

14 September 2004

Hill & Smith Holdings plc

Interim results for the period of six months ended 30 June 2004

The board of Hill & Smith Holdings announces record profits for the period of six months ended 30 June 2004, reflecting a further significant improvement in the group's financial performance

Highlights:

Profit before tax	£5.3m (2003: £3.1m) up by 70.4 per cent
Profit before exceptional items, goodwill and taxation	£6.2m (2003: £5.0m) up by 23.0 per cent
Operating profits before exceptional items and goodwill	£7.8m (2003: £6.9m) up by 13.6 per cent
Turnover	£131.0m (2003: £121.1m) up by 8.2 per cent
Adjusted earnings per share +	7.2p (2003: 5.9p) up by 22 per cent
Dividend	2.25p (2003: 2.15p) up by 4.7 per cent
Dividend cover (times)	3.2 times (2003: 2.8)
Net debt	£38.8m (2003: £47.8m)

+ based on profits before exceptional items and goodwill amortisation.

The group has adopted FRS 17 in relation to accounting for retirement benefits.

Apart from record profits and higher dividends, cash flow has been strong, helping to finance capital investment of over £3m and a continuing programme of innovation and product development.

Chairman David Winterbottom said: "It is particularly pleasing to report that this entire enhancement in financial performance has been achieved by organic growth.

"This improvement is based substantially on the platform of our focused capital expenditure programme, our product development activity and the strengthening of our management teams where appropriate.

"Our core businesses, which mainly supply the transport, building and construction markets also responded well to the healthy levels of demand from both the public and private sectors resulting in higher levels of profitability.

“The second half of our current financial year has started in line with our expectations and order books remain at a healthy level.

“Subject to the current conditions remaining favourable in the markets we service, we look forward to another satisfactory performance for the year as a whole.”

Ends

Further information:

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Interim Results for the Six Months Ended 30 June 2004

Chairman's statement

In the six months ended 30 June 2004 the Group achieved a record level of profits and demonstrated further progress in improving the quality of earnings generated by its individual business units.

Turnover for the six month period was £131.0m, which was an 8.2% increase on the comparable period last year. Operating profits before exceptional items and goodwill amortisation increased by 13.6% to £7.8m (2003: £6.9m) and the profit before tax, exceptional items and goodwill amortisation was 23.0% ahead at £6.2m (2003: £5.0m). Pre-tax profits of £5.3m were significantly higher than 2003 (£3.1m). Adjusted earnings per share for the period were 7.2p (2003: 5.9p). This represents an increase of 22% over last year.

These results take into account for the first time the effects of the accounting standard, FRS17: Retirement Benefits, which has been adopted in these financial statements.

Operations

It is particularly pleasing to report that this entire enhancement in financial performance has been achieved by organic growth (our last acquisition was in August 2002). This improvement is based substantially on the platform of our focused capital expenditure programme, our product development activity and the strengthening of our management teams where appropriate.

Our core businesses, which mainly supply the transport, building and construction markets, also responded well to the healthy levels of demand from both the public and private sectors resulting in higher levels of profitability. The non-core Industrial Products division improved its return on capital employed and cash generation during the half year.

We also successfully rose to the challenge of the rising cost of raw materials, particularly steel. Despite the general increase in world prices we were able to maintain our margins, a situation we hope to be able to sustain for the remainder of the year.

Cash flow

Despite the higher levels of stock necessitated by the increase in sales, higher raw material costs and the reversal of the special factors in the previous year end Balance Sheet mentioned in last year's Annual Report, there was only a marginal outflow of cash during the period. At the period end net debt stood at £38.8m, which was substantially lower than it was at the corresponding date last year (2003: £47.8m).

The strong cash generative qualities of the Group, with our highest ever level of earnings before interest, tax, depreciation and amortisation in the period of £10.7m, enabled our value adding capital expenditure programme and the inevitable effect of steel price increases on working capital to be comfortably funded from our internal cash generation.

Dividend

An interim dividend of 2.25p per share has been declared by the Board for the six month period ended 30 June 2004 representing a 4.7% increase (2003: 2.15p). Based on the adjusted earnings per share figure for the period the dividend is covered 3.2 times. This is in line with our stated dividend strategy whereby in the absence of unforeseen circumstances the Board expects to sustain a prudently progressive dividend policy.

