

## HILL & SMITH HOLDINGS PLC

### PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006

Hill & Smith Holdings PLC (“the Group”) announces an increase in revenue, profits and dividends for the year ended 31 December 2006. Revenue increased by 10.4 per cent to £306.0m and profit before taxation rose by 9.4 per cent to £17.3m. Underlying profit before taxation grew by 17.6 per cent to £18.5m with dividends 20% higher at 7.2p per share. Basic earnings per share were 11.9% lower at 19.8p but underlying earnings per share\* increased by 15.3% to 20.7p.

#### Highlights

|                                    | Year ended<br>31 December<br>2006 | Year ended<br>31 December<br>2005 |
|------------------------------------|-----------------------------------|-----------------------------------|
| Revenue                            | £306.0m                           | £277.3m                           |
| Profit before taxation             | £17.3m                            | £15.8m                            |
| Underlying profit before taxation* | £18.5m                            | £15.7m                            |
| Basic earnings per share           | 19.8p                             | 22.5p                             |
| Underlying earnings per share*     | 20.7p                             | 17.9p                             |
| Dividends per share                | 7.2p                              | 6.0p                              |

\* Results stated before reorganisation and property items

The Group’s focus on investing in more value-added products and services led to a further improvement in its operating margins. In particular, underlying operating profits at the Group’s Infrastructure Products division increased by 24.9 per cent. The continuing plans for spending on transport infrastructure mean that the division’s markets remain strong.

During 2006, Hill & Smith invested £29.5m in acquisitions, capital expenditure and product development and returns are already evident from this investment, including greater efficiency and improved market positioning. The focus of the investment continues to be in core areas where the Group is a market leader, with advantages in terms of innovation and cost.

During the year, the Group raised £26.8m net of expenses through a placing and open offer, to provide a basis for further growth and investment.

David Winterbottom, Chairman, said: “The current trading period has started in line with our expectations and, subject to market conditions remaining favourable, I look forward to further progress in 2007.”

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## 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.

### 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 and Construction 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.

## **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 some 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

## 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 U.K. 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 U.S.A. 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 substantial revenue opportunities 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.

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 U.K. 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. 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.

### **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 investment, 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 our 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 U.K. 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

## **FINANCIAL REVIEW**

### **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, up to the date of their disposal in October.

### **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 was due primarily to the substantially increased contribution from our Pipe Supports 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 operating 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 were 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 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.

Chris Burr  
Finance Director

6 March 2007

## Consolidated Income Statement

Year ended 31 December 2006

|  | Notes | Year ended 31 December 2006 |   |                | Year ended 31 December 2005   |   |               |
|--|-------|-----------------------------|---|----------------|-------------------------------|---|---------------|
|  |       | Underlying results<br>£000  | Reorganisation<br>and property<br>items<br>£000 | Total<br>£000  | Underlying<br>results<br>£000 | Reorganisation<br>and property<br>items<br>£000 | Total<br>£000 |
| <b>Revenue</b>                               | 1     | <b>306,042</b>              | -   | <b>306,042</b> | 277,296                       | -   | 277,296       |
| <b>Trading profit</b>                        |       | <b>19,464</b>               | -   | <b>19,464</b>  | 18,893                        | -   | 18,893        |
| Share of profits from associate (net of tax) | 2     | <b>3,191</b>                | -   | <b>3,191</b>   | 677                           | -   | 677           |
| Business reorganisation costs                | 3     | -                           | <b>(2,175)</b>                                  | <b>(2,175)</b> | -                             | (4,260)   | (4,260)       |
| Profit on sale of properties                 | 3     | -                           | <b>1,025</b>                                    | <b>1,025</b>   | -                             | 4,389   | 4,389         |
| <b>Operating profit</b>                      | 1     | <b>22,655</b>               | <b>(1,150)</b>                                  | <b>21,505</b>  | 19,570                        | 129   | 19,699        |
| Financial income                             | 4     | <b>4,413</b>                | -   | <b>4,413</b>   | 4,294                         | -   | 4,294         |
| Financial expense                            | 4     | <b>(8,602)</b>              | -   | <b>(8,602)</b> | (8,166)                       | -   | (8,166)       |
| <b>Profit before taxation</b>                |       | <b>18,466</b>               | <b>(1,150)</b>                                  | <b>17,316</b>  | 15,698                        | 129   | 15,827        |
| Taxation                                     | 5     | <b>(4,861)</b>              | <b>605</b>                                      | <b>(4,256)</b> | (4,397)                       | 2,766   | (1,631)       |
| <b>Profit for the year</b>                   |       | <b>13,605</b>               | <b>(545)</b>                                    | <b>13,060</b>  | 11,301                        | 2,895   | 14,196        |
| <b>Attributable to:</b>                      |       |                             |   |                |                               |   |               |
| Equity holders of the parent                 |       |                             |   | <b>13,056</b>  |                               |   | 14,176        |
| Minority interest                            |       |                             |   | <b>4</b>       |                               |   | 20            |
| <b>Profit for the year</b>                   |       |                             |   | <b>13,060</b>  |                               |   | 14,196        |
| Basic earnings per share                     | 6     |                             |   | <b>19.8p</b>   |                               |   | 22.5p         |
| Diluted earnings per share                   | 6     |                             |   | <b>19.3p</b>   |                               |   | 21.8p         |
| Dividend per share - Interim                 | 7     |                             |   | <b>3.0p</b>    |                               |   | 2.6p          |
| Dividend per share - Final proposed          | 7     |                             |   | <b>4.2p</b>    |                               |   | 3.4p          |
| <b>Total</b>                                 | 7     |                             |   | <b>7.2p</b>    |                               |   | 6.0p          |

