



METNOR
GROUP PLC

2006

ANNUAL REPORT & ACCOUNTS





Morton Palms Phase 2 Office Development, Darlington.
Design and Build of 13 two-storey office blocks and a three-storey office.



Oxford Castle Malmaison Hotel, Oxford. Supply and installation of
Mechanical, Public Health and Electrical Services.

Contents

Financial highlights	1
Directors, secretary and advisers	2
Chairman's statement	3
Chief Executive's report	4
Directors' report	6
Statement of directors' responsibilities in respect of the directors' report and the financial statements	12
Independent auditors' report to the members of Metnor Group plc	13
Consolidated profit and loss account	14
Consolidated balance sheet	15
Company balance sheet	16
Consolidated cash flow statement	17
Reconciliation of movements in shareholders' funds	18
Notes	19
Notice of Annual General Meeting	43
Shareholder information	46

Metnor Group plc

Annual report and consolidated financial statements

31 December 2006

Financial highlights

	Increase/ (Decrease)	2006 £000	2005 £000
Group turnover	(5%)	74,530	78,866
Total operating profit	39%	5,731	4,124
Profit on ordinary activities before taxation	132%	10,272	4,437
Adjusted profit before taxation*	31%	6,665	5,072
Shareholders' funds	35%	<u>30,902</u>	<u>22,891</u>
Basic earnings per share			
– on continuing operations	33%	27.1p	20.3p
– on discontinued operations		32.6p	0.1p
	193%	<u>59.7p</u>	<u>20.4p</u>
Diluted earnings per share			
– on continuing operations	32%	26.6p	20.2p
– on discontinued operations		32.1p	0.1p
	189%	<u>58.7p</u>	<u>20.3p</u>
Dividend per share	7%	<u>10.1p</u>	<u>9.4p</u>

*Adjusted profit before taxation is arrived at after adding back goodwill amortisation and exceptional costs to, and deducting profit on sale of discontinued operations from, the profit on ordinary activities before taxation.

Directors, Secretary and Advisers

Directors

Chairman	HB Gold*
Non-Executive Director	NS Little*
Chief Executive	S Rankin
Finance Director	KA Atkinson
Director	RJ Pratt
Director	A Greenwell
Director	EJK Parkinson

*Non-executive director and member of the Audit and Remuneration Committees.

Registered and head office

Metnor House
Mylord Crescent
Killingworth
Tyne & Wear
NE12 5YD

Company secretary

KA Atkinson

Nominated stock broker and adviser

Teather & Greenwood Limited
Beaufort House
15 St Botolph Street
London
EC3A 7QR

Independent auditors

KPMG Audit Plc
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

Solicitors

Mincoffs
5 Osborne Terrace
Jesmond
Newcastle upon Tyne
NE2 1SQ

Registrars

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0LA

Chairman's statement

Results

I am delighted to present a record set of results for the Group with profit on ordinary activities before tax of £10.3 million boosted by the significant profit arising from the sale of the Group's galvanizing operations in October 2006.

Excluding the profit on this disposal of £4.2 million and the amortisation of goodwill of £0.6 million (2005: £0.4 million), the Group generated a profit of £6.7 million which was 31% ahead of comparable results in 2005 (£5.1 million). Basic earnings per share of 59.7p were 193% ahead of 2005 (20.4p) whilst earnings per share from continuing operations of 27.1p were 33% ahead of last year (20.3p).

The disposal of our galvanizing operations and the sale of a development site in Poole in December 2006 helped boost our cash reserves to a year end gross cash balance of £13.8 million (2005: £4.4 million). Net of bank loans of £6.2 million (2005: £6.8 million) which have been drawn down to fund the purchase of various development sites, the Group's net cash reserves have increased by £10.0 million.

A more detailed review of operations in each division is given in the Chief Executive's report which follows this statement.

Dividend

Based on these excellent results the Board is proposing an increase in the final dividend to 7.5p per ordinary share (2005: 7.0p) and, if approved at the forthcoming Annual General Meeting, this will be paid on 8 June 2007 to those shareholders on the register on 11 May 2007. Together with the interim dividend of 2.6p paid in November 2006 this gives a dividend for the year of 10.1p per share (2005: 9.4p).

The Board

We continue to strengthen our Board and on 19 October 2006, Nigel Little was appointed to the main Board as Senior Non Executive Director. Nigel is President at Canaccord Adams Limited and brings with him over 30 years of experience of working in the City. Nigel's appointment will strengthen the Board's experience and skill set as the Group continues to grow.

Employees

Once again, I would like to express the thanks of the Board to all employees without whom the successes in the year would not have been possible.

The Future

The disposal of Metnor Galvanizing leaves the Group with a strong property-based focus as explained in the Chief Executive's report and, as we enter a new era in the Group's development, we look forward to the challenges and opportunities this will bring.

HB Gold

Chairman

16 April 2007

The Group's results and performance in 2006 were dominated by the successful disposal of our galvanizing operations on 31 October 2006. The sale of Metnor Galvanizing Limited and the associated land and buildings from which it operated generated an exceptional profit of £4.2 million but perhaps more significantly, marked the final stage of a three year transition during which the directors have refocused the Group's activities away from its historical engineering roots towards a more property based business.

The new group of companies assembled over this transitional period deal in property related activities which include construction, building services and property development. Whilst operating in the general property market as a whole, these activities are geared specifically towards providing turn-key property solutions within the fast growing healthcare and student residential sectors - a strategy which has involved working closely with the key players in both sectors to identify and acquire development sites.

We are particularly encouraged by the use of our closed end timber frame method of construction which greatly enhances the speed of build and which equally importantly is an environmentally friendly method of construction. We have already built five care homes using this product and are now adapting it to other sectors.

Using the strength of the Group's balance sheet combined with the proceeds from the sale of Metnor Galvanizing, we have been able to build up an interest in a number of strategic development sites which we intend to develop over the next two to three years. This will inevitably expose the Group to new challenges the most significant of which will be our exposure to the planning process and the issues and delays which are a characteristic of the property market.

We will not be immune from these and have indeed already been refused planning consent for a proposed development site in Poole. Though unexpected this demonstrates one of the initial obstacles to any property business. We believe, however, that we have assembled a team of people who have the skills and expertise to overcome such difficulties as well as a strong pipeline of properties which will diversify risk over time. We therefore remain confident of our ability to succeed in our long term goal of delivering increased profits and enhanced returns to our shareholders.

Putting aside the strategic developments which have occurred in 2006, it is pleasing to note that all of the Group's core divisions have traded well in the year. Set out below is a brief summary of their individual performances over the year.

Property Division

During the year the Group successfully disposed of a major residential development site in Poole which was owned by the Group's subsidiary undertaking Poole Hotels Limited. This site had been acquired in 2003 but given its scale and location, it was felt that the development of the site was more suited to a specialist residential developer and the site was sold on for £19 million in December 2006.

A number of sites acquired in previous years are now at an advanced stage in the planning process and it is anticipated that work will commence on at least two of these in 2007. The sites in question have an estimated Gross Development Value in excess of £75 million and are long term projects scheduled to complete in 2008 and 2009.

In addition the Group has invested in further sites which will be developed over the next few years and which will act as a pipeline for future growth. These sites have a development potential in excess of £100 million.

At the end of the year, the Group had approximately £15 million invested in development sites.

Contracting Division

Norstead, our core Mechanical and Electrical contracting business, has had a busy year completing in excess of 30 major contracts, turning over a gross £36 million (including inter-group sales) – 2005: £35 million.

The biggest contributor to turnover this year has been our Maidenhead office where we have carried out a number of large contracts, a number of which were individually valued at more than £2 million, for a variety of clients in the retail and educational sectors.

Contracting Division *(continued)*

Our other offices in Newcastle and Glasgow, whilst busy in terms of the numbers of contracts completed, generally undertook smaller sized projects typically averaging up to £750,000 per contract. Newcastle has been particularly busy in the retail sector carrying out repeat work for a number of blue chip clients such as IKEA whilst Glasgow has been working for a mix of commercial and retail based clients.

For 2007, we are in the enviable position of already having secured in excess of £45 million worth of work, which is unusual, given the size and nature of the contracts we undertake, but which augurs well for the current year.

Construction Division

Our construction division had a turnover of £28 million (2005: £25 million) and completed 12 major contracts in the year. As previously reported, we do not tend to operate in the general construction market which is characterised by high volume/low margin business. Instead, we try to focus on niche areas where our extensive project management skills give us competitive advantage and deliver value-added services to our customers.

We have continued to promote our high quality timber frame method of construction delivering in excess of £12 million of projects. Sectors to which this product is particularly suited are the healthcare and hospitality industries both of which we are active in.

On the traditional construction side, we completed two large scale office developments in the year and are presently working on a number of high profile projects including work on Watford Football Club's stadium and construction of a new hotel for the Malmaison Group.

