HILL & SMITH LIMITED

Registered number 01270322

Annual Report and Financial Statements

For the year ended 31 December 2021

Contents

Strategic Report

The Directors present their Annual Report and Financial Statements of Hill & Smith Limited ('the Company') for the year ended 31 December 2021.

Principal activity

The principal activity of the Company is the design, manufacture, installation, distribution and refurbishment of infrastructure products, notably concrete and steel fabricated products including pedestrian and vehicle restraint systems for highway and off highway applications, facade systems for multi-storey car parks and steel frame car parks, and structured span solutions for a variety of civil engineering applications.

Business review and future developments

Overview – Turnover for the year increased to £85,750,000 (2020: £78,248,000). Operating profit before exceptional items also increased to £12,282,000 (2020: £9,166,000). The prior year results incorporated those of the variable message sign ('VMS') business. Following Hill & Smith Holdings PLC's ('the Group') decision to close the division, the trade and assets of the VMS division were hived down from the Company into a separate legal entity on 31 December 2020. The VMS business contributed £9,421,000 of revenue and £1,812,000 of operating loss to the Company's prior year results. The year-on-year improvement in operating profit margin is therefore partially driven by the removal of the loss-making variable message sign business. Continued growth in demand levels for permanent concrete barrier and an increase in event security services has also contributed to the year-on-year growth. Further, the first Road Investment Strategy 2 ("RIS-2") smart motorway scheme commenced in June 2021 and the Company has been appointed as a primary provider of temporary barriers to the Smart Motorways Alliance as well as the award of concrete vehicle restraint systems supply to the Smart Motorway Programme. As discussed further below, despite the output from the Smart Motorway review in January 2022, RIS2 still presents significant opportunity for the Company in 2022 and beyond. Management remains confident that market share will be sustained and that the Company is well placed going forward.

In January 2022 the UK Government responded to the Transport Committee's Smart Motorway review. This outlined plans to pause the roll out of further all-lane running schemes until sufficient safety data is available (expected end of 2024). However, the retrofit of additional emergency refuge areas ('ERAs') would be required on existing all-lane running motorways. The Directors do not anticipate short to medium term performance to be materially impacted by this, since less than 10% of 2021 revenues came from Smart Motorway related projects. Further, the requirement for the ERAs, as well as central reservation schemes and upgrades to the wider strategic road network, present an opportunity for the Company and will boost demand for rental barrier fleet.

On 1 March 2021 the Company acquired 100% of the issued share capital of Prolectric Services Limited and its dormant subsidiary, for cash consideration of £11,954,000. Prolectric, located in Clevedon, North Somerset, is a UK market leader in off-grid solar energy solutions, aligning closely with the Group's purpose of creating sustainable infrastructure and providing new technology that the Group can leverage in its existing markets.

During the year, the Group announced that it would be forming a new VRS Solutions Group ('VSG'), bringing together all existing UK Vehicle Restraint Systems ('VRS') businesses to combine strengths and expertise in temporary and permanent containment solutions. Varley & Gulliver Limited, another of the Group's Road barrier businesses, will be merging with some of the existing divisions within the Company. As a result of this internal restructure, on 31 December 2021, the Company purchased 100% of the issued share capital in Varley & Gulliver Limited from Hill & Smith Holdings PLC in exchange for a further issuance of shares in the Company. Post year end, on 1 January 2022 the trade and certain assets of Varley & Gulliver Limited were hived up into the Company. This process completed with the remaining assets, predominantly the leasehold land and buildings, novating over to the Company by 10 March 2022. The synergies from this internal restructuring exercise are expected to be realised in 2022.

Strategy – The Company's strategy is to continue to capitalise on existing products, whilst developing new products as opportunities are identified. The Company will also target new markets with its extensive product range.

Corporate Social Responsibility - The Company recognises the importance of balancing the interest of key stakeholders – employees, customers, shareholders, suppliers and the wider community in which it operates. The Company remains committed to a continuous improvement in its environmental performance to ensure that its activities comply with environmental standards and legislation.

Strategic Report *(continued)*

Business review and future developments *(continued)*
Health and Safety – Health and safety remains core to the Company's business. The Company is committed to a continuous improvement in its health and safety performance and compliance with health and safety standards and legislation. Further details of the Group's health and safety activities can be found in the Hill & Smith Holdings PLC annual report.

Principal risks and uncertainties
The Board continues to develop policies and procedures that reflect the nature and scale of the Company's business. These are designed to identify, mitigate and manage risk. The Board has identified the following key areas of risk to the business: potential competition in domestic markets and any legislative or regulatory change resulting in a reduction in government spend in the temporary barrier market. The Company mitigate and manage these risks by continuously monitoring current and future financial performance to facilitate rapid responses to changes in market conditions.

Key performance indicators
The Group's key performance indicators are commented on in detail in the Hill & Smith Holdings PLC annual report. Those that specifically relate to the Company are as follows:

Financial – The Company considers revenue growth (year on year), operating profit margin and return on capital employed (defined as operating profit before exceptional items by the average capital employed) to be its principal financial key performance indicators.

KPI	**2021**	**2020**
Revenue growth/(decline) (year on year)	9.6%	(10.8)%
Operating profit margin	14.3%	11.7%
Return on capital employed	16.5%	12.4%

An overview of the Company's financial performance compared to the prior year is included in the business review on page 1.
Non-financial – Health and safety compliance, energy and material efficiency, use of recycled products and waste management are all principal areas of focus for the Company. The Board considers the Company's performance in these areas to be satisfactory.

Statement by the directors in performance of their statutory duties in accordance with s172(1) of the Companies Act 2006 ("the Act")
A separate statement has been presented on pages 7-8.

By order of the Board

C A Henderson
Secretary
20 June 2022

Westhaven House
Arleston Way
Shirley, Solihull
West Midlands
United Kingdom
B90 4LH

Directors' Report

The Directors present their Report and audited Financial Statements for the year ended 31 December 2021.

Research and development
The Company continues to invest in research and development. During the year it invested a total of £498,000 (2020: £1,306,000).

Dividends
Dividends of £12,500,000 have been paid in the year ended 31 December 2021 (2020: £7,000,000). There are no further proposed dividends.

Directors
The Directors serving during the year and in the period up to the date of this report were as follows:

P J Wilkinson	
S M Dunn	(resigned 21 November 2021)
J Thomas	(resigned 30 June 2021)
R McTavish	
M Harriman	
D Todd	
A J Beaney	(resigned 31 January 2022)
A Reed	(appointed 1 January 2022)
J D Foster	(appointed 1 May 2022)
F M Lamb	(appointed 1 May 2022)

Political and charitable contributions
The Company made no political donations or incurred any political expenditure during the current or prior year. The Company made charitable donations of £6,000 during the year (2020: £4,000).

Employees
Details of the number of employees and related costs can be found in note 7 to the Financial Statements.

