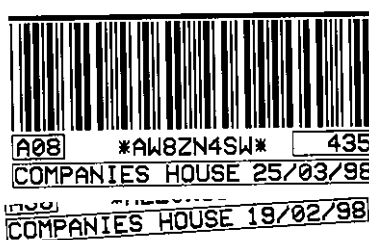


Lee Steel Strip Limited

Report and Accounts

31 March 1997

Registered No. 453810



Lee Steel Strip Limited

DIRECTORS' REPORT

Directors: J V Henderson (Chairman)
K Lydall (Managing Director)
D W Adam
M R Lee
R Salt, ACA
I Williamson

Secretary: R Salt, ACA

Registered Office: Trubrite Steel Works, Meadowhall, Sheffield S9 1HU.

The directors present their report and accounts for the period ended 31 March 1997.

RESULTS AND DIVIDENDS

The loss for the period amounts to £426,447 and is dealt with as shown in the profit and loss account.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The activity of the company is the manufacture of cold rolled steel strip.

The company experienced a difficult year due to adverse trading conditions and falling steel prices.

DIRECTORS AND THEIR INTERESTS

The directors of the company during the period ended 31 March 1997 were those listed above. Mr K Lydall was appointed a director on 25 November 1996 and in addition Mr W Campbell who served as a director during the period resigned on 8 November 1996, Messrs I A Glasby and R A E Hooper resigned as directors on 31 December 1996 and Mr J A Revill resigned on 2 June 1997.

The only directors' interests notifiable under the terms of the Companies Act 1985 were those listed below:

Carclo Engineering Group PLC	<i>Holdings of ordinary shares of 5p each</i>
	<i>31 March 1997 30 March 1996</i>
M R Lee	- 1,169

DIRECTORS AND THEIR INTERESTS (continued)

	<i>As at 30 March 1996</i>	<i>Granted during period</i>	<i>Options to purchase ordinary shares of 5p each Exercised during period</i>	<i>As at 31 March 1997</i>
J A Revill	33,000	-	-	33,000

SUPPLIERS

It is the company's policy to abide by the terms of payment agreed with suppliers in respect of all goods and services properly invoiced to the company. The terms may be the suppliers' standard terms or such other agreed terms for specific transactions, as appropriate.

The number of days' purchases in creditors at 31 March 1997 was 68.

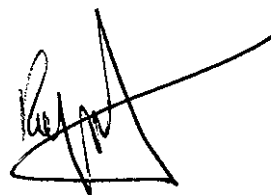
AUDITORS

A resolution to reappoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

By order of the board

R Salt
Secretary

1 July 1997



Lee Steel Strip Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS
to the members of Lee Steel Strip Limited

We have audited the accounts on pages 5 to 14 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and on the basis of the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

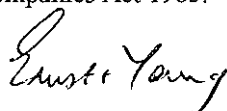
Basis of opinion

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

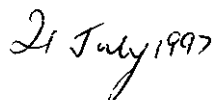
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error.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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 March 1997 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young
Chartered Accountants
Registered Auditor
Leeds

A handwritten signature in cursive script that reads '21 July 1997'.

Lee Steel Strip Limited

PROFIT AND LOSS ACCOUNT

for the period ended 31 March 1997

	Notes	1997 £	1996 £
TURNOVER	2	27,298,703	32,527,159
OPERATING (LOSS)/PROFIT	3	(261,972)	3,741,856
Interest payable (net)	4	346,592	210,657
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(608,564)	3,531,199
Taxation	7	(182,117)	1,190,302
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION AND (DEFICIT)/RETAINED PROFIT FOR THE FINANCIAL PERIOD		(426,447)	2,340,897

There are no recognised gains or losses other than the loss after taxation for the period of £426,447 (1996 - profit £2,340,897).