Order intake is well ahead of the same period last year and we look forward to another good year from our construction division.

Other activities

With the disposal of our galvanizing operation, the Group's other activities comprise our specialist equipment rental division in Great Yarmouth. Whilst not classed as a core activity, this operation is nonetheless an important part of the Group and continues to trade extremely well in the offshore oil services market. The buoyant oil price in 2006 helped towards a record year for this division and the introduction of new products coupled with strong International sales give the Board great confidence in the expected outcome for 2007.

The Future

After some three years in planning and execution, the Group is soon to embark on the delivery stage of its property development programme. Metnor Property has assembled an exciting pipeline of projects which the Directors anticipate will add a significant new revenue stream whilst providing construction and service contracts to the rest of the Group.

We will continue to seek new development opportunities in our chosen sectors of healthcare and student residential where we believe both the age demographic and Government spending will sustain demand.

Overall the Directors are positive with regard to current trading and optimistic about the prospects for the business.

S Rankin

Chief Executive

16 April 2007

The directors present their directors' report and financial statements for the year ended 31 December 2006.

Principal activities

The principal activities of the Group are that of property development, construction and the provision of mechanical and electrical contracting services. The Group also supplies specialist hosing and pressure testing to the offshore industry through its subsidiary undertaking Metnor (Great Yarmouth) Limited.

Business review

The results for the year are set out in detail in the consolidated profit and loss account on page 14. A review of the Group's performance during the year and the 2006 balance sheet position is included in the Chairman's statement and Chief Executive's report set out on pages 3–5.

General business environment

The Group operates primarily as a multi disciplined developer/contractor offering complete turnkey packages to its clients and as such is involved in the general construction, contracting and property markets.

The construction and contracting markets are notoriously competitive and the general construction sector is particularly characterised by high volume/low margin contracts with control of costs being of paramount importance.

The Group's approach to these challenges is to focus on niche markets where quality and the ability to deliver on time are equally as important as the cost of the job. The Group also aims to develop long term relationships with its key clients in order to ensure it is well placed to receive repeat orders to ensure continuity of work.

The Group controls costs through a centralised monitoring system which is operated via a limited number of regional offices strategically placed around the country. These offices in Maidenhead, Glasgow, London and Newcastle enable the Group to operate on a national basis whilst retaining strong regional control.

The dynamics of the general property market vary from region to region and the Group concentrates its operations in its North East heartland where the team understand the requirements and the dynamics of the local market. Ventures further afield are looked at but would only be undertaken in partnership with a like minded developer in the local market concerned.

Within the property market, the Group has targeted sectors of the economy where it sees long term demand and has identified education (where demand is being driven by the government's commitment to higher education) and healthcare (which is driven by the demographics of an ageing population) as key sectors.

Strategy

The Group's strategy is to deliver sustained growth and enhanced returns to shareholders in the medium to long term and this will be driven by the Group's property activities as follows:

- development of the existing pipeline of development sites;
- investing in further development sites to ensure sustained growth over the longer term;
- expansion of the contracting and construction businesses in their specialist areas working alongside established partners.

The Group has already acquired development sites with a potential Gross Development Value in excess of £175 million. Planning permission has been granted on several of these sites and the Group is actively working with local authorities to obtain the requisite planning on remaining sites.

Strategy (continued)

In education, the Group is about to start work on a 450 bedroom student accommodation complex which it anticipates completing in 2009. In health, the Group has already built 5 care homes and a health centre and two further sites are in development.

In the health sector in particular, the Group is constructing sites using its closed panel timber frame construction technique which is particularly suited to this sector. The product is environmentally friendly as it is manufactured from sustainable resources and it also offers enhanced thermal properties which significantly reduces ongoing energy costs. In 2006, almost 45% of the Group's construction activities used this method of construction.

Principal risks and uncertainties

In common with all businesses, the Group faces the risk of competition in its market place and its approach to this risk is set out above in the general business environment section of this report. In addition, the principal specific risks facing the Group can be summarised as follows:

Property

Land availability – Land is generally in short supply and the inability to acquire development sites at satisfactory prices may impinge on the Group's future long term success. The Group's property team work closely with local authorities to help identify brownfield sites available for development to mitigate this risk.

Planning process – Planning is an increasingly complex and time consuming process and delays in obtaining planning permission for development sites may slow down the Group's rate of growth. Close liaison with local authorities to understand their needs helps the Group to tailor its planning proposals to local requirements to help minimise delays in the process.

Construction and contracting

Employees – The Group's performance depends on its ability to maintain a skilled and motivated workforce across its activities. The Group provides training to all of its site based employees and tailors training to their particular needs as well as to the ever changing needs of the industry.

Health & Safety – Failure to maintain procedures which mitigate the inherent dangers in the construction industry could have a detrimental effect on the Group's ability to continue in the future. The Group places a heavy emphasis on health and safety and as well as its own in house procedures, the Group employs external consultants to visit all of its sites and to report independently on health and safety issues. In total, 184 health and safety visits were made to sites in 2006.

Health & Safety is monitored by reference to Notifiable Accidents and under the Health & Safety Legislation, only 2 such incidents occurred in 2006 (2005: 2).

Financial instruments and financial risk management

The Group finances its operations through a mixture of retained earnings and bank borrowings. Its principal financial instruments comprise bank loans, overdrafts, cash and investments in joint ventures.

The Group's other financial instruments arise from its day to day operations and comprise primarily of short term debtors and creditors.

Further details of the Group's financial instruments are given in note 32 to the financial statements and the directors consider the principal risks associated with the Group's financial instruments to be interest rate risk and liquidity risk. The Group does not have an exposure to foreign currency risks as all of its activities are undertaken in the UK and all of its financial instruments are denominated in sterling.

The risks associated with the Group's financial instruments are managed as follows:

(i) Interest Rate Risk

The Group's borrowings comprise bank loans and overdraft facilities all of which bear interest at floating rates based on the lender's base rate. The Group then uses interest rate swaps to manage its exposure to interest rate fluctuations. At the year end the Group had entered into one interest rate swap for a notional principal amount of £10 million. The swap is for a period of 3 years ending November 2008 and fixes the base rate at 4.95%.

(ii) Liquidity Risk

The Group maintains a mixture of medium and short term committed facilities that are designed to ensure the Group has sufficient funds available to finance its operations. At the year end the Group had a £10 million revolving credit facility available of which £6.2 million had been drawn down. The facility matures in November 2008. In addition the Group has a £2.5 million overdraft facility which is undrawn.

Subsequent to the year end the Group has increased its revolving credit facility to £15 million and extended the facility to November 2009.

Proposed dividend

The directors have proposed a final ordinary dividend of 7.5 pence per share (2005: 7.0 pence) which together with the interim dividend paid of 2.6 pence per share (2005: 2.4 pence) gives a total dividend for the year of 10.1 pence per share (2005: 9.4 pence).

The final proposed dividend has not been accounted for in these financial statements as the dividend was not approved before the year end. Subject to approval at the forthcoming Annual General Meeting, the final dividend will be payable on 8 June 2007 to those shareholders on the register on 11 May 2007.

Directors and directors' interests

The directors who held office during the year were as follows:

HB Gold
 NS Little (appointed 19 October 2006)
 S Rankin
 KA Atkinson
 D Pinkerton (resigned 1 November 2006)
 RJ Pratt
 A Greenwell
 EJK Parkinson

The directors who held office at the end of the financial year had the following interests in the ordinary shares of the company, according to the register of directors' interests:

	Ordinary shares of 1p each	
	Interest at end of year	Interest at start of year
HB Gold	61,285	61,285
S Rankin	5,686,301	4,080,559
KA Atkinson	14,531	6,000
RJ Pratt	105,000	105,000
A Greenwell	87,000	57,000
EJK Parkinson	15,000	15,000

None of the other directors who held office at the end of the financial year had any disclosable interest in the shares of the company.

Directors and directors' interests (continued)

According to the register of directors' interests, no rights to subscribe for shares in or debentures of Group companies were granted to any of the directors or their immediate families, or exercised by them, during the financial year except as indicated below:

	1 January 2006	Granted during year	Exercised during year	31 December 2006	Exercise price (pence)	Date from which exercisable	Expiry date
RJ Pratt	100,000	–	(6,000)	94,000	197.8	13 October 2003	13 October 2010
	14,285	–	–	14,285	210.0	15 April 2008	15 April 2015
A Greenwell	30,000	–	(30,000)	–	113.5	13 October 2003	13 October 2010
	42,000	–	–	42,000	235.0	26 June 2004	26 June 2011
	14,285	–	–	14,285	210.0	15 April 2008	15 April 2015
	–	150,000	–	*150,000	232.5	7 February 2009	7 February 2016
KA Atkinson	76,531	–	(8,531)	68,000	196.0	3 October 2004	3 October 2011
	14,285	–	–	14,285	210.0	15 April 2008	15 April 2015
	–	300,000	–	*300,000	232.5	7 February 2009	7 February 2016
EJK Parkinson	14,285	–	–	14,285	210.0	15 April 2008	15 April 2015
	–	350,000	–	*350,000	232.5	7 February 2009	7 February 2016

* These share options are subject to performance conditions and are only exercisable in full if the company's EPS grows by a factor of RPI plus 5% in each of the three years following issue of the options or cumulatively by RPI plus 16% over the three year period. If the EPS growth is less than 3% per annum above RPI then none of the shares can be exercised. A sliding scale operates for growth in EPS between 3% and 5% above RPI.