Outlook

The second half of the current financial year has started in line with our expectations and our order books remain at a healthy level. Subject to the current conditions remaining favourable in the markets we service we look forward to another satisfactory performance for the year as a whole.

We remain focused on the organic growth of our major businesses and, although we are not dependent on acquisitions for enhancing our performance, we continue to investigate and evaluate both small and large potential targets, which will increase shareholder value in the future.

David Winterbottom
Chairman
14 September 2004

Group Profit and Loss Account

	Notes	6 months ended 30 June 2004			6 months ended 30 June 2003 (Restated)		Year ended 31 December 2003 (Restated)	
		Before exceptional items and goodwill amortisation £'000	Exceptional items and goodwill amortisation (note 2) £'000	Total £'000	Before exceptional items and goodwill amortisation £'000	Total £'000	Before exceptional items and goodwill amortisation £'000	Total £'000
Turnover	1	131,013	-	131,013	121,081	121,081	241,665	241,665
Operating profit	1	7,828	(1,051)	6,777	6,892	5,810	12,592	10,957
Profit on sale of business		-	-	-	-	540	-	540
Profit on sale of fixed assets		-	187	187	-	135	-	85
Loss on termination of operations		-	-	-	-	(1,504)	-	(1,851)
Profit on ordinary activities before interest		7,828	(864)	6,964	6,892	4,981	12,592	9,731
Net interest payable		(1,870)	-	(1,870)	(1,965)	(1,965)	(3,755)	(3,755)
Other finance income		251	-	251	120	120	239	239
Profit before taxation		6,209	(864)	5,345	5,047	3,136	9,076	6,215
Tax on profit	3	(1,743)	63	(1,680)	(1,413)	(1,053)	(2,486)	(1,872)
Profit after taxation		4,466	(801)	3,665	3,634	2,083	6,590	4,343
Minority interest		-	-	-	10	10	(3)	(3)
Profit for the period		4,466	(801)	3,665	3,644	2,093	6,587	4,340
Dividends	4	-	-	(1,405)	-	(1,324)	-	(2,838)
Retained profit for the period		-	-	2,260	-	769	-	1,502
Earnings per share	5	7.21p	(1.29p)	5.92p	5.92p	3.40p	10.69p	7.04p
Diluted earnings per share	5	7.17p	(1.29p)	5.88p	5.89p	3.38p	10.61p	6.99p

Group Balance Sheet

	30 June 2004	30 June 2003	31 December 2003
	£'000	(Restated) £'000	(Restated) £'000
Fixed assets			
Intangible assets	26,398	27,771	27,240
Tangible assets	41,680	41,877	41,437
Investments	25	25	25
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	68,103	69,673	68,702
Current assets			
Properties held for resale	1,097	430	1,407
Stocks	26,160	24,461	23,641
Debtors	62,221	57,152	47,226
Cash and deposits	11,502	11,516	14,323
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	100,980	93,559	86,597
Creditors: amounts falling due within one year			
Borrowings and finance leases	(6,976)	(10,300)	(10,370)
Other creditors	(77,935)	(67,017)	(66,768)
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	(84,911)	(77,317)	(77,138)
Net current assets	16,069	16,242	9,459
Total assets less current liabilities	84,172	85,915	78,161
Creditors: amounts falling due after one year			
Borrowings and finance leases	(43,286)	(48,971)	(40,438)
Provisions for liabilities and charges	(5,325)	(4,424)	(4,343)
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Net assets excluding pension liability	35,561	35,520	33,380
Pension liability	(2,308)	(2,791)	(2,569)
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Net assets	33,253	29,729	30,811
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Share capital and reserves			
Called up share capital	15,516	15,394	15,424
Share premium	3,513	3,371	3,423
Capital redemption reserve	238	238	238
Revaluation reserve	739	733	739
Other reserves	4,313	4,313	4,313
Profit and loss account	8,892	5,647	6,632
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Equity shareholders' funds	33,211	29,696	30,769
Equity minority interests	42	33	42
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	33,253	29,729	30,811
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Group Cash Flow Statement