Applications for employment by disabled persons are considered fully, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

The Company participates in Hill & Smith Holdings PLC's policies and practices to keep employees informed on matters relevant to them as employees through appropriate means, such as employee meetings and newsletters. Further details on employment engagement are included within the s172 (1) Directors' Statement on pages 7-8.

Financial risk
The financial risk management objectives and policies are managed by the directors of Hill & Smith Holdings PLC on a Group basis. From the perspective of the Company, the financial risks are integrated within the financial risks of the Group and are not managed separately. Accordingly, the financial risks of the Group, which include those of the Company, are discussed within the financial risk management section of the Group's Annual Report which does not form part of this Annual Report. Details on how to obtain a copy of the Group's Annual Report are included in note 28.

Directors' Report *(continued)*

Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on page 1.

The Company is a trading company in the Group. The Company has net current liabilities of £10,581,000. The Company is a party to cross guarantees given for loans and borrowings of the ultimate parent company, Hill & Smith Holdings PLC, and certain fellow subsidiaries as detailed in note 22. As a result, the Company's funding requirements are directly linked to the Group's overall financial position.

At 31 December 2021, the Group had £327.6m of committed borrowing facilities, of which only £1.8m matures before December 2023 at the earliest, and a further £13.4m of on-demand facilities. The amount drawn down under these facilities at 31 December 2021 was £125.4m, which together with cash and cash equivalents of £18.8m gave total headroom of £234.4m (£221.2m committed, £13.2m on demand). The Group has not made any changes to its principal borrowing facilities between 31 December 2021 and the date of approval of these financial statements, and there have been no significant changes to liquidity headroom during that period.

The Group's principal borrowing facilities are subject to covenants that are measured biannually in June and December, being net debt to EBITDA of a maximum of 3.0x and interest cover of a minimum of 4.0x, based on measures as defined in the facilities agreements which are adjusted from the equivalent IFRS amounts. The ratio of net debt to EBITDA at 31 December 2021 was 1.0 times and interest cover was 25.4 times.

In assessing whether these financial statements should be prepared on a going concern basis, the Directors have prepared cash flow forecasts for the Company through until 30 June 2023. The Group have aggregated the cash flow forecasts of the Group's subsidiaries to form a Group 'base case' scenario. In this 'base case' scenario, the forecasts indicate significant liquidity headroom will be maintained above the Group's borrowing facilities and financial covenants will be met throughout the period, including the covenant tests at 30 June 2022, 31 December 2022 and 30 June 2023.

The Group has carried out stress tests against the base case to determine the performance levels that would result in a breach of covenants or a reduction of headroom against its borrowing facilities to nil. For a breach of covenants to occur during the relevant period, the Group would need to experience a sustained revenue reduction of 24% compared with current expectations throughout the period from May 2022 through June 2023. A reduction in headroom against borrowing facilities to nil would occur if the Group experienced a sustained revenue reduction of 50% compared with current expectations between May 2022 and June 2023. The Directors do not consider either of these scenarios to be plausible given the ability of the Group to continue its operations throughout the COVID pandemic (noting that revenues fell by only 22% in the second quarter of 2020, the worst-affected period). The Group also has several mitigating actions under its control including minimising capital expenditure to critical requirements, reducing levels of discretionary spend, rationalising its overhead base and curtailing future dividend payments which, although not forecast to be required, could be implemented in order to be able to meet the covenant tests and to continue to operate within borrowing facility limits. Further details are provided in the Group's 2021 annual report which can be obtained from the address in note 28.

As a result of the above, the Company's ultimate parent, Hill & Smith Holdings PLC, have provided a letter of support to confirm their intention to provide sufficient funding to the Company to enable it to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements. The Directors have assessed the ultimate parent company's ability to provide such support through obtaining the latest consolidated financial statements of the Group, discussing the financial position with group management and assessing the level of funds available to the Group. Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due from the date of approval of the financial statements through until 30 June 2023, and therefore have prepared the financial statements on a going concern basis.

Directors' Report *(continued)*

Disclosure of information to auditor

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 auditor is unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Post balance sheet events

Due to an internal restructure, as explained in the Strategic Report on Page 1, on 1 January 2022 the trade and certain assets of Varley & Gulliver Limited were hived up into the Company. This process completed with the remaining assets, predominantly two leased properties, novating over to the Company by 10 March 2022. There have been no other significant post balance sheet events.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office.

Other matters

In accordance with section 414C(11) of the Companies Act 2006, certain information, including future business developments, are not presented in the Directors' Report because it is disclosed in the Strategic Report.

Information on how the Company has engaged with key stakeholders is included within the s172(1) Directors' Statement on pages 7-8.

Details of greenhouse gas emissions, energy consumption and energy efficiency required by Part 7 of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 are included in the Group's Annual Report. Details on how to obtain a copy of the Group's Annual Report are included in note 28.

By order of the Board

C A Henderson
Secretary
20 June 2022

Westhaven House
Arleston Way
Shirley
Solihull
West Midlands, United Kingdom
B90 4LH

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law they have elected to prepare the Financial Statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Statement by the directors in performance of their statutory duties in accordance with s172(1) of the Companies Act 2006, ("the Act")

The Board of Hill & Smith Limited considers that it is suitably composed, with an appropriate range of pertinent skills and experience and the directors consider that they have acted, both individually and together, in good faith and in ways which would be most likely to promote the success of the company for the benefit of its members as a whole, having regard to stakeholders and matters set out in s172 (1) (a-f) of the Act.

Our aim is to deliver sustainable profit growth from a sustainable business model and in so doing the the Board is collectively responsible for upholding high standards of corporate governance and leadership, and we place a high priority on meeting our environmental and social responsibilities, whilst continuing to deliver value to all of our stakeholders: employees; customers; suppliers; shareholders; local communities; and government. Effective risk management is also critical to the achievement of our strategy, and our risk management processes are integrated into our daily business activities and integrated vertically, into that of our parent company Hill & Smith Holdings PLC.

The Board has implemented policies, systems and procedures or updated existing ones, to inform and assist its strategic planning, management and decision-making in line with its values.

In particular, during the year under review and the period up to the date of this report we have:-

- Engaged with our employees:
    - We promoted engagement in the Group-wide Staff Engagement Survey;
    - We undertook a consultation exercise with employees of our Variable Message Signs business as part of the business closure and supported redeployment of employees to other entities within the business;
    - We established a VRS Solutions Group during the year, providing greater career opportunities to our employees and new leadership roles, consulting with employees whose companies were being transferred into the Company;
    - Hill & Smith Barrier, a division of the Company, was awarded an internationally-recognised award for demonstrating high health and safety standards, having received a RoSPA GOLD Health and Safety Award to ensure its staff and visitors get home safely to their families at the end of every working day;
    - Hardstaff Barriers, a division of the Company published a case study on the Group Intranet, regarding Building Careers, Diversity and Inclusion.
    - Worked with our parent company by subscribing to whistleblowing and wellbeing helplines.