The mid market price of the company's shares at 31 December 2006 was 342.5p and the range during the year was 210.0p to 354.0p.

The market price of the company's ordinary shares on the dates on which the directors exercised their options during 2006 was as follows:

	Number	Exercise date	Market price	Option price
RJ Pratt	6,000	29 September 2006	315.0p	197.8p
A Greenwell	30,000	29 September 2006	315.0p	113.5p
KA Atkinson	8,531	29 September 2006	315.0p	196.0p

There have been no changes in the directors' shareholdings or options since 31 December 2006.

Major shareholdings

As at 16 April 2007 the company had been notified or was aware of the following shareholdings with 3% or more of the issued share capital of the company:

	Ordinary shares of 1p each	
	Number	Percentage
S Rankin	5,686,301	37.0%
H Rankin	1,888,351	12.2%
Goldman Sachs International	1,067,593	7.0%
Gartmore Investment Limited	840,000	5.4%
Lehman Brothers International (Europe)	570,000	3.7%

Employees

The Group provides equal opportunities to all staff and employees and recruits the most suitably qualified person for each position. Full and fair consideration is given to applications for employment from disabled persons.

The directors have always recognised the importance of good communications and have continued to inform and consult with employees' representatives on all matters likely to affect them. A briefing group mechanism exists to enable information to be disseminated to all employees.

Market value of land and buildings

The directors consider that the market value of the land and buildings is not materially different to the book values of those assets.

Policy and practice on payment of creditors

It is the Group's policy to pay suppliers in accordance with terms and conditions agreed prior to the commencement of trading, provided that the supplier has met its contractual obligations. The Group does not follow any standard code of practice for payment of suppliers. At the year end creditor days were 49 (2005: 42) for the Group and 71 (2005: 56) for the company.

International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2007 the consolidated financial statements for the Group must be prepared under International Financial Reporting Standards ("IFRSs") as opposed to UK GAAP. The actual impact on the financial statements will depend on the standards prevailing at the date of adoption of IFRSs.

UK GAAP has been converging towards IFRSs in recent years and following the adoption of FRS 20 (Share-based Payments) in 2006 and FRS 21 (Events after the balance sheet date) in 2005, some of the adjustments to the Group's results which would have arisen from adoption of IFRSs have now been included in the financial statements.

An exercise to establish the final impact of adopting IFRSs is well advanced and will be incorporated into the Group's half year results to 30 June 2007.

Corporate governance

The directors recognise the value of the revised Combined Code issued in July 2003.

The company, whilst not bound by the Combined Code, seeks to comply with the code so far as is practicable and appropriate for a public company of its size. The company also seeks to follow the recommendations on corporate governance of the Quoted Companies Alliance (QCA).

The board has established an audit committee and a remuneration committee, each of which comprises the non-executive directors with formally delegated duties and responsibilities.

The audit committee receives and reviews reports from the company's auditors relating to the annual and interim accounts and the accounting and internal control systems in use throughout the Group. The audit committee has unrestricted access to the company's auditors.

The remuneration committee reviews the scale and structure of the executive directors' remuneration and the terms of their service contracts. The remuneration and terms and conditions of appointment of the non-executive directors are set by the board. The remuneration committee also administers the Group's share option schemes.

Political and charitable contributions

The Group made no political contributions during the year. Donations to UK charities amounted to £9,100 (2005: £500).

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Annual General Meeting

The business to be transacted at the Annual General Meeting is set out in the notice of meeting at the back of this report. Resolutions 1–8 relate to ordinary business and resolutions 9–10 relate to special business.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the reappointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

KA Atkinson

Secretary

Metnor House
Mylord Crescent
Killingworth
Tyne & Wear
NE12 5YD

16 April 2007

Statement of directors' responsibilities

in respect of the directors' report and the financial statements

The directors are responsible for preparing 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).

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable 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 group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

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

We have audited the group and parent company financial statements (the "financial statements") of Metnor Group plc for the year ended 31 December 2006 which comprise the Consolidated profit and loss account, the Consolidated and Company balance sheets, the Consolidated cash flow statement, the Reconciliation of movements in shareholders' funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 12.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion, the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's statement and Chief Executive's report that is cross referenced from the Business review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2006 and of the group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

Chartered Accountants and Registered Auditor

Quayside House, 110 Quayside, Newcastle upon Tyne, NE1 3DX

16 April 2007

Consolidated profit and loss account

for the year ended 31 December 2006

	Note	2006 £000	2005 £000
Turnover: Group and share of joint ventures	2	78,315	79,980
Less: share of joint ventures' turnover		(3,785)	(1,114)
Group turnover	2,3	74,530	78,866
Continuing operations		67,337	71,495
Discontinued operations		7,193	7,371
Cost of sales		(62,311)	(66,752)
Gross profit		12,219	12,114
Administrative expenses – non exceptional		(8,825)	(7,883)
– exceptional	4	–	(281)
Other operating income	19	2,250	–
Group operating profit	2,3	5,644	3,950
Continuing operations		4,318	3,932
Discontinued operations		1,326	18
Share of operating profit in joint ventures		87	174
Total operating profit	2	5,731	4,124
Profit on sale of a Group discontinued operation	33	4,252	–
Other interest receivable and similar income – Group	8	721	313
Interest payable and similar charges – Group	9	(432)	–
Profit on ordinary activities before taxation	5–7	10,272	4,437
Tax on profit on ordinary activities	10	(1,135)	(1,330)
Profit on ordinary activities after taxation		9,137	3,107
Minority interests		–	14
Profit for the financial year	24	9,137	3,121
Basic earnings per share			
Continuing operations		27.1p	20.3p
Discontinued operations		32.6p	0.1p
	13	59.7p	20.4p
Diluted earnings per share			
Continuing operations		26.6p	20.2p
Discontinued operations		32.1p	0.1p
	13	58.7p	20.3p

The Group has no recognised gains or losses other than those shown above and therefore no separate statement of total gains and losses has been presented.

Consolidated balance sheet

at 31 December 2006

	Note	2006		2005	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	14		3,587		4,232
Tangible assets	15		3,169		3,201
Investments					
Investments in joint ventures:					
Share of gross assets		3,221		3,481	
Share of gross liabilities		(3,120)		(3,464)	
		101		17	
Other investments		1,389		1,770	
Total investments	16		1,490		1,787
			8,246		9,220
Current assets					
Stocks	17	15,960		4,772	
Debtors	18	17,675		22,181	
Investments	19	-		3,341	
Cash at bank, on deposit and in hand		13,808		4,363	
		47,443		34,657	
Creditors: amounts falling due within one year	20	(18,629)		(14,201)	
Net current assets			28,814		20,456
Total assets less current liabilities			37,060		29,676
Creditors: amounts falling due after more than one year	21		(6,158)		(6,750)
Provisions for liabilities	22		-		(35)
Net assets			30,902		22,891
Capital and reserves					
Called up share capital	23		154		153
Share premium account	24		2,624		2,514
Merger reserve	24		2,477		2,377
Profit and loss account	24		25,647		17,847
Shareholders' funds			30,902		22,891

These financial statements were approved by the board of directors on 16 April 2007 and were signed on its behalf by:

S Rankin
Chief Executive

KA Atkinson
Finance Director

Company balance sheet

at 31 December 2006

	Note	2006		2005	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	14		3,587		3,875
Tangible assets	15		2,272		473
Investments	16		2,622		3,101
			8,481		7,449
Current assets					
Stocks	17		-	1,948	
Debtors	18		22,699	15,887	
Cash at bank, on deposit and in hand			12,028	2,513	
			34,727	20,348	
Creditors: amounts falling due within one year	20		(15,207)	(10,549)	
Net current assets			19,520		9,799
Net assets			28,001		17,248
Capital and reserves					
Called up share capital	23		154		153
Share premium account	24		2,624		2,514
Merger reserve	24		2,477		2,477
Profit and loss account	24		22,746		12,104
Shareholders' funds			28,001		17,248

These financial statements were approved by the board of directors on 16 April 2007 and were signed on its behalf by:

S Rankin
Chief Executive

KA Atkinson
Finance Director

Consolidated cash flow statement

for the year ended 31 December 2006

	Note	2006		2005	
		£000	£000	£000	£000
Cash outflow from operating activities	29		(2,122)		(839)
Returns on investments and servicing of finance					
Bank interest received		162		139	
Interest received on loans to joint ventures		-		399	
Net cash inflow from returns on investments and servicing of finance			162		538
Taxation			(1,156)		(879)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(2,899)		(1,324)	
Sale of tangible fixed assets		72		718	
Loan repaid by/(advanced to) group undertakings	34	6,750		(6,750)	
Loans repaid by joint ventures		468		3,388	
Short term investment		3,341		(1,078)	
Net cash inflow/(outflow) from capital expenditure and financial investment			7,732		(5,046)
Acquisitions and disposals					
Disposal of subsidiary undertaking	33	6,779		-	
Purchase of subsidiary undertakings		-		(242)	
Net cash inflow/(outflow) from acquisitions and disposals			6,779		(242)
Dividends paid on shares classified in shareholders' funds	11		(1,469)		(1,361)
Cash inflow/(outflow) before management of liquid resources and financing			9,926		(7,829)
Management of liquid resources			-		145
Financing					
New bank loan		6,158		6,750	
Repayment of bank loan		(6,750)		-	
New shares issued		111		-	
Net cash (outflow)/inflow from financing			(481)		6,750
Increase/(decrease) in cash in the year	30		9,445		(934)

Reconciliation of movements in shareholders' funds

for the year ended 31 December 2006

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Profit for the financial year	9,137	3,121	11,879	7,052
Dividends on shares classified in shareholders' funds	(1,469)	(1,361)	(1,469)	(1,361)
Retained profit	7,668	1,760	10,410	5,691
Credit in relation to share based payments	232	–	232	–
New share capital subscribed	111	–	111	–
Net addition to shareholders' funds	8,011	1,760	10,753	5,691
Opening shareholders' funds	22,891	21,131	17,248	11,557
Closing shareholders' funds	30,902	22,891	28,001	17,248

1 Accounting policies

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

In these financial statements FRS 20 'Share based payments' has been adopted for the first time. The adoption of FRS 20 represents a change in accounting policy. As explained in note 28, the effect on the prior year is not material and accordingly no changes have been made to the comparative figures. Full details of the impact of the adoption of this standard are set out in note 28 to these financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 December 2006, with the exception of Lockunit Limited as explained in note 19. Business combinations are either acquisition or merger accounted depending on the circumstances of the business combination. Under the merger method the results of each company are included for the whole of the financial year. Under the acquisition method the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

A joint venture is an undertaking in which the Group has a long-term interest and over which it exercises joint control. The Group's share of the profits less losses of joint ventures is included in the consolidated profit and loss account and its interest in their net assets, other than goodwill, is included in investments in the consolidated balance sheet.

The company has taken advantage of the exemption contained within FRS 8 and has not disclosed transactions or balances with entities which form part of the Group. Details of the company's subsidiaries are given in note 16.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account, as discussed in note 12.

Goodwill and negative goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life.

Negative goodwill arising on consolidation in respect of acquisitions since 1 January 1998 is included within fixed assets and released to the profit and loss account in the periods in which the fair values of the non-monetary assets purchased on the same acquisition are recovered, whether through depreciation or sale.

On the subsequent disposal or termination of a business acquired since 1 January 1998, the profit or loss on disposal or termination is calculated after charging/(crediting) the unamortised amount of any related goodwill/(negative goodwill).

In the company's financial statements, investments in subsidiary undertakings and joint ventures are stated at cost less amounts written off.

1 Accounting policies (continued)**Tangible fixed assets and depreciation**

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	–	25 years
Plant and machinery	–	10% to 33.33%
Motor vehicles	–	20% to 25%

No depreciation is provided on freehold land.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Government grants

Government grants received in respect of development properties are included within deferred income in the balance sheet and are credited to the profit and loss account when the corresponding property, to which they relate, is sold.

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Post-retirement benefits

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Stocks and work in progress

Trading and development properties are included in stock at the lower of cost and net realisable value. Cost includes all fees and expenses relating to the purchase of the property and all attributable finance costs. Net realisable value is based on estimated selling price less future costs expected to be incurred to disposal.

Other stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials and consumables, the weighted average purchase price is used. For finished goods the cost is taken as the production cost, which includes an appropriate proportion of attributable overheads.

1 Accounting policies *(continued)***Long term contracts**

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

Contract work in progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Classification of financial instruments issued by the Group

Financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company (or Group); and
- b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy. The finance cost on the financial liability component is correspondingly higher over the life of the instrument.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

1 Accounting policies *(continued)***Turnover**

Turnover represents the amounts (excluding value added tax) from the provision of goods and services derived in the UK from the principal activities of the Group. In respect of long term contracts, turnover is stated at cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years.

Share based payments

The share option programme allows employees to acquire shares of the company. The fair value of options granted after 7 November 2002 and those not yet vested as at 1 January 2006 is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where variations are due only to share prices not achieving the threshold for vesting.

For cash-settled share based payment transactions, the fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities. The fair value is remeasured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value is measured based on an option pricing model taking in to account the terms and conditions upon which the instruments were granted. The liability is revalued at each balance sheet date and settlement date with any changes to fair value being recognised in the profit and loss account.

Fair value of share options is measured by using a binomial pricing model.

Financial instruments

The Group uses derivative financial instruments to manage its exposure to fluctuations in interest rates. These comprise interest rate swaps which are used to manage the balance between fixed and floating interest rates on bank debt. Amounts payable or receivable in respect of these derivatives are recognised as adjustments to interest expense over the period of the contract. Changes in the derivatives' fair value are not recognised.

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

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash).

2 Segmental information

All of the Group's activities are carried out entirely in the United Kingdom. The table below sets out information for each of the Group's industry segments. This has been restated to reflect the changing nature of the Group's activities.

	2006			2005 (As restated)		
	Turnover £000	Operating profit £000	Net assets £000	Turnover £000	Operating profit £000	Net assets £000
Continuing operations:						
Contracting activities	33,474	1,378	6,609	34,953	1,897	6,105
Construction activities	27,639	1,187	1,775	24,612	1,000	1,724
Property development and investment activities	1,325	2,410	11,056	9,757	1,323	10,713
All other activities	4,899	833	1,553	2,173	739	1,652
Central costs and assets	–	(1,490)	9,808	–	(1,027)	719
	67,337	4,318	30,801	71,495	3,932	20,913
Discontinued operations:						
Galvanizing activities	7,193	1,326	–	7,371	18	1,961
Group	74,530	5,644	30,801	78,866	3,950	22,874
Share of Joint Ventures – property development	3,785	87	101	1,114	174	17
Total	78,315	5,731	30,902	79,980	4,124	22,891

Reconciliation of total operating profit to profit on ordinary activities before taxation

Total operating profit	5,731	4,124
Profit on sale of a Group discontinued operation	4,252	–
Other interest receivable and similar income	721	313
Interest payable and similar charges	(432)	–
Profit on ordinary activities before taxation	10,272	4,437

3 Analysis of continuing and discontinued operations

	2006			2005		
	Continuing £000	Discontinued £000	Total £000	Continuing £000	Discontinued £000	Total £000
Group turnover	67,337	7,193	74,530	71,495	7,371	78,866
Cost of sales	(57,404)	(4,907)	(62,311)	(61,085)	(5,667)	(66,752)
Gross profit	9,933	2,286	12,219	10,410	1,704	12,114
Administrative expenses	(7,865)	(960)	(8,825)	(6,478)	(1,686)	(8,164)
Other operating income	2,250	–	2,250	–	–	–
Group operating profit	4,318	1,326	5,644	3,932	18	3,950

4 Exceptional item

	2006 £000	2005 £000
Exceptional costs	–	281

During 2005 the Group announced the restructuring of its galvanizing operations which resulted in the closure of its plant in Middlesbrough. The costs associated with the closure of the Middlesbrough plant amounted to £281,000 and were charged as an exceptional cost in 2005.

