0121) 704 7439

www.hsholdings.co.uk