- Engaged with suppliers and customers
    - We met with our key suppliers and customers during the year;
    - The creation of the VRS Solutions group strengthened our customer proposition, provided enhanced service, solutions and choice for all our customers.
    - We entered into a new lease at Bilston, engaging proactively and openly with our Landlord to achieve mutually agreeable terms.

- Engaged with local communities
    - We were awarded the CSRA 'Gold' Award in recognition for our commitment to supporting communities and improving the environment;
    - We signed up to the Carbon Footprint Standard, funding the planting of 500 new trees through the Verified Carbon Standard avoided deforestation programme. As a result, 500 tonnes of CO^2 will be saved in the Amazon Rainforest. Arising from this, 130 new trees were planted at Penygarn Community Primary School, in Pontypool, Wales, and 250 trees were planted at a school in Corby, in Northamptonshire.

Statement by the directors in performance of their statutory duties in accordance with s172(1) of the Companies Act 2006, ("the Act") *(continued)*

- *Engaged with Government and industry bodies*
  - Representatives sit on government and industry bodies supporting product development and safety; and
  - Met with government bodies to advocate product development.

- Engaged with our shareholder
  - We supported the Group's Strategy through the decisions taken around the closure of the Variable Message Signs business and the purchase of Varley & Gulliver Limited;
  - We held regular meetings with our parent company and senior management attend Board meetings periodically, to ensure our strategies are closely aligned and we continue to deliver strong shareholder returns.
  - We engaged with the Group Risk Management programme, ensuring that risks faced by the business were accurately reflected to the parent company through its submission; and
  - We developed innovative new products, in the area of health and safety of employees and sustainability to assist in delivering the strategy of the parent company;
  - We paid dividends totalling £12,500,000 during the financial year to our shareholder.

Independent Auditor's Report to the members of Hill & Smith Limited

Opinion

We have audited the financial statements of Hill & Smith Limited for the year ended 31 December 2021 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of comprehensive income, the Statement of changes in equity and the related notes 1 to 29, including a summary of significant accounting policies The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period to 30 June 2023.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditor's Report to the members of Hill & Smith Limited *(continued)*

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, as set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (FRS 101 Reduced Disclosure Framework and the Companies Act 2006) and compliance with the relevant direct and indirect tax regulations in the United Kingdom. In addition, the Company complies with laws and regulations relating to its operations, health and safety, environmental and data protection.

Independent Auditor's Report to the members of Hill & Smith Limited *(continued)*

Auditor's responsibilities for the audit of the financial statements *(continued)*

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud (continued)

- We understood how the company is complying with those frameworks by reviewing Hill & Smith Limited policies and procedures for creating awareness of laws and regulations and how to report any instances of non-compliance. This included: the issuance of, and adherence to, a Group Policy Manual; training courses to raise awareness of laws and regulations; review by an internal audit function to ensure adherence; and availability of a whistle-blowing hotline to report any instances of non-compliance. We observed management create a culture of honestly and ethical behaviour, which act as a fraud deterrent.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by understanding the culture and controls present at the company and whether this had a strong emphasis on the prevention and detection of fraud. We also understood the performance targets related to the Company and their influence on efforts that might be made by management to manage earnings or influence the perceptions of users of the financial statements Through these procedures we determined there to be a risk of management override associated with revenue and a fraud risk around revenue recognition, and in particular the revenue recognition on open contracts at the year-end as well as relating to manual journal entries recorded throughout the year. With regards to open contracts at year end we selected a sample of contracts to perform detailed testing, including understanding the nature of the contract and the stage of completion, testing the costs to complete to verify that the margin is appropriate and verifying the clerical accuracy of the revenue calculation. We sought to verify the stage of completion of each contract tested to third party evidence received from respective customers.
- We performed journal entries testing on the manual journals recorded in revenue using data analytic techniques to sample from the entire population of journals, identifying specific transactions which did not meet our expectations based on specific criteria, and investigated these and confirmed that the journals were for appropriate business reasons and verified them to relevant source documentation. Our analytical review procedures focused on identifying unusual trends and unexpected relationships and increased our understanding of the entity and its environment.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved enquiry of senior management and those charged with governance as to their awareness of non-compliance with laws and regulations, enquiry of the Group's internal legal counsel and a review of internal audit reports and board minutes and journal entry testing to identify positings that may indicate such non-compliance. A review of payments to detect unrecorded liabilities, contrary evidence and available correspondence with third parties did not identify any non-compliance.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

Ernst & Young LLP

Helen McLeod-Jones (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham
Date: June 20, 2022

Profit and Loss Account
for the year ended 31 December 2021

	Note	2021 £000	2020 £000
Turnover	3	**85,750**	78,248
Cost of sales		**(54,479)**	(45,198)
Gross profit		**31,271**	33,050
Distribution costs		**(6,143)**	(5,792)
Administrative expenses		**(12,846)**	(19,263)
Operating profit before exceptional items		**12,282**	9,166
Exceptional items	4	**-**	(1,171)
Operating profit being profit before interest and taxation		**12,282**	7,995
Interest receivable	8	**170**	113
Interest payable and similar charges	9	**(571)**	(589)
Profit before taxation	5	**11,881**	7,519
Taxation on profit	10	**(969)**	(1,032)
Profit for the financial year		**10,912**	6,487

Statement of Comprehensive Income

	2021 £000	2020 £000
Items that will not be classified to profit or loss:		
Remeasurement of the net defined benefit pension liability	**1,024**	(690)
Taxation on other comprehensive income/(expense)	**139**	242
Other comprehensive income/(expense) for the year, net of tax	**1,163**	(448)
Total comprehensive income for the year	**12,075**	6,039

All operations are continuing.

The notes on pages 15 to 38 form part of the Financial Statements.

Balance Sheet
as at 31 December 2021

	Note	2021		2020	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	*11*		**3,538**		3,943
Tangible assets	*12*		**33,652**		38,617
Right-of-use assets	*13*		**8,390**		3,547
Investments	*14*		**58,706**		45,443
			104,286		91,550
Current assets					
Stocks	*15*	**6,466**		7,738	
Debtors	*16*	**29,682**		24,837	
Cash at bank and in hand		**6,727**		1,898	
		42,875		34,473	
Creditors: Amounts falling due within one year	*17*	**(53,456)**		(44,015)	
Net current liabilities			**(10,581)**		(9,542)
Total assets less current liabilities			**93,705**		82,008
Creditors: Amounts falling due after more than one year	*17*		**(6,790)**		(2,677)
Provisions for liabilities					
Pension liabilities	*18*		**(2,829)**		(5,156)
Deferred tax	*19*		**(2,063)**		(911)
Provision for liabilities	*20*		**(1,934)**		-
Net assets			**80,089**		73,264
Capital and reserves					
Called up share capital	*21*		**16,000**		14,800
Share premium account			**47,589**		45,706
Profit and loss account			**16,500**		12,758
Total equity shareholder's funds			**80,089**		73,264

The notes on pages 15 to 38 form part of the Financial Statements.