5 Notes to the profit and loss account

	2006 £000	2005 £000
Profit on ordinary activities before taxation is stated after charging/(crediting)		
Depreciation and other amounts written off tangible fixed assets:		
Owned	738	542
Amortisation of goodwill	645	354
Hire of plant and machinery – rentals payable under operating leases	789	680
Hire of other assets – operating leases	250	151
Profit on sale of fixed assets	(41)	(136)
<i>Auditors' remuneration:</i>		
Audit of these financial statements	30	30
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	27	25
Other services relating to taxation	42	11

Amounts paid to the company's auditor in respect of services to the company, other than the audit of the company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

6 Remuneration of directors

	2006	2005
	£000	£000
Directors' emoluments	1,460	911
Company contributions to money purchase pension schemes	38	37
	<u>1,498</u>	<u>948</u>
<i>Amounts attributable to highest paid director:</i>		
Emoluments	380	229
Company contributions to money purchase pension schemes	–	–
	<u>–</u>	<u>–</u>
	Number of directors	
	2006	2005
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	<u>4</u>	<u>4</u>

Directors rights to subscribe for shares in the company are indicated below:

	Number of options		Exercise price (pence)
	At start of year	At end of year	
RJ Pratt	100,000	94,000	197.8
	14,285	14,285	210.0
A Greenwell	30,000	–	113.5
	42,000	42,000	235.0
	14,285	14,285	210.0
	–	* 150,000	232.5
KA Atkinson	76,531	68,000	196.0
	14,285	14,285	210.0
	–	* 300,000	232.5
EJK Parkinson	14,285	14,285	210.0
	–	* 350,000	232.5

* These share options are subject to performance conditions and are only exercisable in full if the company's EPS grows by a factor of RPI plus 5% in each of the three years following issue of the options or cumulatively by RPI plus 16% over the three year period. If the EPS growth is less than 3% per annum above RPI then none of the shares can be exercised. A sliding scale operates for growth in EPS between 3% and 5% above RPI.

7 Staff numbers and costs

The average number of persons employed by the group and company (including directors) during the year, analysed by category, was as follows:

	Group		Company	
	Number of employees		Number of employees	
	2006	2005	2006	2005
Production	248	276	60	50
Administration	134	145	106	107
	382	421	166	157

The aggregate payroll costs of these persons were as follows:

	Group		Company	
	2006	2005	2006	2005
	£000	£000	£000	£000
Wages and salaries	12,709	12,487	6,060	5,292
Social security costs	1,344	1,204	649	559
Other pension costs	136	130	75	70
	14,189	13,821	6,784	5,921

8 Other interest receivable and similar income

	2006	2005
	£000	£000
Bank interest	201	137
Interest on loans to joint ventures and short term investments	520	176
	721	313

9 Interest payable and similar charges

	2006	2005
	£000	£000
On bank loans and overdrafts	432	—

10 Taxation*Analysis of charge in period*

	2006	2005
	£000	£000
<i>UK corporation tax</i>		
Current tax on income for the period	1,610	1,322
Adjustments in respect of prior periods	(292)	1
	1,318	1,323
Share of joint ventures' current tax	26	52
Total current tax	1,344	1,375
<i>Deferred tax (see note 22)</i>		
Reversal of timing differences	(209)	(45)
Tax on profit on ordinary activities	1,135	1,330

Factors affecting the tax charge for the current year

The current tax charge for the year is lower (2005: higher) than the standard rate of corporation tax in the UK, 30% (2005: 30%). The differences are explained below.

	2006	2005
	£000	£000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	10,272	4,437
Current tax at 30% (2005: 30%)	3,082	1,331
<i>Effects of:</i>		
Expenses not deductible for tax purposes (primarily goodwill amortisation)	276	120
Non taxable income	(675)	–
Capital allowances for period less than depreciation	140	45
Permanent difference on capital disposals	(1,256)	(122)
Other short term timing differences	69	–
Adjustments to tax charge in respect of previous periods	(292)	1
Total current tax charge (see above)	1,344	1,375

Factors that may affect future current and total tax charges

The current year's tax charge is considerably lower than the standard rate of tax as a result of the items noted above, in particular the non-taxable gain on disposal of the Group's shares in Metnor Galvanizing Limited. It is anticipated that the tax charge in future years will revert back towards the standard rate of corporation tax in the UK.

11 Dividends

The aggregate amount of dividends comprises:

Dividends on ordinary shares	2006	2005
	£000	£000
Final dividends paid in respect of prior year but not recognised as liabilities in that year: 7.0p per share (2005: 6.5p)	1,070	994
Interim dividends paid in respect of the current year: 2.6p per share (2005: 2.4p)	399	367
Aggregate amount of dividends paid in the financial year	<u>1,469</u>	<u>1,361</u>

Subsequent to the year end the Group has proposed a final dividend of 7.5p per share (2005: 7.0p) which, together with the interim dividend of 2.6p per share (2005: 2.4p) gives a total dividend for the year of 10.1p per share (2005: 9.4p).

The aggregate amount of dividends proposed and recognised as liabilities as at the year end is £nil (2005: £nil).

12 Profits of the company

The company has taken advantage of the exemptions available under section 230 of the Companies Act 1985 and has not presented its own profit and loss account. The profit of the company for the year was £11,879,000 (2005: £7,052,000). This profit included dividends received from subsidiary undertakings of £4,990,000 (2005: £6,057,000) which are eliminated on consolidation from the Group profit for the year.

13 Earnings per share

The analysis of earnings per share is as follows:

	2006	2005
Basic earnings per share		
– on continuing operations	27.1p	20.3p
– on discontinued operations	32.6p	0.1p
	<u>59.7p</u>	<u>20.4p</u>
Diluted earnings per share		
– on continuing operations	26.6p	20.2p
– on discontinued operations	32.1p	0.1p
	<u>58.7p</u>	<u>20.3p</u>

Basic earnings per share is calculated by dividing the profit for the year of £9,137,000 (2005: £3,121,000) by the weighted average number of shares, 15,306,702 (2005: 15,286,110) in issue during the year.

Diluted earnings per share is calculated in the same way as basic earnings per share but using a weighted average number of shares in issue of 15,575,886 (2005: 15,376,657) to reflect the dilutive effect of share options in existence at the year end of 269,184 (2005: 90,547) (see note 28).

13 Earnings per share *(continued)*

Basic and diluted earnings per share from continuing operations have been calculated using the same number of shares but after deducting the profit after taxation from discontinued operations as follows:

	2006	2005
	£000	£000
Profit for the year	9,137	3,121
Discontinued trading profit (net of tax)	(936)	(10)
Profit on sale of a Group discontinued operation (net of tax)	(4,053)	–
	<u>4,148</u>	<u>3,111</u>

14 Intangible fixed assets

Group	Positive goodwill	Negative goodwill	Total
	£000	£000	£000
Cost			
At beginning and end of year	<u>6,447</u>	<u>(163)</u>	<u>6,284</u>
Amortisation			
At beginning of year	2,215	(163)	2,052
Charged in year	645	–	645
At end of year	<u>2,860</u>	<u>(163)</u>	<u>2,697</u>
Net book value			
At 31 December 2006	<u>3,587</u>	<u>–</u>	<u>3,587</u>
At 31 December 2005	<u>4,232</u>	<u>–</u>	<u>4,232</u>
Company			
	Positive goodwill	Negative goodwill	Total
	£000	£000	£000
Cost			
At beginning and end of year	<u>5,775</u>	<u>–</u>	<u>5,775</u>
Amortisation			
At beginning of year	1,900	–	1,900
Charged in year	288	–	288
At end of year	<u>2,188</u>	<u>–</u>	<u>2,188</u>
Net book value			
At 31 December 2006	<u>3,587</u>	<u>–</u>	<u>3,587</u>
At 31 December 2005	<u>3,875</u>	<u>–</u>	<u>3,875</u>

The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises. The remaining positive goodwill is being amortised over 20 years on a straight line basis.

15 Tangible fixed assets

Group	Land and buildings £000	Plant and machinery £000	Motor vehicles £000	Total £000
Cost				
At beginning of year	2,718	2,501	1,219	6,438
Additions	1,621	861	417	2,899
Disposals	–	(397)	(201)	(598)
Reclassification*	(733)	–	–	(733)
Disposal of subsidiary undertaking (note 33)	(1,797)	(1,448)	(408)	(3,653)
At end of year	1,809	1,517	1,027	4,353
Depreciation				
At beginning of year	438	2,091	708	3,237
Charge for year	70	419	249	738
On disposals	–	(396)	(171)	(567)
Reclassification*	(24)	–	–	(24)
Disposal of subsidiary undertaking (note 33)	(479)	(1,370)	(351)	(2,200)
At end of year	5	744	435	1,184
Net book value				
At 31 December 2006	1,804	773	592	3,169
At 31 December 2005	2,280	410	511	3,201
The net book value of land and buildings comprises:			2006	2005
			£000	£000
Freehold			1,804	2,280
Long leasehold			–	–
			1,804	2,280

Included above is freehold land of £nil (2005: £493,000) which is not depreciated.

*Certain land and buildings were reclassified during the year as held for development and were transferred to work in progress.