## Consolidated Statement of Recognised Income and Expense

Year ended 31 December 2006

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

# Consolidated Balance Sheet

As at 31 December 2006

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

## Consolidated Statement of Cash Flows

Year ended 31 December 2006

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

## 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<br>£000     | Segment result<br>£000 | Underlying Segment result *<br>£000 | Segment Revenue<br>£000     | Segment result<br>£000 | Underlying Segment result *<br>£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                               |
| <b>Total Group</b>                 | <b>306,042</b>              | <b>21,505</b>          | <b>22,655</b>                       | <b>277,296</b>              | <b>19,699</b>          | <b>19,570</b>                       |
| Net financing costs                |                             | (4,189)                | (4,189)                             |                             | (3,872)                | (3,872)                             |
| <b>Profit before taxation</b>      |                             | <b>17,316</b>          | <b>18,466</b>                       |                             | <b>15,827</b>          | <b>15,698</b>                       |
| Taxation                           |                             | (4,256)                | (4,861)                             |                             | (1,631)                | (4,397)                             |
| <b>Profit after taxation</b>       |                             | <b>13,060</b>          | <b>13,605</b>                       |                             | <b>14,196</b>          | <b>11,301</b>                       |

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

+ 2006 includes £3,191,000 (2005: £677,000) share of profit from associate.

| Balance sheet                             | 31 December 2006     |                           | 31 December 2005     |                           |
|---|----------------------|---------------------------|----------------------|---------------------------|
|   | Total assets<br>£000 | Total liabilities<br>£000 | Total assets<br>£000 | Total liabilities<br>£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)                  |
| <b>Total segment assets/(liabilities)</b> | <b>224,198</b>       | <b>(85,295)</b>           | <b>182,023</b>       | <b>(78,312)</b>           |
| 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)                  |
| <b>Total Group</b>                        | <b>238,946</b>       | <b>(161,907)</b>          | <b>200,743</b>       | <b>(160,331)</b>          |
| <b>Net assets</b>                         |                      | <b>77,039</b>             |                      | <b>40,412</b>             |

+ 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<br>£000           | Underlying cash flow *<br>£000 | Cash flow<br>£000           | Underlying cash flow *<br>£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                          |
| <b>Cash generated by operations</b> | <b>10,894</b>               | <b>12,542</b>                  | <b>23,933</b>               | <b>27,474</b>                  |

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

### 2. Associate company

The Group owns 33.3% of the ordinary shares in Zinkinvent GmbH, a German holding company, which owns 100% of Vista NV, a Belgian company with galvanizing and lighting pole fabrication businesses in mainland Europe and the USA. The results of this business are being equity accounted into the results of the Group. The share of the profit for the year ended 31 December 2006, which is stated net of local taxes, was £3,191,000 (post acquisition in May 2005: £677,000).