These Financial Statements were approved by the Board of Directors and signed on their behalf by:

A Reed

A Reed
Director
20 June 2022

Company No. 01270322

Statement of Changes in Equity
for the year ended 31 December 2021

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total equity shareholder's funds £000
At 1 January 2020	**14,800**	**45,706**	**13,713**	**74,219**
Comprehensive income				
Profit for the year	-	-	6,487	6,487
Other comprehensive expense for the year	-	-	(448)	(448)
Deferred tax taken directly to the Statement of Changes in Equity	-	-	6	6
Transactions with owners recognised directly in equity				
Dividends	-	-	(7,000)	(7,000)
At 31 December 2020	**14,800**	**45,706**	**12,758**	**73,264**
Comprehensive income				
Profit for the year	-	-	10,912	10,912
Other comprehensive expense for the year	-	-	1,163	1,163
Deferred tax taken directly to the Statement of Changes in Equity	-	-	53	53
Transactions with owners recognised directly in equity				
Dividends	-	-	(12,500)	(12,500)
Intercompany loan waiver (note 4)	-	-	4,114	4,114
Issue of shares (note 21)	1,200	1,883	-	3,083
At 31 December 2021	**16,000**	**47,589**	**16,500**	**80,089**

The share premium account represents the amount of proceeds received for shares in excess of their nominal value of £1 per share.

Profit and loss account reserve represents accumulated retained earnings.

Notes to the financial statements

1 General Information

The Company is a private company limited by shares and incorporated and domiciled in England, United Kingdom. The registered office is Westhaven House, Arleston Way, Shirley, Solihull, B90 4LH.

2 Accounting policies

The following accounting policies have been applied consistently in the current and prior period in dealing with items which are considered material in relation to the Company's Financial Statements, except as noted below.

Basis of preparation

These Financial Statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and in accordance with applicable accounting standards. The Company has used a true and fair view override in respect of the non amortisation of goodwill.

In preparing these Financial Statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's ultimate parent undertaking, Hill & Smith Holdings PLC includes the Company in its Consolidated Financial Statements. The Consolidated Financial Statements of Hill & Smith Holdings PLC are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Group Headquarters (see note 28).

Significant accounting estimates or judgements

In the application of the Company's accounting policies outlined below, the directors are required to make estimates, assumptions and judgements about the carrying value of assets and liabilities that are not readily apparent.

The key accounting estimates or judgements made were:

Actuarial assumptions on pension obligations (Note 18)

In determining the valuation of the defined benefit pension deficit, certain estimates and assumptions about the scheme have been made, notably the inflation rates, discount rates, mortality and pension increases. The factors affecting these assumptions are influenced by wider macro-economic factors that are largely outside of the Company's control.

Investment recoverability (Note 14)

The determination of whether investments should be impaired requires, amongst other factors, the estimation of future cash flows and growth factors adopted for each investment to which the Company holds. Furthermore, discount rates applied to these cash flows are determined by reference to the markets in which they operate and are risk adjusted to reflect risks and opportunities existing for each investment. No impairment was identified in the current or prior year.

Goodwill impairment (*Note 11*)

The determination of whether goodwill should be impaired requires the estimation of future cash flows and growth factors adopted by each cash generating unit. Furthermore, discount rates applied to these cash flows are determined by reference to the markets in which they operate and are risk adjusted to reflect risks and opportunities existing for each cash generating unit. These factors are all affected by prevailing market and economic factors outside the Company's control. No impairment charge was identified in the current year (2020: an impairment charge of £419,000 was recorded).

Notes to the financial statements *(continued)*

2 Accounting policies *(continued)*

New IFRS standards and interpretations adopted during 2021
In 2021 the following amendments had been endorsed by the EU, became effective and therefore were adopted by the Company:
- Covid-19-Related Rent Concessions beyond 30 June 2021 – Amendments to IFRS 16
- Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16
- Attributing Benefit to Periods of Service – IAS 19 Interpretation

The amendments noted above have not had a material impact on the financial statements.

Exemptions
In these Financial Statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosures in respect of the key assumptions used in the goodwill impairment review.

As the Consolidated Financial Statements of Hill & Smith Holdings PLC include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments;
- Certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 3 Business Combinations in respect of business combinations undertaken by the Company;
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures;
- Certain disclosures required by IFRS 15 Revenue from Contracts with Customers; and
- Certain disclosures required by IFRS 16 Leases.

Measurement convention
The Financial Statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments classified as fair value through the profit or loss or as available-for-sale, investment property and liabilities for cash-settled share-based payments. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

Going concern
The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on page 1.

The Company is a trading company in the Group. The Company has net current liabilities of £10,581,000. The Company is a party to cross guarantees given for loans and borrowings of the ultimate parent company, Hill & Smith Holdings PLC, and certain fellow subsidiaries as detailed in note 22. As a result, the Company's funding requirements are directly linked to the Group's overall financial position.

Notes to the financial statements *(continued)*

2 Accounting policies *(continued)*

***Going concern** (continued)*
At 31 December 2021, the Group had £327.6m of committed borrowing facilities, of which only £1.8m matures before December 2023 at the earliest, and a further £13.4m of on-demand facilities. The amount drawn down under these facilities at 31 December 2021 was £125.4m, which together with cash and cash equivalents of £18.8m gave total headroom of £234.4m (£221.2m committed, £13.2m on demand). The Group has not made any changes to its principal borrowing facilities between 31 December 2021 and the date of approval of these financial statements, and there have been no significant changes to liquidity headroom during that period.

The Group's principal borrowing facilities are subject to covenants that are measured biannually in June and December, being net debt to EBITDA of a maximum of 3.0x and interest cover of a minimum of 4.0x, based on measures as defined in the facilities agreements which are adjusted from the equivalent IFRS amounts. The ratio of net debt to EBITDA at 31 December 2021 was 1.0 times and interest cover was 25.4 times.

In assessing whether these financial statements should be prepared on a going concern basis, the Directors have prepared cash flow forecasts for the Company through until 30 June 2023. The Group have aggregated the cash flow forecasts of the Group's subsidiaries to form a Group 'base case' scenario. In this 'base case' scenario, the forecasts indicate significant liquidity headroom will be maintained above the Group's borrowing facilities and financial covenants will be met throughout the period, including the covenant tests at 30 June 2022, 31 December 2022 and 30 June 2023.

The Group has carried out stress tests against the base case to determine the performance levels that would result in a breach of covenants or a reduction of headroom against its borrowing facilities to nil. For a breach of covenants to occur during the relevant period, the Group would need to experience a sustained revenue reduction of 24% compared with current expectations throughout the period from May 2022 through June 2023. A reduction in headroom against borrowing facilities to nil would occur if the Group experienced a sustained revenue reduction of 50% compared with current expectations between May 2022 and June 2023. The Directors do not consider either of these scenarios to be plausible given the ability of the Group to continue its operations throughout the COVID pandemic (noting that revenues fell by only 22% in the second quarter of 2020, the worst-affected period). The Group also has several mitigating actions under its control including minimising capital expenditure to critical requirements, reducing levels of discretionary spend, rationalising its overhead base and curtailing future dividend payments which, although not forecast to be required, could be implemented in order to be able to meet the covenant tests and to continue to operate within borrowing facility limits. Further details are provided in the Group's 2021 annual report which can be obtained from the address in note 28.

