

A record year for HBG

Review 2006



A record year for HBG

Introduction

We've got a lot to celebrate. We're off to a flying start in 2007 and we've reached our tenth anniversary as HBG UK Ltd.

Most importantly, we posted a record £42.0m profit for 2006.

This is up from £24.3m in 2005 and represents an increase in margin from 3.3% to 4.8%. Turnover has increased from £776.4m at the end of 2005 to £882.3m for 2006. Such an excellent result reflects consistent performance across all the businesses and is a credit to the high calibre of our people, our customers and our supply chain.

At HBG, we excel at achieving consistency, a fundamental ingredient in the success of any organisation. Getting there has taken dedication and continuous improvement over a number of years.

These days, we consistently employ the best people, consistently win challenging, high-profile contracts, and consistently deliver outstanding results.

However, there's no time for resting on our laurels. If we want to retain our top-ranking position our commitment and improvement must increase to keep pace with market demand and competition. It's pleasing that our 2006 results indicate that we're on the right path.

The growth we've experienced over the last few years is due not only to our consistency, but also to our diversity. This vital driver gives us the ability to deliver a complete and streamlined service to our customers, helping to keep us at the forefront of the property and construction services industry in the UK.

We endeavour to build the company's reputation in other ways too. Forging and strengthening strategic relationships continued to be a focus for HBG throughout 2006. We have witnessed conspicuous growth and improvement in the way we do business as a result of successfully pursuing beneficial partnerships.

On the construction side, a number of our relationships have lasted over many years including those with Argent, ASDA and ProCure21. New relationships with Welsh Health Estates and South East Centre of Excellence hold plenty of promise for a long and rewarding future.

As always Corporate Social Responsibility, Health and Safety and the environment were major areas of focus during the year. We've set new targets to meet in 2007, but our excellent 2006 results are testament to our commitment to these important aspects of our business:

- Best safety levels ever at 1.2 IF
- 89% of sites adopted a Project Environmental Management Plan
- One silver and 11 bronze medals under CCS

- An average of 34.6 out of 40 from the Considerate Constructors Scheme (CCS) monitors against an industry average of only 30.8

Changes in management at the beginning of 2007 will serve to strengthen our leading position in the industry as we capitalise on the skills and experience of Richard Bailey, Graham Cash and John Burke in their new positions as Directors of HBG UK Ltd. Former Managing Director, Martin Rogers has moved to the position of CEO at our sister company, Edmund Nuttall Ltd.

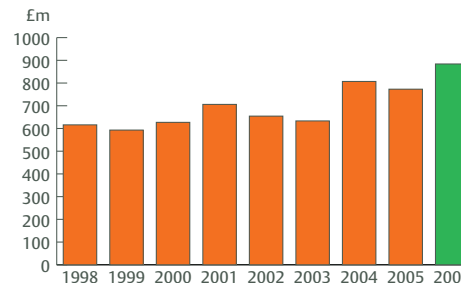
As mentioned, the business units have performed consistently throughout 2006, each with their own highlights which are noted in the relevant sections of this document.

Richard Gregory CEO

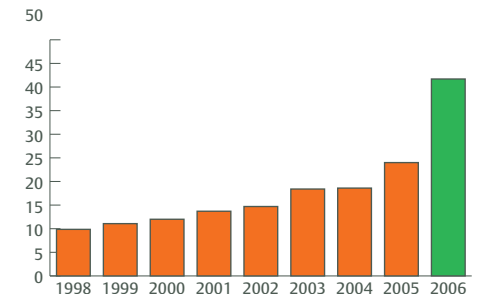


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Turnover 1998-2006



Profit Before Tax (PBT) 1998-2006



Our markets

Retail

Retail remains strong for HBG throughout the UK with continuous work from ASDA, Sainsbury's, Marks & Spencer, Morrison and Tesco. Work involves city centre and out-of-town new-build projects, extensions and refurbishment schemes.

Current projects: 16

Proportion of 2006 turnover: 28%

Largest project awarded in 2006: Kingsway Shopping Centre (Newport), valued at £15m

Top repeat customers:

- ASDA Stores
- Morrisons Supermarket Plc
- Marks & Spencer Plc



Sainsbury's Store, Maidenhead

Mixed Development



Progress at the Sainsbury's mixed development project, Milton Keynes

HBG is currently involved in a number of large mixed development and urban regeneration projects in Edinburgh, Milton Keynes, Hull, Maidenhead, Corby and Folkestone.

Current projects: 20

Proportion of 2006 turnover: 14%

Largest project awarded in 2006: Fountain North Development (Edinburgh), valued at £81m

Top repeat customers:

- Grosvenor Developments
- P&O Developments Ltd
- Argent Group plc

Offices

Commercial office business provided a bullish market for HBG in 2006 with several high value developments, particularly in London. The extensive refurbishment of 15 Fetter Lane (London) for BS Pension Fund Trustee Ltd comprises 85,000ft² of new grade A office space.

Current projects: 21

Proportion of 2006 turnover: 7%

Largest project awarded in 2006: Ashburton Court refurbishment (Winchester), valued at £30m

Top repeat customers:

- Argent
- Land Securities
- Grosvenor Developments



15 Fetter Lane, London

Education



EEE Building, Southampton University

Since 2001, HBG's construction teams have provided £573 million worth of facilities to UK universities. In addition, work at schools, city academies and colleges totals £735 million.