### 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. There were no business disposals in 2005.

#### 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 other 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.

## Notes to the Consolidated Financial Statements

### 4. Net financing costs

|  | Year ended<br>31 December<br>2006<br>£000 | Year ended<br>31 December<br>2005<br>£000 |
|--|---|---|
| <b>Financial income</b>                                      |   |   |
| Interest on bank deposits                                    | 681                                       | 578                                       |
| Net change in fair value of financial assets and liabilities | -   | 160                                       |
| Expected return on pension scheme assets                     | 3,732                                     | 3,556                                     |
|  | <b>4,413</b>                              | <b>4,294</b>                              |
| <b>Financial expense</b>                                     |   |   |
| 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 | 2   | -   |
| Expected interest cost on pension scheme obligations         | 3,391                                     | 3,205                                     |
| Interest on other loans                                      | 64  | 74  |
|  | <b>8,602</b>                              | <b>8,166</b>                              |
| <b>Net financing costs</b>                                   | <b>4,189</b>                              | <b>3,872</b>                              |

### 5. Taxation

Tax charged on profit shown in the income statement

|  | Year ended<br>31 December<br>2006<br>£000 | Year ended<br>31 December<br>2005<br>£000 |
|--|---|---|
| <b>Current tax</b>                           |   |   |
| 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                                       |
|  | <b>3,253</b>                              | <b>2,599</b>                              |
| <b>Deferred tax</b>                          |   |   |
| Current year                                 | 971                                       | (980)                                     |
| Adjustments in respect of prior periods      | 32  | 12  |
| <b>Tax on profit in the Income Statement</b> | <b>4,256</b>                              | <b>1,631</b>                              |

Tax charged/(credited) on items taken directly to equity

|  | Year ended<br>31 December<br>2006<br>£000 | Year ended<br>31 December<br>2005<br>£000 |
|--|---|---|
| <b>Current tax</b>                           |   |   |
| Relating to defined benefit schemes          | (558)                                     | (255)                                     |
| Relating to share based payments             | (2)                                       | -   |
|  | <b>(560)</b>                              | <b>(255)</b>                              |
| <b>Deferred tax</b>                          |   |   |
| Relating to defined benefit schemes          | 1,015                                     | (2,173)                                   |
| Relating to share based payments             | (137)                                     | (63)                                      |
| <b>Tax on items taken directly to equity</b> | <b>318</b>                                | <b>(2,491)</b>                            |

The tax charge to 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<br>31 December<br>2006<br>£000 | Year ended<br>31 December<br>2005<br>£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)                                      |
| <b>Tax charge</b>  | <b>4,256</b>                              | <b>1,631</b>                              |

## Notes to the Consolidated Financial Statements

### 6. Earnings per share

The weighted average number of ordinary shares in issue during the year was 65,834,026 (2005: 62,960,978), diluted for the effects of all outstanding share options 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<br>31 December 2006 |               | Year ended<br>31 December 2005 |         |
|---|--------------------------------|---------------|--------------------------------|---------|
|   | Pence per<br>share             | £000          | Pence per<br>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) |
| <b>Underlying earnings</b>                  | <b>20.7</b>                    | <b>13,601</b> | 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) |
| <b>Underlying diluted earnings</b>          | <b>20.1</b>                    | <b>13,601</b> | 17.4                           | 11,281  |

### 7. Dividends

Dividends declared after the balance sheet date are not recognised as a liability, in accordance with IAS10. The Directors have recommended a final dividend for the current year, subject to shareholder approval, as shown below:

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

### 8. 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 mainland Europe and the USA.

## Notes

1. The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2006 or 2005 but is derived from those accounts. Statutory accounts for 2005, have been delivered to the registrar of companies, and those for 2006 will be delivered in due course. The auditors have reported on those accounts; their reports were:
  - (i) unqualified,
  - (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports, and
  - (iii) did not contain statements under section 237(2) or (3) of the Companies Act 1985.
2. The proposed final dividend will be paid on 11 July 2007 to shareholders on the register on 8 June 2007 (ex-dividend date 6 June 2007).
3. The Annual Report will be posted to shareholders on 5 April 2007, and will be displayed on the Company's website at [www.hsholdings.co.uk](http://www.hsholdings.co.uk). Copies of the Annual Report will also be available from the Registered Office at 2 Highlands Court, Cranmore Avenue, Shirley, Solihull, B90 4LE.
4. The Annual General Meeting will be held at The Balcony Suite, The National Motorcycle Museum, Solihull at 10.30 a.m. on Friday 11 May 2007.

### Financial calendar:

|   |                |
|---|----------------|
| Annual General Meeting                                      | 11 May 2007    |
| Payment of proposed final dividend                          | 11 July 2007   |
| Interim results announcement for the period to 30 June 2007 | September 2007 |
| Payment of interim dividend                                 | January 2008   |

5. This preliminary announcement of results for the year ended 31 December 2006 was approved by the Directors on 6 March 2007.