Lee Steel Strip Limited

BALANCE SHEET

at 31 March 1997

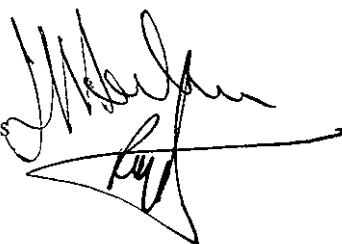
	Notes	1997 £	1996 £
FIXED ASSETS			
Tangible assets	8	12,013,489	12,105,208
CURRENT ASSETS			
Stocks	9	6,911,950	9,430,899
Debtors	10	7,300,915	7,581,411
Cash at bank and in hand		2,559	2,187
		14,215,424	17,014,497
CREDITORS: amounts falling due within one year	11	10,737,686	12,811,719
NET CURRENT ASSETS		3,477,738	4,202,778
TOTAL ASSETS LESS CURRENT LIABILITIES		15,491,227	16,307,986
CREDITORS: amounts falling due after more than one year			
Medium term loan from parent company		603,364	1,176,917
PROVISION FOR LIABILITIES AND CHARGES			
Deferred taxation	12	1,491,227	1,307,986
		13,396,636	13,823,083
CAPITAL AND RESERVES			
Called up share capital	13	9,500,000	9,500,000
Reserves	14	3,896,636	4,323,083
EQUITY SHAREHOLDERS' FUNDS		13,396,636	13,823,083

J V Henderson)

) Directors

R Salt)

1 July 1997



1. ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention, as modified by the revaluation of land and buildings, and in accordance with applicable accounting standards.

The parent company, Carclo Engineering Group PLC, has implemented Financial Reporting Standard 1 and presented a group cash flow statement.

Related party transactions

The company has taken advantage of the exemption in Financial Reporting Standard 8 from disclosing transactions with related parties that are part of Carclo Engineering Group PLC.

Leased assets

Where tangible fixed assets are financed by leasing or hire purchase agreements that give rights approximating to ownership (finance leases) the assets are treated as if they had been purchased outright and the corresponding liability to the leasing company is included as an obligation under finance leases.

Depreciation on leased assets is charged to the profit and loss account on the same basis as shown below taking into account secondary rental periods where appropriate.

Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the profit and loss account.

All other leases are operating leases and the relevant annual rentals are charged to the profit and loss account as incurred.

Depreciation

Land and buildings are shown at cost or valuation. Other fixed assets are shown at cost, any related government grants being deducted from the cost.

Freehold land is not depreciated.

Depreciation is provided, at annual rates calculated to write off the cost or valuation after deducting government grants, on all fixed assets on a straight line basis over their expected useful lives as follows:-

Freehold buildings	2%
Plant, machinery and equipment	10 - 20%
Computer equipment	20 - 33 $\frac{1}{3}$ %
Motor vehicles	25%

Stocks

Stocks are stated at the lower of cost and net realisable value, with due allowance for any obsolete or slow moving items. In the case of finished goods and work in progress cost comprises direct materials, direct labour and an appropriate proportion of manufacturing overhead expenses.

Research and development

Expenditure on research and development is written off in the year in which it is incurred.

NOTES TO THE ACCOUNTS

at 31 March 1997

1. ACCOUNTING POLICIES (continued)

Deferred taxation

Provision is made for deferred taxation using the liability method where it is considered that such a liability may become payable in the future.

Pensions

The company contributes to a group pension scheme which is a defined benefit scheme and fully funded. Contributions to the scheme are charged to profit and loss account so as to spread the cost of pensions over the employees' working lives with the company. The effect of any experience surpluses is retained within the accounts of the ultimate parent company.

Foreign currencies

Normal trading activities denominated in foreign currencies are recorded in sterling at actual exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are translated at the rates of exchange prevailing at the year end, except where they are covered by forward contracts in which case the rate appropriate to the forward contracts is used.

2. TURNOVER

Turnover is the net invoiced value of goods and services provided by the company exclusive of VAT.

Turnover is attributable to one continuing activity, the manufacture of cold rolled steel strip.

By geographical area

	1997 £	1996 £
United Kingdom	15,477,222	16,736,460
Rest of Europe	5,750,854	9,024,762
Rest of World	6,070,627	6,765,937
	<u>27,298,703</u>	<u>32,527,159</u>

Lee Steel Strip Limited

NOTES TO THE ACCOUNTS

at 31 March 1997

3. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is arrived at as follows:

	1997 £	1996 £
Turnover	27,298,703	32,527,159
Increase in stocks of finished goods and work in progress	3,027	738,415
	<u>27,301,730</u>	<u>33,265,574</u>
Raw materials and consumables	18,374,290	19,853,134
Employee costs (note 5)	5,190,050	5,409,179
Depreciation		
- owned assets	1,104,331	916,407
- leased assets	210,794	210,794
Auditors' remuneration		
- audit services	17,177	20,500
- non-audit services	-	400
Rationalisation costs	328,457	-
Operating lease rentals	135,593	108,897
Management charge	265,000	270,000
Other operating charges	2,213,702	2,840,949
Other operating income	(275,692)	(106,542)
	<u>27,563,702</u>	<u>29,523,718</u>
	<u>(261,972)</u>	<u>3,741,856</u>

4. INTEREST PAYABLE (NET)

	1997 £	1996 £
Payable on finance leases	-	8,479
Payable on bank overdraft	345,729	203,137
Group interest payable	863	2,632
	<u>346,592</u>	<u>214,248</u>
Interest receivable	-	(3,591)
	<u>346,592</u>	<u>210,657</u>

Lee Steel Strip Limited

NOTES TO THE ACCOUNTS

at 31 March 1997

5. EMPLOYEE COSTS

Employee costs during the period amounted to:

	1997 £	1996 £
Wages and salaries	4,489,753	4,696,505
Social security costs	368,028	377,440
Pension costs	332,269	296,458
Redundancy costs	-	38,776
	<u>5,190,050</u>	<u>5,409,179</u>

The average weekly number of persons employed by the company during the period was 224 (1996 - 230).

The employee costs shown above include the following remuneration in respect of the directors:

	1997 £	1996 £
Emoluments	211,590	252,510
Compensation for loss of office	64,990	-
	<u>276,580</u>	<u>252,510</u>

The emoluments of the highest paid director were:

Highest paid director	<u>54,863</u>	<u>72,803</u>
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J V Henderson, D W Adam and I Williamson are also directors of the holding company and fellow subsidiaries. J A Revill is also a director of fellow subsidiaries. These directors received total remuneration of £425,338 (1996 - £392,549), all of which was paid by the holding company with the exception of J A Revill whose remuneration was paid by the company. The directors do not believe that it is practicable to apportion this amount between their services as directors of the company and their services as directors of the holding and fellow subsidiary companies.

The number of directors who were eligible to receive retirement benefits under the group defined benefit pension schemes at 31 March 1997 was 7 (1996 - 9). The accrued future benefits payable under these schemes to the highest paid director as at 31 March 1997 was £23,208 per annum.

6. PENSIONS

Contributions to the pension scheme are determined by qualified actuaries on the basis of triennial valuation. The latest actuarial valuation was carried out as at 1 April 1996 and details of this valuation are shown in the accounts of the parent company.

Lee Steel Strip Limited

NOTES TO THE ACCOUNTS

at 31 March 1997

7. TAXATION

The (credit)/charge based on the (loss)/profit for the period comprises:

	1997 £	1996 £
Corporation tax at 33% (1996 - 33%)	(365,425)	764,701
Deferred taxation	183,241	426,098
Adjustment relating to prior period	67	(497)
	<u>(182,117)</u>	<u>1,190,302</u>

8. TANGIBLE FIXED ASSETS

	<i>Freehold land and buildings</i> £	<i>Plant and machinery</i> £	<i>Motor vehicles</i> £	<i>Assets in the course of construction</i> £	<i>Total</i> £
Cost or valuation:					
At 30 March 1996	2,112,200	13,155,093	316,656	3,836,357	19,420,306
Additions - group	-	-	72,787	-	72,787
- non group	-	283,443	-	948,126	1,231,569
Transfers	-	1,342,012	-	(1,342,012)	-
Disposals - non group	-	-	(115,089)	-	(115,089)
At 31 March 1997	<u>2,112,200</u>	<u>14,780,548</u>	<u>274,354</u>	<u>3,442,471</u>	<u>20,609,573</u>
At valuation 1993	<u>2,050,000</u>				
Depreciation:					
At 30 March 1996	71,765	7,107,201	136,132	-	7,315,098
Provided during the period	29,784	1,213,501	71,840	-	1,315,125
On group additions	-	-	44,389	-	44,389
Disposals - non group	-	-	(78,528)	-	(78,528)
At 31 March 1997	<u>101,549</u>	<u>8,320,702</u>	<u>173,833</u>	<u>-</u>	<u>8,596,084</u>
Net book value:					
At 31 March 1997	<u>2,010,651</u>	<u>6,459,846</u>	<u>100,521</u>	<u>3,442,471</u>	<u>12,013,489</u>
At 30 March 1996	<u>2,040,435</u>	<u>6,047,892</u>	<u>180,524</u>	<u>3,836,357</u>	<u>12,105,208</u>

Included in freehold land and buildings is land valued at £623,000 which is not depreciated.