As a result of the above, the Company's ultimate parent, Hill & Smith Holdings PLC, have provided a letter of support to confirm their intention to provide sufficient funding to the Company to enable it to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements. The Directors have assessed the ultimate parent company's ability to provide such support through obtaining the latest consolidated financial statements of the Group, discussing the financial position with group management and assessing the level of funds available to the Group. Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due from the date of approval of the financial statements through until 30 June 2023, and therefore have prepared the financial statements on a going concern basis.

Consolidation
In accordance with Section 400 of the Companies Act 2006, consolidated accounts have not been prepared as the Company is a wholly owned subsidiary of Hill & Smith Holdings PLC, a company incorporated in England, which has prepared Consolidated Financial Statements to include the results of the Company.

Investments in subsidiary undertakings
Investments in subsidiary undertakings are stated at cost less amounts written off for impairment. Investments are reviewed for impairment where events or circumstances indicate that their carrying value may not be recoverable.

Notes to the financial statements *(continued)*

2 Accounting policies *(continued)*

Foreign currencies

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Balance Sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the Profit and Loss Account except for differences arising on the retranslation of qualifying cash flow hedges, which are recognised in other comprehensive income.

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units of which there is two. The UK Companies Act requires goodwill to be reduced by provisions for depreciation on a systematic basis over a period chosen by the directors, its useful economic life. However, under IFRS 3 Business Combinations goodwill is not amortised. Consequently, the company does not amortise goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment. The company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act. Had the Company amortised goodwill, a period of 20 years would have been chosen as the useful life for goodwill. The profit for the year would have been £95,000 lower had goodwill been amortised in the year.

Other intangible assets

Expenditure on internally generated goodwill and brands is recognised in the profit and loss account as an expense as incurred.

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses.

The cost of an intangible asset acquired in a business combination is its fair value at the acquisition date.

Where computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset.

Research and development

Expenditure on research activities is recognised in the Profit and Loss Account as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the Profit and Loss Account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to Administrative Expenses in the Profit and Loss Account on a straight-line basis over the estimated useful economic lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each Balance Sheet date. Other intangible assets are amortised from the date they are available for use up to a maximum of 20 years.

Notes to the financial statements *(continued)*

2 Accounting policies *(continued)*

Financial instruments

Trade and other debtors

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

Trade and other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Interest-bearing borrowings

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 using the effective interest method, less any impairment losses.

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the Profit and Loss Account. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the Profit and Loss Account (even if those gains would normally be recognised directly in reserves).

Provisions

A provision is recognised in the Balance Sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Tangible Fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Depreciation is charged to the Profit and Loss Account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

Plant, equipment and vehicles	-	4 to 20 years
Buildings and leasehold improvements	-	50 years

Depreciation methods, useful lives and residual values are reviewed at each Balance Sheet date.

Stocks and work in progress

Stocks are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Notes to the financial statements *(continued)*

2 Accounting policies *(continued)*

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Profit and Loss Account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the Balance Sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on 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: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably 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 temporary difference can be utilised.

Leases

To the extent that a right-of-control exists over an asset subject to a lease and with a lease term exceeding one year, the Company recognises: a right-of-use asset, representing the underlying lease asset, and a lease liability, representing the Company's obligation to make lease payments. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, any initial direct costs incurred and an estimate of the dismantling, removal and restoration costs as required by the terms of the lease contract.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to annual impairment testing, where indicators of impairment exist.

The lease liability is measured at the present value of the future lease payments discounted using the Company's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Future lease payments include: fixed payments, variable lease payments that depend on an index or a rate (initially measured using the index or rate as at the commencement date), amounts expected to be payable under a residual guarantee and the exercise price of purchased options where it is reasonably certain that the option will be exercised. Finance charges, representing the unwinding of the discount rate, are recognised in the Profit and Loss Account over the period of the lease.

The Company elects not to apply the lease accounting model to short term leases (less than 12 month lease term) and low value assets. Accordingly, the lease payments for short term leases and low value assets are recognised as an expense on a straight line basis over the lease term.

For vehicle leases, where it is not practical to separate the non-lease components from the lease components, the Company elects to treat lease component and non-lease component as a single lease component.

Notes to the financial statements *(continued)*

2 Accounting policies *(continued)*

***Leases** (continued)*
Sub-leasing right-of-use assets
The Company subleases part of its right-of-use assets to other companies within the Group. Further details are provided in note 23. Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease term and is included within Administrative Expenses in the Profit and Loss Account. The Company retains the lease liability and the right-of-use asset relating to the head lease in its Balance Sheet.

Expenses
Interest receivable and Interest payable
Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities, interest expense on lease liabilities, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the Profit and Loss Account (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the Profit and Loss Account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Pension scheme arrangements
Defined contribution plans
Obligations for contributions to defined contribution pension schemes are recognised as an expense as incurred.

Defined benefit plans
A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

The Company's employees are members of Group-wide defined benefit schemes. The net defined benefit cost of the plans is allocated to participating entities based on the employing entity of the participating employees of the scheme. The contributions payable by the participating entities are determined on the same basis.

Dividends
Dividends are recognised in the Financial Statements in the period in which they are approved by the Company's shareholders. Dividend income is recognised in the Profit and Loss account on the date the entity's right to receive payment is established.

Notes to the financial statements *(continued)*

2 Accounting policies *(continued)*

Share based payments

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The share option programme allows employees to acquire shares of the ultimate parent company Hill & Smith Holdings PLC. The fair value of options are expensed with a corresponding increase in equity.

Share-based payments are recharged by the ultimate parent company to participating subsidiary undertakings on an annual basis. Where the Company's parent grants rights to its equity instruments to the Group's or the Company's employees, which are accounted for as equity-settled in the consolidated accounts of the parent, the Group or the Company as the case may be account for these share-based payments as equity settled.

Turnover

Turnover is measured based on the consideration specified in a contract with a customer for the provision of goods and services. The amount recognised excludes sales taxes and is adjusted for any discounts or volume rebates that are included in the contract. The Company does not routinely offer discounts or volume rebates, but where it does the variable element of revenue is based on the most likely amount of consideration that the Company believes it will receive. The Company recognises revenue when it transfers control over a good or service to a customer.

The Company occasionally manufactures non-standard products that are specific to customer requirements and therefore require a high degree of customisation. The Company has determined that in these cases a product with no alternative use is created. Where the contractual terms are such that if the contract is terminated by the customer then the Company has a right to reimbursement of the costs incurred including a reasonable margin, revenue is recognised over time i.e. before the completed goods are delivered to the customer's premises. Progress is generally determined using input methods (such as costs incurred), unless the circumstances of the contract are such that output methods (such as milestones reached) are considered more appropriate.