15 Tangible fixed assets (continued)

Company	Freehold Land and buildings £000	Plant and machinery £000	Motor vehicles £000	Total £000
Cost				
At beginning of year	193	239	429	861
Additions	1,362	333	273	1,968
Disposals	–	(46)	(84)	(130)
At end of year	<u>1,555</u>	<u>526</u>	<u>618</u>	<u>2,699</u>
Depreciation				
At beginning of year	–	165	223	388
Charge for year	1	39	120	160
On disposals	–	(46)	(75)	(121)
At end of year	<u>1</u>	<u>158</u>	<u>268</u>	<u>427</u>
Net book value				
At 31 December 2006	<u>1,554</u>	<u>368</u>	<u>350</u>	<u>2,272</u>
At 31 December 2005	<u>193</u>	<u>74</u>	<u>206</u>	<u>473</u>

16 Fixed asset investments

Group	Joint Ventures £000	Loans to Joint Ventures £000	Total £000
Cost			
At beginning of year	–	1,770	1,770
Repayments	–	(381)	(381)
At end of year	<u>–</u>	<u>1,389</u>	<u>1,389</u>
Share of post acquisition reserves			
At beginning of year	17	–	17
Retained profit for the financial year	61	–	61
Movement in unrealised profit on trading with joint ventures	23	–	23
At end of year	<u>101</u>	<u>–</u>	<u>101</u>
Net book value			
At 31 December 2006	<u>101</u>	<u>1,389</u>	<u>1,490</u>
At 31 December 2005	<u>17</u>	<u>1,770</u>	<u>1,787</u>

16 Fixed asset investments (continued)

Company	Joint Ventures £000	Loans to Joint Ventures £000	Shares in Group Undertakings £000	Total £000
Cost and net book value				
At beginning of year	–	1,770	1,331	3,101
Additions	–	–	2	2
Disposals	–	–	(100)	(100)
Repayments	–	(381)	–	(381)
At end of year	–	1,389	1,233	2,622

The principal undertakings in which the Group's interest at the year end is more than 20% are as follows:

	Country of incorporation	Principal activity	Class and percentage of shares held Group	Class and percentage of shares held Company
Subsidiary undertakings				
Metnor Construction Limited	England	Construction	100% Ordinary	100% Ordinary
Metnor Property Group Limited	England	Holding company	100% Ordinary	100% Ordinary
Moortime Limited	England	Group property holding	100% Ordinary	100% Ordinary
Sharewave Limited	England	Property development	100% Ordinary	100% Ordinary
Lockunit Limited	England	Investment holding company	100% Ordinary	100% Ordinary
Gateway Park Limited	England	Property development	100% Ordinary	100% Ordinary
Metnor (Great Yarmouth) Limited	England	Equipment sales and rentals	100% Ordinary	100% Ordinary
Metnor Infrastructure Services Limited	England	Telecommunication networks	85% Ordinary	85% Ordinary
Comms Solutions (UK) Limited	England	Telecommunication networks	85% Ordinary	–
Metnor (Pandon Bank) Limited	England	Property development	100% Ordinary	–
Metnor (Portland Road) Limited	England	Property development	100% Ordinary	–
Metnor (Sopers Lane) Limited	England	Property development	100% Ordinary	–
Metnor Trafalgar Street Limited	England	Property development	100% Ordinary	–
Metnor Stoddart Street Limited	England	Property development	100% Ordinary	–
Radcliffe Plant Limited	England	Property development	100% Ordinary	–
Joint ventures				
City & Northern Drum Limited	England	Property development	50% Ordinary	–
City & Northern MP Limited	Isle of Man	Property development	33% Ordinary	33% Ordinary

In addition to the above the Group has approximately 7 dormant subsidiary undertakings.

All of the subsidiary undertakings noted above, with the exception of Lockunit Limited, have been consolidated in the group financial statements. The financial statements of Lockunit Limited have not been consolidated as it is being held exclusively for resale – see note 19.

16 Fixed asset investments (continued)**Joint ventures**

The amounts included in respect of joint ventures comprise the following:

	2006 £000	2005 £000
Share of turnover of joint ventures	3,785	1,114
Share of assets		
Share of current assets	3,221	3,481
Share of liabilities		
Due within one year	(3,120)	(3,464)
Share of net assets	101	17

17 Stocks

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Land held for development	15,786	4,468	–	1,948
Raw materials and consumables	160	285	–	–
Work in progress	14	19	–	–
	15,960	4,772	–	1,948

Group land held for development includes attributable finance costs capitalised of £20,000 (2005: £nil).

18 Debtors

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Trade debtors	13,401	10,513	8,115	4,824
Amounts recoverable on contracts	2,362	3,289	1,836	2,374
Amounts owed by group undertakings (note 34)	–	6,750	11,074	8,506
Amounts owed by related undertakings (note 34)	104	707	–	9
Corporation tax	–	–	550	–
Deferred tax asset (note 22)	89	–	38	29
Other debtors	1,207	214	959	3
Prepayments and accrued income	512	708	127	142
	17,675	22,181	22,699	15,887

19 Investments (held as current assets)

	Group	
	2006	2005
	£000	£000
Investments held for re-sale	–	3,341

The Group's subsidiary undertaking, Lockunit Limited was included as a current investment as it was being held for re-sale and was therefore not consolidated in the Group financial statements. The Group has been unable to sell the company as originally intended and instead has sold the subsidiary's assets which comprised a development site in Poole. The net proceeds from the disposal have been remitted to the Group by way of a dividend and the intention is to wind up the subsidiary undertaking.

The aggregate amount of the capital and reserves of Lockunit Limited at 31 December 2006 was £675,000 (2005: £52,000). The profit for the period was £2,975,000 (2005: £531,000) and Lockunit paid a dividend of £2,250,000 to Metnor Group plc during the year (2005: £nil). At the year end Metnor Group plc owed Lockunit £3,170,000.

20 Creditors: amounts falling due within one year

	Group		Company	
	2006	2005	2006	2005
	£000	£000	£000	£000
Payments received on account	647	528	200	277
Trade creditors	8,800	8,197	6,435	5,088
Amounts owed to group undertakings (note 19)	3,170	–	5,276	2,330
Amounts owed to related undertakings (note 34)	2	30	–	22
Corporation tax	606	840	–	57
Other taxes and social security	526	1,041	455	570
Other creditors	475	434	266	213
Accruals and deferred income	4,403	3,131	2,575	1,992
	18,629	14,201	15,207	10,549

21 Creditors: amounts falling due after more than one year

	Group	
	2006	2005
	£000	£000
Bank loan (secured)		
Repayable between one and two years	6,158	–
Repayable between two and five years	–	6,750
	6,158	6,750

The bank loan bears interest at the lenders' base rate plus a margin of 1.5%. As part of the Group's interest rate management strategy, in November 2005 it entered into an interest rate swap for a notional principal amount of £10 million maturing in 2008. Under the swap, the Group's base rate is fixed at 4.95%.

The bank loan is secured by a debenture over the Group's assets.

The parent company has no creditors due after more than one year.

22 Provisions for liabilities

	Deferred taxation	
	Group	Company
	£000	£000
Liability/(asset) at beginning of year	35	(29)
Disposal of subsidiary undertaking (note 33)	85	–
Credit to the profit and loss account for the year	(209)	(9)
Asset at end of year	(89)	(38)

The elements of deferred taxation are as follows:

	Group		Company	
	2006	2005	2006	2005
	£000	£000	£000	£000
Accelerated capital allowances	(20)	35	31	(29)
Short term timing differences	(69)	–	(69)	–
Deferred tax (asset)/liability	(89)	35	(38)	(29)

Deferred tax assets are included within debtors (note 18).

23 Called up share capital

	2006	2005
	£000	£000
Authorised		
500,000,000 ordinary shares of 1p each	5,000	5,000
Allotted, called up and fully paid		
15,358,141 (2005: 15,286,110) ordinary shares of 1p each	154	153

During the year, options were exercised over 72,031 1p ordinary shares and the company issued shares to satisfy these options at the following prices:

	Number of shares	Issue price
21 August 2006	7,500	156p
6 September 2006	20,000	185p
29 September 2006	30,000	113.5p
29 September 2006	6,000	197.8p
29 September 2006	8,531	196p

Subsequent to the year end the company has issued 100,000 1p ordinary shares at a price of 158p and 20,000 1p ordinary shares at a price of 185p to satisfy further options exercised.

24 Share premium and reserves

	Group			Company		
	Share premium account	Merger reserve	Profit and loss account	Share premium account	Merger reserve	Profit and loss account
	£000	£000	£000	£000	£000	£000
At beginning of year	2,514	2,377	17,847	2,514	2,477	12,104
Profit for the year	–	–	9,137	–	–	11,879
Dividends on shares classified in shareholders' funds	–	–	(1,469)	–	–	(1,469)
Credit in relation to share based payments	–	–	232	–	–	232
New shares issued	110	–	–	110	–	–
Transfer on disposal of subsidiary	–	100	(100)	–	–	–
At end of year	2,624	2,477	25,647	2,624	2,477	22,746

25 Contingent liabilities

The company has entered into an omnibus guarantee and set off agreement with its bankers whereby the company is liable, jointly and severally with other members of the Group in respect of overdrawn balances on certain Group bank accounts. At 31 December 2006 there were overdrawn balances amounting to £293,000 (2005: £14,000) which were offset against credit balances of £14,101,000 (2005: £4,377,000).