Lee Steel Strip Limited

NOTES TO THE ACCOUNTS

at 31 March 1997

8. TANGIBLE FIXED ASSETS (continued)

If land and buildings had not been revalued they would have been carried in the balance sheet as follows:

	1997 £	1996 £
Cost	665,767	665,767
Accumulated depreciation	432,450	419,207
	<u>233,317</u>	<u>246,560</u>

The net book value of tangible fixed assets includes amounts in respect of assets held under finance leases totalling £666,893 (1996 - £877,687).

9. STOCKS

	1997 £	1996 £
Raw materials	2,164,177	4,686,153
Work in progress	2,989,593	2,802,275
Finished goods	1,758,180	1,942,471
	<u>6,911,950</u>	<u>9,430,899</u>

10. DEBTORS

	1997 £	1996 £
Trade debtors	6,560,053	7,217,033
Corporation tax recoverable	365,425	-
Amounts owed by group undertakings	130,254	155,966
Other debtors	24,811	149,807
Prepayments	220,372	58,605
	<u>7,300,915</u>	<u>7,581,411</u>

11. CREDITORS: amounts falling due within one year

	1997 £	1996 £
Bank overdraft	4,105,146	4,571,786
Trade creditors	4,616,412	5,808,759
Corporation tax	-	763,291
Amounts owed to group undertakings	610,817	384,133
Other taxes and social security costs	388,200	304,666
Other creditors	78,296	107,814
Accruals	938,815	871,270
	<u>10,737,686</u>	<u>12,811,719</u>

Lee Steel Strip Limited

NOTES TO THE ACCOUNTS

at 31 March 1997

12. DEFERRED TAXATION

Deferred taxation is as follows:

	1997 £	1996 £
Accelerated capital allowances	1,512,227	1,328,986
Short term timing differences	(21,000)	(21,000)
	<u>1,491,227</u>	<u>1,307,986</u>

There is a potential liability in respect of the tax which would arise if the company's revalued property was sold for its revalued amount. This liability is estimated at £190,000 (1996 - £200,000).

13. CALLED UP SHARE CAPITAL

	1997 £	Authorised 1996 £	Allotted, called up and fully paid 1997 £	1996 £
Ordinary shares of £1 each	<u>9,500,000</u>	<u>9,500,000</u>	<u>9,500,000</u>	<u>9,500,000</u>

14. RESERVES

	Revaluation reserve £	Profit and loss account £	Total £
At 30 March 1996	1,793,875	2,529,208	4,323,083
Deficit for the period	-	(426,447)	(426,447)
Transfer in respect of depreciation	(16,541)	16,541	-
At 31 March 1997	<u>1,777,334</u>	<u>2,119,302</u>	<u>3,896,636</u>

15. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1997 £	1996 £
(Loss)/profit on ordinary activities after taxation	(426,447)	2,340,897
Opening shareholders' funds	13,823,083	11,482,186
Closing shareholders' funds	<u>13,396,636</u>	<u>13,823,083</u>

Lee Steel Strip Limited

NOTES TO THE ACCOUNTS

at 31 March 1997

16. CAPITAL COMMITMENTS

	1997 £	1996 £
Contracted	100,000	563,593

17. OTHER FINANCIAL COMMITMENTS

At 31 March 1997 the company had annual commitments under non-cancellable operating leases as set out below:

	Plant and machinery 1997 £	1996 £
Operating leases which expire:		
within one year	500	6,068
within two to five years	38,243	37,946
more than five years	728	-
	39,471	44,014

18. ULTIMATE PARENT COMPANY

The parent company and ultimate controlling party of the group of undertakings for which group accounts are drawn up and of which the company is a member is Carclo Engineering Group PLC. Copies of Carclo Engineering Group PLC's accounts can be obtained from Carclo House, PO Box 224, Fife Street, Sheffield, S9 1YX.