The Company classifies proceeds from the sale of scrap products generated in the manufacturing process within revenue.

Contract assets

Contract assets primarily relate to the rights to consideration for work completed but not billed at the reporting date. Contract assets are transferred to receivables when the rights become unconditional.

Notes to the financial statements *(continued)*

3 Turnover

The turnover of the Company is derived from the following geographical markets:

	2021 £000	2020 £000
United Kingdom	**75,209**	72,630
Rest of Europe	**4,521**	3,028
North America	**812**	773
Asia	**38**	1,466
Middle East	**589**	-
Rest of the world	**4,581**	351
	85,750	78,248

In the opinion of the Directors, there are three main product lines being: concrete and steel fabricated products including pedestrian and vehicle restraint systems for highway and off-highway applications; façade systems for multi-storey car parks; and structured span solutions for a variety of civil engineering applications.

4 Exceptional items

	2021 £000	2020 £000
Impairment charges	-	(419)
Business re-organisation costs	-	(605)
Pension past service cost	-	(147)
	-	1,171

The variable message sign business experienced various headwinds during the prior year. Consequently, a number of actions were taken to restructure the business and its cost base. The cash reorganisation costs incurred during 2020, prior to the trade and assets of the variable message sign business being hived down on 31 December 2020, amounted to £605,000. The Company recorded an impairment charge of £419,000 in respect of the goodwill previously recognised on acquisition of the variable message sign business. The net liabilities hived down in the prior year amounted to £4,114,000, the consideration for which was left outstanding on the intercompany account. In 2021 this intercompany payable has been written down and as the hive down occurred in the prior year has been recognised directly in equity.

In October 2018 the High Court handed down a judgement requiring businesses with defined benefit pension schemes to equalise historical Guaranteed Minimum Pensions (GMPs) between male and female members. In 2018, the Group took professional advice as to the impact of this judgement and the calculation of the potential equalisation cost. The Company is a participating employer in the Group's defined benefit pension scheme. The Company's allocated share of the equalisation cost in 2018 was £287,000. In 2020, there was a further hearing in relation to members who have transferred out of schemes, which concluded that schemes do need to revisit historical transfers for GMP equalisation. The Group took professional advice as to the impact of this judgement and the Company recognised a further allocated share of the additional equalisation cost of £147,000 in 2020. No such costs were incurred in the current year.

The above items are presented separately in the profit and loss account as, in the Director's view, the quantum, nature or volatility of such items gives further information to obtain a proper understanding of the underlying performance of the business. There were no such items in the current year.

Notes to the financial statements *(continued)*

5 Profit before taxation

	2021 £000	2020 £000
Profit before taxation is stated		
after charging:		
Depreciation:		
Owned assets	**(4,492)**	(4,375)
Right-of-use assets	**(1,469)**	(1,614)
Amortisation of intangible assets	**(765)**	(995)
Auditor's remuneration	**(49)**	(69)
Research and development expenditure	**(138)**	(424)
Loss on sale of fixed assets	**(155)**	(62)
Foreign exchange loss	**(27)**	(38)
after crediting:		
Sublease income	**114**	114

6 Remuneration of Directors

Aggregate Directors' remuneration for the year was as follows:

	2021 £000	2020 £000
Emoluments	**1,171**	1,137
Company contributions to money purchase pension schemes	**51**	53
Compensation for loss of office	**2**	-
	1,224	1,190

	Number	Number
Directors exercising share options	**4**	-

The remuneration of the highest paid Director excluding pension contributions was £362,000 (2020: £360,000). His accrued pension entitlement per annum at the year-end was £nil (2020: £nil).

The aggregate amount of gains made by directors on the exercise of share options was £130,000 (2020: £nil), which includes a gain of £23,000 (2020: £nil) made by the highest paid director on exercise of share options.

Prior to his resignation, the remuneration of A J Beaney was paid by another Hill & Smith Holdings PLC group company as he provided services to a number of companies within the Group and the services he delivered to the Company were considered incidental to his wider Group role.

Notes to the financial statements *(continued)*

7 Staff numbers and costs

The average number of persons employed by the Company (including Directors) all of whom were involved in the principal activity was:

	2021 Number	2020 Number
Production	**41**	124
Administration	**18**	35
Sales and distribution	**141**	148
	200	307

The aggregate payroll costs of these persons were:	£000	£000
Wages and salaries	**9,608**	13,321
Share-based payment (see note 25)	**91**	123
Social security costs	**1,061**	1,387
Other pension costs (see note 18)	**339**	639
	11,099	15,470

8 Interest receivable

	2021 £000	2020 £000
Bank interest receivable	**170**	113
	170	113

9 Interest payable and similar charges

	2021 £000	2020 £000
Bank interest payable	**13**	44
Interest cost on net pension scheme deficit	**54**	96
On loans from group undertakings	**386**	296
Interest on lease liabilities (note 13)	**118**	153
	571	589

Notes to the financial statements *(continued)*

10 Taxation on profit

Analysis of charge in year

	2021	2020
	£000	£000
UK corporation tax		
Current tax for the year	1,680	955
Double tax relief	(8)	(13)
Relating to the prior year	(2,047)	(761)
Current tax (credit)/charge	(375)	181
Deferred tax (see note 19)		
Current year charge	535	588
Relating to the prior year	140	99
Effect of change in tax rate	669	164
Deferred tax charge	1,344	851
Total tax charge	969	1,032

Notes to the financial statements *(continued)*

10 Taxation on profit *(continued)*

Factors affecting tax charge for the year
The effective current tax rate for the year is lower (2020: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2021	2020
	£000	£000
Total tax reconciliation		
Profit before taxation	**11,881**	7,519
Profit multiplied by the effective rate of corporation tax in the UK of 19% (2020: 19%)	**2,257**	1,429
Effects of:		
(Non-taxable income)/Non-deductible expenses	**(56)**	75
Difference between current and deferred tax rates	**129**	-
Double taxation relief	**(8)**	(13)
Overseas tax	**17**	39
Impact of deferred tax rate change	**669**	164
Fixed asset appropriations	**(99)**	-
Capital allowances super deduction	**(33)**	-
Relating to the prior year	**(1,907)**	(662)
Total tax charge	**969**	1,032

The UK headline corporation tax rate for the year was 19% (2020: 19%). In the Spring Budget of 2021, the UK Government announced that from 1 April 2023 the rate of UK corporation tax will increase from 19% to 25%. This new law was substantively enacted on 24 May 2021. Therefore, UK deferred tax assets and liabilities have been calculated at a rate of 25% (2020: 19%).