	Notes	6 months ended 30 June 2004 £'000	6 months ended 30 June 2003 (Restated) £'000	Year ended 31 December 2003 (Restated) £'000
Net cash (outflow)/inflow from operating activities	6i	5,016	(366)	20,925
Returns on investments and servicing of finance		(1,550)	(1,753)	(4,040)
Taxation		(332)	(818)	(1,182)
Capital expenditure and financial investment	6ii	(2,654)	(971)	(4,230)
Acquisitions and disposals		-	2,732	1,031
Equity dividends paid		(1,326)	(1,282)	(2,759)
Cash flow before financing		(846)	(2,458)	9,745
Financing:				
Issue of new shares		182	7	89
Increase/(decrease) in borrowings		(2,157)	1,156	(8,322)
		(1,975)	1,163	(8,233)
Increase/(decrease) in cash in the period		(2,821)	(1,295)	1,512
Reconciliation of net cash flow to movement in net debt				
Increase/(decrease) in cash		(2,821)	(1,295)	1,512
Cash (inflow)/outflow from borrowings		2,157	(1,156)	8,322
Change in net debt resulting from cash flows		(664)	(2,451)	9,834
New finance leases		(1,542)	(434)	(1,414)
Amortisation of arrangement fees		(69)	-	(35)
Movement in net debt in the period		(2,275)	(2,885)	8,385
Net debt at the start of the period		(36,485)	(44,870)	(44,870)
Net debt at the end of the period		(38,760)	(47,755)	(36,485)

Statement of Group Total Recognised Gains and Losses

	6 months ended 30 June 2004	6 months ended 30 June 2003 (Restated)	Year ended 31 December 2003 (Restated)
	£'000	£'000	£'000
Profit for the period	3,665	2,093	4,340
Actuarial gain recognised in the pension scheme	-	-	393
Deferred tax arising on gains in the pension scheme	-	-	(118)
Currency translation differences on overseas net investments	-	-	(17)
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Total recognised gains and losses relating to the period	3,665	2,093	4,598
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Prior year adjustment (see note 7)	(7,177)		

Total recognised (losses) since the last annual report	(3,512)		

Reconciliation of Movement in Group Shareholders' Funds

	6 months ended 30 June 2004	6 months ended 30 June 2003 (Restated)	Year ended 31 December 2003 (Restated)
	£'000	£'000	£'000
Profit for the period	3,665	2,093	4,340
Dividends	(1,405)	(1,324)	(2,838)
	-----	-----	-----
Other recognised net gains and losses relating to the period	2,260	769	1,502
New ordinary share capital issued	182	7	89
	-----	-----	-----
Net increase in shareholders' funds	2,442	776	1,849
Opening shareholders' funds	30,769	28,920	28,920
(originally £37,946,000 restated for prior year adjustment of £7,177,000)			
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Shareholders' funds at the end of the period	33,211	29,696	30,769
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Notes to the Interim Financial Statements

1. Segmental Information

	6 months ended 30 June 2004			6 months ended 30 June 2003 (Restated)			Year ended 31 December 2003 (Restated)		
	Turnover £'000	Operating Profit* £'000	Net Assets £'000	Turnover £'000	Operating Profit* £'000	Net Assets £'000	Turnover £'000	Operating Profit* £'000	Net Assets £'000
Building and construction Products	112,125	7,322	48,895	101,038	6,552	48,103	204,687	11,633	39,639
Industrial products	18,888	506	11,021	20,043	340	14,923	36,978	959	12,572
Total operations	131,013	7,828	59,916	121,081	6,892	63,026	241,665	12,592	52,211
Tax and dividends			(9,354)			(7,792)			(7,929)
Long-term debtors and other Provisions			(4,947)			(5,521)			(4,226)
Net borrowings			(38,760)			(47,755)			(36,485)
Goodwill			26,398			27,771			27,240
Total Group			33,253			29,729			30,811

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

2. Exceptional items and goodwill amortisation

The charge against operating profit comprises £842,000 of goodwill amortisation and £209,000 for business reorganisation costs. The profit on sale of fixed assets relates to the sale of freehold land and buildings.

3. Taxation

Tax has been provided on the profit before exceptional items and goodwill at the estimated effective rate for the full year.