Current projects: 33
Proportion of 2006 turnover: 36%
Largest project awarded in 2006: Solihull Schools PFI (Solihul), valued at £83m
Top repeat customers:

- University of Manchester
- University of Lincoln
- University of Gloucestershire

Health

We continue to work with ProCure 21 on projects like the Southampton General Hospital cardiac and oncology centres. We have won over £233m worth of projects under this framework agreement.

Current projects: 12
Proportion of 2006 turnover: 12%
Largest project awarded in 2006: Caerphilly Local General Hospital (Gwent), valued at £70m
Top repeat customers:

- Christie Hospital NHS Trust
- Royal Devon & Exeter Healthcare NHS Trust
- Sheffield Teaching Hospital Trust



Peninsula Medical School, Exeter

Leisure



Computer model of Darwin Centre, London

HBG's current work in the leisure sector includes a number of high-profile contracts such as the Ashmolean Museum (Oxford), the Natural History Museum's Darwin Centre (London) and Royal Hall (Harrogate).

Current projects: 10
Proportion of 2006 turnover: 3%
Largest project awarded in 2006: Riverside Museum (Glasgow), valued at £46m
Top three customers (bespoke projects):

- Glasgow City Council
- Natural History Museum
- University of Oxford

Our businesses

Construction

The seven regional construction businesses performed consistently throughout 2006. Each reported increased profitability on 2005 and busy order books for 2007. Our portfolio continues to be characterised by a high volume of framework, partnership, repeat and negotiated business.

Nationally, HBG Construction completed 73 projects across all market sectors during 2006. While projects in all market sectors kept us busy, education continued to account for the largest portion of the workload. A total of 24 projects were completed during 2006 with 33 new and continuing works for 2007. Since 2001, HBG's construction teams have provided £573 million worth of facilities to UK universities with several awarding HBG multiple consecutive contracts. In addition, work at schools, city academies and colleges totals £735 million.

Having been selected as one of three supply chain partners for Welsh Health – 'Designed for Life: Building for Wales' – we begin our relationship with the £133 million Caerphilly Local General Hospital in Gwent. This will be the UK's first 100% single-room hospital, and work is due to start on site in September 2007.



Properties



Properties had an exceptional year, underscored by the early and profitable sale of the Wellgate Centre (Dundee) to Prudential, which has now bought four HBG developments.

Other sales for 2006 included:

- Lateral, Leeds
- Tower Wharf, Bristol
- Parklands, Birmingham
- Interface, Coventry

A number of major office developments were completed during the year with successful lettings in Bristol, Swindon and St Albans.

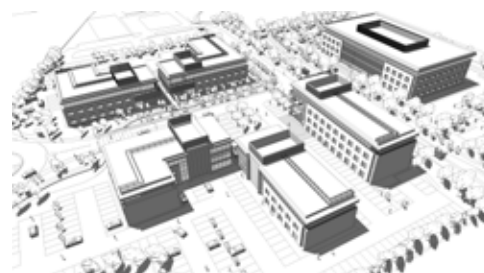
In 2006, we acquired or were undertaking 102,100m² of new property developments, against the disposal of 51,482m² of office and retail developments. Completed or let property totalled 6,037m².

Design

HBG's design practice and services engineering division are both providing essential services within the other business sectors in HBG and to third party clients. HBG employs 60 architects, structural and services engineers to deliver these activities. The fee income for design came to £4.3m in the year, with services provided for Tesco, Argent and Sainsbury's amongst others.

Highlights for 2006 include:

- Successful PFI bids for Solihull and West Dunbartonshire Schools
- Appointed designer for Welsh Assembly government offices in North Wales
- Working with Argent and HBG Construction on detailed architecture, structural architecture and services design for 11 Brindleyplace (Birmingham)
- The team's structural design for Tesco Orpington instrumental in securing this particularly competitive bid.
- Detailed architecture and services design for the Abbeygate's mixed development project at Milton Keynes. Excellent performance on this contract has secured us more work with this customer.



Facilities Management

HBG Facilities Management continues to expand at a rapid pace through the increased PFI portfolio being brought on stream by BAM PPP.



FM currently operates 21 sites across the UK, employing over 20% of the total HBG workforce. While school-based FM services represent the growing core of our activities, we are also actively providing

services in hospitals, police headquarters and council offices.

Highlights for 2006 include:

- Appointed preferred bidder on Solihull Schools PFI project
- Commenced service on the final schools for Bristol PPP and East Renfrewshire PPP
- Launched a new management structure and introduced area managers in three regions to oversee the operational aspects of our portfolio
- Achieved accreditation to ISO 14001 for our environmental management system

Where we are

Peter Barrans DEC Project Manager, DLA Architecture

'We were genuinely impressed with the attitude, commitment and flexibility of the HBG team.'

Keith Dowell Associate Director, Southampton University Hospitals NHS Trust

'On the strength of HBG's high quality performance on our £25m Cardiac centre project, SUHT discussed and then agreed the appointment as the ProCure 21 partner for a new extension to our Oncology centre.'

Lionel Danby Capital Projects Manager, Redcar and Cleveland Borough Council

'Everyone associated with this Building of Excellence ought to be proud of the contribution they have made to ensuring that future education opportunities have been created in such wonderful premises. This is one building that really has 'the wow factor' thanks to the dedication and commitment of the teams.'

HBG Construction

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HBG Properties

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HBG Facilities Management

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