Notes to the financial statements *(continued)*

11 Intangible assets

	Goodwill £000	Other intangibles £000	Capitalised R&D £000	Total £000
Cost				
At 1 January 2021	4,647	232	11,687	16,566
Additions	-	-	360	360
At 31 December 2021	**4,647**	**232**	**12,047**	**16,926**
Amortisation				
At 1 January 2021	3,319	209	9,095	12,623
Charge for the year	-	6	759	765
At 31 December 2021	**3,319**	**215**	**9,854**	**13,388**
Net book value				
At 31 December 2021	**1,328**	**17**	**2,193**	**3,538**
At 31 December 2020	1,328	23	2,592	3,943

Notes to the financial statements *(continued)*

12 Tangible fixed assets

	Land and buildings £000	Plant, equipment and vehicles £000	Total £000
Cost			
At 1 January 2021	320	82,870	83,190
Additions	-	2,145	2,145
Disposals	-	(386)	(386)
Group transfers	-	(2,812)	(2,812)
At 31 December 2021	**320**	**81,817**	**82,137**
Depreciation			
At 1 January 2021	236	44,337	44,573
Charge for the year	26	4,466	4,492
Disposals	-	(227)	(227)
Group transfers	-	(353)	(353)
At 31 December 2021	**262**	**48,223**	**48,485**
Net book value			
At 31 December 2021	**58**	**33,594**	**33,652**
At 31 December 2020	84	38,533	38,617

Included within plant, equipment and vehicles are assets held for hire with an accumulated cost of £69,141,000 (2020: £71,167,000) and accumulated depreciation of £38,698,000 (2020: £35,598,000).

Notes to the financial statements *(continued)*

13 Leases

The leases held by the Company can be split into two categories: land and buildings and plant, equipment and vehicles. The Company leases various properties for its manufacturing and distribution activities. Plant, equipment and vehicles include all other leases.

The movements in the carrying value of the right-of-use assets and lease liabilities for the year are as follows:

Right-of-use assets	**Land and buildings**	**Plant, equipment and vehicles**	**Total**
	£000	**£000**	**£000**
At 1 January 2020	4,186	2,526	6,712
Additions	-	457	457
Terminations	(201)	(45)	(246)
Charge for the year	(756)	(858)	(1,614)
Disposed of on hive down of trade and assets	(1,696)	(66)	(1,762)
At 31 December 2020	**1,533**	**2,014**	**3,547**
Additions	5,622	704	6,326
Terminations	-	(14)	(14)
Charge for the year	(662)	(807)	(1,469)
At 31 December 2021	**6,493**	**1,897**	**8,390**

Lease liabilities	**2021**	2020
	£000	£000
Balance at 1 January	**3,954**	7,289
Additions	**6,218**	456
Terminations	**(13)**	(246)
Interest expense	**118**	153
Lease payments	**(1,814)**	(1,843)
Disposed of on hive down of trade and assets	**-**	(1,855)
Balance at 31 December	**8,463**	3,954

Notes to the financial statements *(continued)*

13 Leases *(continued)*

The following table shows the breakdown of the lease expense between amounts charged to operating profit and amounts charged to finance costs:

	2021	2020
	£000	£000
Depreciation of right-of-use assets	1,469	1,614
Sublease income	(114)	(114)
Charged to operating profit	**1,355**	1,500
Interest expense relating to lease liabilities	118	153
Charged to profit before taxation	**1,473**	1,653

The maturity of the lease liabilities at 31 December were as follows:

	2021	2020
	£000	£000
Due within one year	**1,673**	1,277
Due between one and two years	**1,393**	1,169
Due between two and five years	**1,795**	1,386
Due after more than five years	**3,602**	122
Total lease liabilities	**8,463**	3,954

The Company has multiple lease contracts that include a termination option, including four leases which commenced during 2021. Such options are negotiated by management to provide flexibility in managing the leased asset portfolio and align with the Company's business needs. Management exercise judgement in determining whether they are reasonably certain that the termination option will be exercised.

Set out below are the undiscounted potential future rental payments relating to periods that are included in the lease term as the break clauses are not expected to be exercised:

	2021			**2020**		
	Within five years	**More than five years**	**Total**	**Within five years**	**More than five years**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Termination options not expected to be exercised	50	2,096	**2,146**	23	68	91

Notes to the financial statements *(continued)*

14 Investments

	Shares in subsidiary undertakings £000
Cost	
At 1 January 2021	54,613
Additions	13,263
At 31 December 2021	**67,876**
Provisions	
At 1 January 2021 and at 31 December 2021	**9,170**
Net realisable value	
At 31 December 2021	**58,706**
At 31 December 2020	45,443

Investments in subsidiary undertakings as at 31 December 2021 include:

- A 100% holding in the issued share capital of Cobaco Holdings Limited, a holding company incorporated in Great Britain, at cost of £45,394,000 (2020: £45,394,000);
- A 100% holding in the issued share capital of Safety Security Barriers Holdings Limited, a non-trading company incorporated in Great Britain, at a cost of £9,170,000 (2020: £9,170,000). The investment was fully impaired in 2018;
- A 100% holding in the issued share capital of Hardstaff Barriers Limited, a non-trading company incorporated in Great Britain, at a cost of £49,000 (2020: £49,000);
- A 100% holding in the issued share capital of Varley & Gulliver Limited, a trading company incorporated in Great Britain, acquired during the year as part of an internal restructure at a cost of £3,083,000, further details of the shares allotted in consideration of this investment can be found in note 21;
- A 100% holding in the issued share capital of Prolectric Services Limited, a trading company incorporated in Great Britain, acquired during the year at a cost of £10,180,000.

Refer to note 27 for a full list of the Company's subsidiary undertakings.

Notes to the financial statements *(continued)*

15 Stocks

	2021 £000	2020 £000
Raw material and consumables	**804**	625
Work in progress	**113**	118
Finished goods	**5,549**	6,995
	6,466	7,738

The amount of stocks expensed to the profit and loss account in the year was £46,189,000 (2020: £38,173,000).

The value of stocks written down and movement in the stock provision during the year amounted to £37,000 (2020: £32,000).

16 Debtors

	2021 £000	2020 £000
Trade debtors	**14,936**	10,702
Amounts owed by group undertakings	**13,818**	12,129
Other tax and social security	**142**	-
Prepayments and accrued income	**758**	1,125
Contract assets	**-**	880
Fair values on derivatives (note 23)	**28**	1
	29,682	24,837

Intercompany loans are unsecured with no fixed repayment date and therefore may not be settled within the next 12 months. Interest is charged at a rate equivalent to the Group's average borrowing rate for the year.

Notes to the financial statements *(continued)*

17 Creditors

Creditors: amounts falling due within one year

	2021	2020
	£000	£000
Trade creditors	**10,379**	6,891
Amounts owed to group undertakings	**36,851**	29,979
Other creditors	**296**	401
Corporation tax	**1,483**	1,586
Other tax and social security	**-**	1,360
Accruals	**2,770**	2,480
Fair values on derivatives (note 23)	**4**	41
Lease liabilities (note 13)	**1,673**	1,277
	53,456	44,015

Intercompany loans are unsecured with no fixed repayment date and therefore may not be settled within the next 12 months. Interest is charged at a rate equivalent to the Group's average borrowing rate for the year.