4. Dividends

The Directors have declared an interim dividend for the current year of 2.25p per share (six months to 30 June 2003: 2.15p) which will be paid on 21 January 2005 to shareholders on the register on 24 December 2004.

5. Earnings per share

The weighted average number of shares in issue during the period was 61,933,559, diluted for the effect of outstanding share options 62,325,994 (six months ended 30 June 2003: 61,573,940 and 61,860,162 diluted).

Earnings per share have been calculated on profits of £3,665,000 (restated six months ended 30 June 2003: earnings of £2,093,000) and earnings per share before exceptional items and goodwill amortisation on earnings of £4,466,000 (restated six months ended 30 June 2003: earnings of £3,644,000).

Earnings per share before exceptional items and goodwill amortisation have been shown because the Directors consider that this gives a more meaningful indication of the underlying performance of the Group.

6. Notes to the Cash Flow Statement

i. Reconciliation of operating profit to net cash flow from operating activities

	6 months ended 30 June 2004			6 months ended 30 June 2003 (Restated)			Year ended 31 December 2003 (Restated)		
	Before exceptional items and goodwill amortisation £'000	Exceptional items and goodwill amortisation £'000	Total £'000	Before exceptional items and goodwill amortisation £'000	Total £'000	Before exceptional items and goodwill amortisation £'000	Total £'000		
Operating profit	7,828	(1,051)	6,777	6,892	5,810	12,592	10,957		
Depreciation	2,844	-	2,844	2,744	2,744	5,497	5,619		
Amortisation of goodwill	-	842	842	-	840	-	1,630		
(Profit)/loss of sale of fixed assets	52	-	52	-	-	(160)	(160)		
Change in working capital:									
Stocks	(2,519)	-	(2,519)	(1,721)	(1,393)	(818)	(573)		
Debtors	(14,995)	-	(14,995)	(8,822)	(7,656)	3,496	3,283		
Creditors and provisions	12,015	-	12,015	727	(711)	660	169		
	(5,499)	-	(5,499)	(9,816)	(9,760)	3,338	2,879		
Net cash (outflow) / inflow from operating activities	5,225	(209)	5,016	(180)	(366)	21,267	20,925		

ii. Capital expenditure

Purchase of tangible fixed assets	(3,237)	(2,141)	(5,442)
Sale of fixed assets	583	1,170	1,212
	(2,654)	(971)	(4,230)

7. Prior year restatement

The company has adopted FRS17: Retirement Benefits in these financial statements. The comparative figures have been restated accordingly.

The adoption of FRS17 has resulted in a decrease in the reported profit before tax for the year ended 31 December 2003 of £750,000 and for the six months ended 30 June 2003 of £8,000. There is an overall decrease in shareholders' funds as at 31 December 2003 of £7,177,000 and as at 30 June 2003 of £6,933,000. The amount of the restatement credited directly to P&L reserve for the year ended 31 December 2003 which is included in the movement in shareholders funds above was £275,000.

8. Financial Information

The results for the half years ended 30 June 2004 and 2003 are unaudited and do not constitute statutory accounts within the meaning of s240 of the Companies Act 1985. The financial information for the year ended 31 December 2003 has been extracted from the statutory accounts for that year (as adjusted for the change in accounting policy detailed in note 7) which have been filed with the Registrar of Companies and on which the auditors have given an unqualified opinion.

Other than the change in accounting policy detailed in note 7, the same accounting policies disclosed in the previous Annual Report have been applied in the results for the half year ended 30 June 2004.

Copies of the interim report will be sent to shareholders and will be available from Hill & Smith Holdings PLC office at:

2 Highlands Court
Cranmore Avenue
Shirley
Solihull
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Directors and Financial Calendar

Directors:

D.S. Winterbottom FCA, FCT
(Chairman)

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

C.J. Burr FCA
(Finance Director)

H.C. Marshall MSc, BSc
(Non-Executive)

R.E. Richardson FCMI
(Non-Executive)

Secretary:

C.J. Burr FCA

Financial Calendar

Payment of interim dividend (ex dividend date 22 December 2004)	21 January 2005
Preliminary announcement of results for the year to 31 December 2004	March 2005
Annual General Meeting 2005	May 2005