The company has guaranteed certain of the bank borrowings of its joint ventures. At 31 December 2006 the company had guaranteed borrowings in the sum of £2,000,000 (2005: £2,000,000).

The company has given performance and other trade guarantees on behalf of subsidiary undertakings during the course of its normal trade.

26 Commitments

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

	2006		2005	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Group				
Operating leases which expire:				
Within one year	–	17	–	9
In the second to fifth years inclusive	91	51	43	85
Over five years	30	–	63	–
	121	68	106	94

26 Commitments (continued)

	2006		2005	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Company				
Operating leases which expire:				
Within one year	–	11	–	9
In the second to fifth years inclusive	83	36	35	61
Over five years	–	–	20	–
	<u>83</u>	<u>47</u>	<u>55</u>	<u>70</u>

27 Pension scheme

The Group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Group to the fund and amounted to £136,000 (2005: £130,000).

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

28 Share based payments – Company and Group

FRS 20 ‘Share-based payments’ has been adopted for the first time in these financial statements. The adoption of FRS 20 represents a change in accounting policy. The comparative figures have not been restated in these financial statements as the adoption of FRS 20 does not have a material effect on the prior year.

Equity settled share option scheme

The Group and company operate an Inland Revenue Approved Share Option Scheme and an Inland Revenue Unapproved Share Option Scheme. Share options, granted to executives, that existed at the end of the year were as follows:

Date granted	No. of share options at end of year	No. of share options at beginning of year	Exercise price (pence)	Exercise period
13 October 2000	25,000	55,000	113.5	October 2003–October 2010
13 October 2000	94,000	100,000	197.8	October 2003–October 2010
30 July 2001	33,300	53,300	185.0	July 2004–July 2011
3 October 2001	68,000	76,531	196.0	October 2004–October 2011
26 June 2002	42,000	42,000	235.0	June 2004–June 2011
31 December 2002	–	7,500	156.0	December 2005–December 2012
17 April 2003	100,000	100,000	158.0	April 2006–April 2013
15 April 2005	57,140	71,425	210.0	April 2008–April 2015
7 February 2006	* 800,000	–	232.5	February 2009–February 2016
17 February 2006	100,000	–	229.0	February 2009–February 2016
1 August 2006	75,000	–	266.5	August 2009–August 2016
	<u>1,394,440</u>	<u>505,756</u>		

28 Share based payments – Company and Group (continued)

Under the Scheme Rules, options are exercisable at a price equal to the average quoted market price of the company's shares on the date of the grant. The vesting period is three years and if the option remains unexercised after a further period of seven years, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

* These share options are subject to performance conditions and are only exercisable in full if the company's EPS grows by a factor of RPI plus 5% in each of the three years following issue of the options or cumulatively by RPI plus 16% over the three year period. If the EPS growth is less than 3% per annum above RPI then none of the shares can be exercised. A sliding scale operates for growth in EPS between 3% and 5% above RPI.

The number and weighted average exercise prices of share options in issue are as follows:

	2006		2005	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at beginning of year	505,756	1.83	459,331	1.75
Granted during the year	975,000	2.35	71,425	2.10
Exercised during the year	(72,031)	(1.55)	(25,000)	(1.14)
Forfeited in year	(14,285)	(2.10)	–	–
Outstanding at end of the year	1,394,440	2.21	505,756	1.83
Exercisable at end of the year	362,300	1.84	334,331	1.85

The weighted average share price for options exercised during the year was £3.06 (2005: £2.13).

The options outstanding at 31 December 2006 had exercise prices ranging from £1.13 to £2.66 and the weighted average remaining contractual life of these options was 8 years.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The share options were valued, by an external third party, using a binomial model as this enables the calculation to take into account early exercisable behaviour more accurately. The key inputs used in the model in 2005 and 2006 were:

	Share options granted on				
	17 April 2003	15 April 2005	7 February 2006	17 February 2006	1 August 2006
Fair value at measurement date	60.1p	64.5p	69.8p	64.6p	78.7p
Exercise price	158.0p	210.0p	232.5p	229.0p	266.5p
Expected volatility	40.0%	35.0%	30.0%	30.0%	30.0%
Expected dividends	3.2%	4.0%	3.7%	3.8%	3.5%
Risk free interest rate	4.2%	4.6%	4.4%	4.2%	4.8%

28 Share based payments – Company and Group (continued)

The expected volatility assumption was determined by reference to the daily share price movement from mid 2002 to the date of the award.

Share options are granted under a service condition and, for grants to senior employees, a non-market performance condition. Such conditions are not taken into account in the grant date fair value measurement of the services received. There are no market conditions associated with the share option grants.

The Group recognised a total expense of £232,000 in 2006 (2005: £nil) in respect of equity-settled share options.

29 Reconciliation of operating profit to operating cash flows

	2006	2005
	£000	£000
Group operating profit	5,644	3,950
Depreciation of tangible fixed assets	738	542
Amortisation of goodwill	645	354
Profit on sale of fixed assets	(41)	(136)
Increase in stocks	(11,489)	(3,179)
Increase in debtors	(4,472)	(996)
Increase/(decrease) in creditors	6,644	(1,209)
Movement in unrealised profit on sales to joint ventures	(23)	(165)
Credit in relation to share based payments	232	–
Net cash outflow from operating activities	(2,122)	(839)

30 Reconciliation of net cash flow to movement in net funds/(debt)

	2006	2005
	£000	£000
Increase/(decrease) in cash in year	9,445	(934)
Cash outflow/(inflow) from bank loans	592	(6,750)
Cash inflow from change in liquid resources	–	(145)
Movement in net debt in the year	10,037	(7,829)
Net (debt)/funds at start of year	(2,387)	5,442
Net funds/(debt) at end of year	7,650	(2,387)

31 Analysis of net funds/(debt)

	At beginning of year £000	Cash flow £000	At end of year £000
Cash at bank and in hand	4,233	9,445	13,678
Cash on deposit	130	–	130
Bank loan	(6,750)	592	(6,158)
	(2,387)	10,037	7,650

32 Financial instruments

For the purposes of the following disclosures, short term debtors and creditors have been excluded as permitted by Financial Reporting Standard 13.

Management of financial risk

(i) Interest rate risk

The Group's borrowings comprise bank loans and overdraft facilities all of which bear interest at floating rates based on the lender's base rate. The Group then uses interest rate swaps to manage its exposure to interest rate fluctuations. At the year end the Group had entered into one interest rate swap for a notional principal amount of £10 million. The swap is for a period of 3 years ending November 2008 and fixes the base rate at 4.95%.

(ii) Liquidity risk

The Group maintains a mixture of medium and short term committed facilities that are designed to ensure the Group has sufficient funds available to finance its operations. At the year end the Group had a £10 million revolving credit facility available of which £6.2 million had been drawn down. The facility matures in November 2008. In addition the Group has a £2.5 million overdraft facility which is undrawn.

Subsequent to the year end the Group has increased its revolving credit facility to £15 million and extended the facility to November 2009.

Financial liabilities

Details of the Group's financial liabilities are set out below:

Interest rate risk profile of financial liabilities

	Average period over which rate is fixed	Average interest rate	Total £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £000
At 31 December 2006 – bank loan	1.9 years	6.45%	6,158	6,158	–
At 31 December 2005 – bank loan	2.9 years	6.45%	6,750	6,750	–

Borrowing facilities

The Group has the following undrawn committed bank overdraft and borrowing facilities available to it:

	2006 £000	2005 £000
Expiry in one year or less	2,500	2,500
Expiry in more than one year but not more than two	3,842	–
Expiry in more than two years but not more than five	–	3,250
	6,342	5,750

The maturity of the Group's financial liabilities is set out in note 21.

32 Financial instruments *(continued)***Financial assets**

The Group's financial assets comprise cash and loans to joint ventures. Loans to joint ventures earn interest at base rate plus margins of between 1.5%–2.0% and are disclosed in notes 16 and 34 respectively.

Cash is held on deposit or in current accounts depending on the needs of the business and the Group's treasury policy is to maximise the rate of return on cash deposits whilst meeting the Group's working capital needs. At 31 December 2006 the average interest rate earned on temporary closing cash balances was 4.5% (2005: 3.75%).

Fair values of financial assets and liabilities

The fair value of the Group's financial assets and liabilities are not considered to be materially different from the book value.

33 Disposal of subsidiary undertaking

On 31 October 2006 the Group sold its 100% interest in the ordinary share capital of Metnor Galvanizing Limited together with related properties. The operating profit of Metnor Galvanizing Limited up to the date of disposal was £1,326,000 (Year ended 31 December 2005: £18,000).