Creditors: amounts falling due after more than one year

	2021	2020
	£000	£000
Lease liabilities (note 13)	**6,790**	2,677
	6,790	2,677

18 Pension liabilities

The Company is a subsidiary of Hill & Smith Holdings PLC and participates in the Hill & Smith 2016 Pension Scheme, which has sections that provide benefits on both a defined benefit and a defined contribution basis. Details of the Schemes and the most recent actuarial valuation are contained in note 26 to the Group Financial Statements. There are also separate personal pension plans. In line with the Group's stated policy of allocating a share of the cost of the scheme between participating employers of the scheme based on the employing entity of the participating employees of the scheme, the Company has recognised 37% (2020: 37%) of the deficit of the scheme.

The pension cost for the year represents contributions payable by the company to the fund and amounted to £339,000 (2020: £639,000), including an amount of £nil (2020: £147,000) in relation to past service cost.

Notes to the financial statements *(continued)*

19 Deferred tax liability

Details of amounts provided for deferred taxation follow:

	2021	2020
	£000	£000
Capital allowances in excess of depreciation	**3,116**	2,091
Short term timing differences	**(329)**	(160)
Intangible assets	**77**	68
Pensions	**(94)**	(980)
Right-of-use assets	**(707)**	(108)
Deferred tax liability	**2,063**	911

The movements in deferred taxation during the year are as follows:

	Deferred tax asset related to pension liability	**Deferred tax liability excluding that related to pension liability**	**Total**
	£000	**£000**	**£000**
At 1 January 2021	(914)	1,825	911
Charge for the year	325	1,019	1,344
Movement taken to other comprehensive income	(139)	-	(139)
Movement taken to the Statement of Changes in Equity	-	(53)	(53)
At 31 December 2021	**(728)**	**2,791**	**2,063**

20 Provision for liabilities

	Closure Provision
	£000
At 1 January 2021	-
Charge for the period	1,934
At 31 December 2021	**1,934**

The charge for the period of £1,934,000 represent the costs of closing the variable message sign division hived down during the prior year. The costs are expected to be incurred in 2022 and are principally in respect of remaining contractual obligations. As part of the hive down agreement, VMS Newco Limited are obliged to provide indemnity for all liabilities and therefore the Company has recognised an equal and opposite intercompany receivable due from VMS Newco Limited, offsetting the P&L charge in the year.

Notes to the financial statements *(continued)*

21 Called up share capital

	2021 £000	2020 £000
Allotted, called up and fully paid		
16,000,000 (2020: 14,800,000) ordinary shares of £1 each	**16,000**	14,800

On 29 December 2021 the Company issued 1,200,000 ordinary shares of nominal value £1 for £2.57 per share. This resulted in additional share capital of £1,200,000 and share premium of £1,834,000 being recognised in the statement of changes in equity.

These shares were allotted in consideration for the entire issued share capital of Varley & Gulliver Limited, transferred to the Company from Hill & Smith Holdings PLC. Further details are set out in the Strategic Report on page 1.

Each ordinary share carries equal voting rights and there are no restrictions on any share.

22 Contingent liabilities

The Company is a party to cross guarantees given for bank loans and overdrafts of the ultimate parent company and certain fellow subsidiaries amounting to £146,004,000 (2020: £133,621,000).

The Company has no other guarantees (2020: £nil).

23 Commitments

The Company had capital expenditure contracted but not provided in the Financial Statements at the year-end of £548,000 (2020: £1,078,000).

The total future minimum commitments receivable under non-cancellable operating leases are analysed as follows:

	Other	
	2021 **£000**	2020 £000
Within one year	**4,615**	5,237
Between one and five years	**1,123**	667
	5,738	5,904

The Company receives annual sublease income of £114,000 (2020: £114,000) from a fellow Group company, Joseph Ash Limited. This is charged on an arm's length basis. The intercompany agreement is informal and cancellable at any time.

At the year end, the Company was committed to buy US Dollars, Euros, and Swedish Krona, and sell Euros and Australian Dollars, through forward contracts which mature in 2022. The Company has included these derivatives in its results for the year (see notes 16 and 17).

Notes to the financial statements *(continued)*

24 Dividends

	2021 £000	2020 £000
Aggregate amount of dividends paid in the financial year: 78.1 pence per share (2020: 47.3 pence per share)	**12,500**	7,000

25 Share-based payments

Employees of the Company have been granted various options in the ultimate parent company, which have given rise to charges related to the implied share-based payments, the details of which can be found in the Financial Statements of Hill & Smith Holdings PLC

The total expense recognised for the period arising from share based payments is as follows:

	2021 £000	2020 £000
Expensed during the year	**91**	123

26 Related party transactions

As an ultimately wholly owned subsidiary of Hill & Smith Holdings PLC, the Company has taken advantage of the exemption available under FRS 101 not to disclose transactions that have been made between the Company and other fellow subsidiaries of Hill & Smith Holdings PLC.

Notes to the financial statements *(continued)*

27 Subsidiaries

Incorporated in the UK
Asset International Limited (formerly Royston Steel Fencing Limited) (D) *
Variable Message Signs Limited (D) *
Safety & Security Barrier Holdings Limited *
Hardstaff Barriers Limited
Cobaco Holdings Limited *
Cobaco Limited
ATG Access Limited
Barkers Engineering Limited
AAJG Holdings Limited
Parking Facilities Limited
VMS Newco Limited*
Prolectric Services Limited*
Forgen Renewables Limited (D)
Varley & Gulliver Limited*
(D) – Dormant Company ** Directly held by Hill & Smith Limited*

The listed subsidiaries have a year-end date of 31 December. The results of all of the listed subsidiaries are included in the consolidated results of Hill & Smith Holdings PLC, the Company's ultimate parent undertaking. The Company holds 100% of the share capital of the businesses, either directly or indirectly.

The registered office address of all of the UK subsidiaries is the same as the ultimate parent detailed in note 28.

The following transactions took place during the year:

- On 1 March 2021 the Company acquired 100% of the issued share capital of Prolectric Services Limited and its dormant subsidiary, for cash consideration of £11,954,000.
- On 15 June 2021, the Group disposed of 100% of the issued share capital of Technocover Limited (formerly a direct investment of ATG Access Limited), meaning the Company no longer holds an indirect investment in Technocover Limited.
- On 31 December 2021, the Company purchased 100% of the issued share capital in Varley & Gulliver Limited from Hill & Smith Holdings PLC in exchange for a further issuance of shares in the Company.

28 Ultimate parent company and controlling party

The immediate and ultimate parent and controlling party of the Company is Hill & Smith Holdings PLC, a company registered in England. Copies of the Group Financial Statements may be obtained from Group headquarters:

Westhaven House
Arleston Way
Shirley
Solihull
B90 4LH

29 Post Balance Sheet events

On 1 January 2022 the trade and certain assets of Varley & Gulliver Limited were hived up into the Company. This process completed with the remaining assets, predominantly the leasehold land and buildings, novating over to the Company by 10 March 2022.

There were no other significant post balance sheet events.