	2006
	£000
Net assets disposed of	
Tangible fixed assets	1,453
Stocks	1,010
Debtors <i>(including a deferred tax asset of £85,000)</i>	2,055
Cash balances	1,048
Creditors	(1,378)
	4,188
Profit on disposal	4,252
Net sale proceeds	8,440
Satisfied by:	
Cash (net of transaction costs)	7,827
Deferred consideration – included in debtors	613
	8,440
<i>Net cash inflows in respect of the sale comprised:</i>	
Net cash consideration	7,827
Cash balances sold	(1,048)
	6,779

The disposal of Metnor Galvanizing Limited completed the exit of the Group from galvanizing activities and these activities have been disclosed as a discontinued operation in the profit and loss account. See note 2 for further details.

The business sold during the year contributed £524,000 (2005: £435,000) to the Group's net operating cash flows, paid £nil (2005: £nil) in respect of net returns on investments and servicing of finance, paid £5,000 (2005: £255,000) in respect of taxation and received £17,000 (2005: £10,000 incurred in respect of capital expenditure) for capital disposals.

34 Related party disclosures**Subsidiary undertakings**

Details of the Group's subsidiary undertakings are given in note 16. In accordance with Financial Reporting Standard 8 – Related Party Disclosures (FRS 8), transactions and balances between entities have been eliminated on consolidation and are not reported.

A loan of £6.75 million advanced to Lockunit Limited by the Group in 2005 was repaid during the year. Lockunit Limited paid a dividend of £2,250,000 to Metnor Group plc during the year. At the year end Metnor Group plc owed Lockunit £3,170,000. As explained in note 19, the results for this subsidiary undertaking have not been consolidated as it is being held for re-sale and the loan payable by the Group is included within creditors.

Joint ventures

Details of the Group's joint ventures and the extent of financial guarantees given by the Group are given in notes 16 and 25. The Group undertook work for its joint ventures in the sum of £6,680,000 during the year and at the year end was owed £104,000 in respect of work undertaken and retentions.

Other related parties

Metro Industrial Holdings Limited charged the group £55,000 in respect of rent and management charges during the year and at the year end the group owed this company £2,000. Mr S Rankin was a director and shareholder of Metro Industrial Holdings Limited until April 2006. From that date, Metro Industrial Holdings Limited was no longer a related party.

All transactions with related parties have been carried out on an arm's length basis.

NOTICE IS HEREBY GIVEN THAT THE NINTH ANNUAL GENERAL MEETING of Metnor Group plc ('the Company') will be held at 5th Floor, Quayside House, 110 Quayside, Newcastle upon Tyne, NE1 3DX on Friday 25th May 2007 at 11.00 am for the purpose of considering and if thought fit, passing thereat or at any adjournment thereof, resolutions as to the ordinary business of the company as follows:

- 1) To receive and adopt the company's accounts for the year ended 31 December 2006 and the reports of the Directors and Auditors thereon.
- 2) To declare a final dividend for 2006 of 7.5p per share.
- 3) To re-elect Mr H B Gold, who retires by rotation in accordance with the provisions of the Articles of Association of the company, as a director of the company.
- 4) To re-elect Mr A Greenwell, who retires by rotation in accordance with the provisions of the Articles of Association of the company, as a director of the company.
- 5) To re-elect Mr N Little, who was appointed by the Board following the company's last Annual General Meeting, as a director of the company.
- 6) To re-appoint KPMG Audit Plc as auditors.
- 7) To authorise the directors to agree the remuneration of the auditors.

To consider and, if thought fit, to pass the following resolutions (of which resolution 8 shall be proposed as an ordinary resolution and resolutions 9 and 10 will be proposed as special resolutions), namely:-

- 8) That, in substitution for all subsisting authorities the directors be and they are hereby generally and unconditionally authorised for the purpose of section 80 of the Companies Act 1985 ("the Act") to allot relevant securities (as defined in section 80(2) of the Act) up to a maximum aggregate nominal amount of £51,193.80 (being one third of the issued share capital of the Company) PROVIDED THAT:
 - a) this authority shall expire at the conclusion of the Annual General Meeting next held after the passing of this resolution or the date falling 15 months from the date of the passing of this resolution, whichever is the earlier; and
 - b) the company may before the expiry of such period make an offer, agreement or other arrangement which would or might require relevant securities to be allotted after the expiry of such period and the directors may allot relevant securities in pursuance of any such offer, agreement or other arrangements as if the authority conferred hereby had not expired.
- 9) That, subject to the passing of resolution 8 above, the directors be and they are hereby empowered pursuant to section 95 of the Act to allot equity securities (as defined in section 94 of the said Act) for cash pursuant to the authority conferred upon them by resolution 8 of this notice (as varied from time to time by the company in general meeting) as if section 89(1) of the Act did not apply to any such allotment PROVIDED THAT this power shall be limited:
 - a) to the allotment of equity securities in connection with a rights issue or any other pre-emptive offer in favour of holders of equity securities where the equity securities respectively attributable to the interests of all such holders are proportionate (as nearly as may be) to the respective amounts of equity securities held by them subject only to such exclusions or other arrangements as the directors may consider appropriate to deal with fractional entitlements or legal and practical difficulties under the laws of or the requirements of any recognised regulatory body in any territory or otherwise or as regards shares held by an approved depository or in issue in uncertified form or otherwise howsoever; and
 - b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £7,679.07 (being 5% of the issued share capital of the Company);

and shall expire on whichever is the earlier of the conclusion of the next Annual General Meeting of the company or the date falling 15 months from the passing of this resolution unless renewed or extended prior to or at such meeting except that the company may before the expiry of any power contained in this resolution make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

10) That the company be and is hereby generally authorised for the purposes of Section 166 of the Companies Act 1985 to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of its ordinary shares of 1p each upon and subject to the following conditions:

- a) the maximum aggregate number of ordinary shares which may be purchased is 1,535,814 (being 10% of the issued share capital of the Company); and
- b) ordinary shares may not be purchased at a price, which is more than 5 per cent, above the average of the middle market quotations for the ordinary shares as taken from the London Stock Exchange Daily Official List for the five business days preceding the date of purchase or at a price which is less than 1p per ordinary share; and

the authority to purchase conferred by this resolution shall expire at the earlier of 15 months from the date of this resolution and the conclusion of the Annual General Meeting next held, save that the company may before such expiry enter into a contract of purchase under which such purchase may be completed or executed wholly or partly after the expiration of this authority.

By order of the Board

KA Atkinson
Company Secretary

25 April 2007

Registered Office
Metnor House
Mylord Crescent
Killingworth
Newcastle upon Tyne
NE12 5YD

Notes

1. A member entitled to vote at the meeting is entitled to appoint one or more proxies to attend and vote in his place. A proxy need not be a member of the company.
2. To be effective, a form of proxy must be duly completed and executed and must be received together with the power of attorney or other authority (if any) under which it is executed, or a notarially certified copy of such power of attorney or other authority, by the company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, not less than 48 hours before the time of the meeting.
3. The following documents will be available for inspection during normal business hours on any weekday (Saturdays and public holidays excepted) at the company's registered office from the date of this notice and at the place of the Annual General Meeting from 15 minutes before, and until the conclusion of the meeting.
 - (a) Register of the directors' interests (and their families) in the shares or debenture or capital of the company and its subsidiaries.
4. The company pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 specifies that regard shall only be had to those shareholders registered in the Register of Members of the company by close of business on 23 May 2007 in determining the rights of any person to attend or vote at the meeting.

Shareholder Information

ANALYSIS OF REGISTERED HOLDINGS AS AT 31 DECEMBER 2006

Size of holding	Holdings		Shares	
	Number	%	Number	%
1–1,000	170	47	86,901	1
1,001–10,000	150	41	508,594	3
10,001–100,000	31	8	1,069,845	7
100,001–1,000,000	11	3	2,283,215	15
1,000,001 and over	3	1	11,409,586	74
	<u>365</u>	<u>100</u>	<u>15,358,141</u>	<u>100</u>

FINANCIAL CALENDAR

Financial year end	31 December
Preliminary results	April
Annual General Meeting	May
Dividend payment	June
Interim results	September
Dividend payment (Interim)	October

The company's Annual General Meeting will be held on 25 May 2007 commencing at 11.00am at the offices of KPMG, Quayside House, 110 Quayside, Newcastle upon Tyne, NE1 3DY.

2006 SHARE PRICE

Start of year	225.0p
High	354.0p
Low	210.0p
End of year	342.5p

The company's share price is quoted daily in the Financial Times under AIM (Industrials General).

CORPORATE WEBSITE

www.metnor.co.uk

SHARE DEALING SERVICE

The company offers shareholders a low cost share dealing service through its registrars, Capita Registrars. For further information on this service or to buy and sell shares in the company, please contact:

www.capitadeal.com or 0870 458 4577



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