

D&J (Steels) Limited

**Directors' report and financial
statements**

Registered number 00993624

For the year ended 31 December 2002



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Contents

Directors' report	1
Statement of directors' responsibilities	3
Independent auditors' report to the members of D&J Steels Limited	4
Profit and loss account	5
Balance sheet	6
Reconciliation of movements in shareholder's funds	7
Notes	8

Directors' report

The directors present their annual report and financial statements for the year ended 31 December 2002.

Principal activity

The principal activity of the company continues to be that of steel stockholding.

Business review and future developments

The re-organisation of the business by the directors last year has enabled the company to return to profitability despite very competitive market conditions. Trading is expected to remain difficult in the short to medium term.

Dividends

The directors recommend that a final dividend of £250,000 be paid for the period ended 31 December 2002 (*15 months ended 31 December 2001: £Nil*).

Political contributions and charitable donations

The company made no charitable donations during the year (*15 months ended 31 December 2001: £Nil*). There were no political contributions.

Directors and their interests

The directors serving during the period were as follows:

DL Grove
CJ Burr
HC Everett
E Fisher
P Harper

None of the directors has any beneficial interest in the shares of the company.

Mr DL Grove, Mr CJ Burr and Mr HC Everett are directors of the ultimate holding company, Hill & Smith Holdings PLC, and their interests in the shares and shares options of that company are shown in its financial statements.

Directors' report *(continued)*

Directors and their interests *(continued)*

The interests of the other directors in the shares and share options of Hill & Smith Holdings PLC are detailed as follows:

Shares

	2002	2001
P Harper	4,072	4,072

Share options

	At 31.12.01	Granted during year	Lapsed during year	At 31.12.02	Exercise price p	Date exercisable	Expiry date	Note No
E Fisher								
	11,200	-	-	11,200	113.6	20.02.09	20.02.06	1
	2,454	-	-	2,454	66.0	01.04.03	01.10.02	2
	8,855	-	-	8,855	41.3	01.03.04	01.09.04	2
	<u>22,509</u>	<u>-</u>	<u>-</u>	<u>22,509</u>				
P Harper								
	11,200	-	-	11,200	113.6	20.02.99	20.02.06	1
	3,090	-	3,090	-	66.0	01.04.02	01.10.02	2
	4,355	-	-	4,355	41.3	01.03.04	01.09.04	2
	<u>18,645</u>	<u>-</u>	<u>3,090</u>	<u>15,555</u>				

Note 1: These options were granted under the 1995 Executive Share Option Scheme

Note 2: These options were granted under the 1995 Savings Related Share Option Scheme

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming annual general meeting.

By order of the board



HC Everett
Secretary

2 Highlands Court
Cranmore Avenue
Shirley
Solihull
West Midlands
B90 4LE

18 March 2003

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements 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 financial statements, the directors are required to:

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

The directors are responsible for keeping 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 financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG Audit Plc
2 Cornwall Street
Birmingham
B3 2DL

Independent auditors' report to the members of D&J Steels Limited

We have audited the financial statements on pages 5 to 14.

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 are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company is not disclosed.

Basis of audit 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 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 of the state of the company's affairs as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink that reads 'KPMG Audit Plc'.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

18 March 2003

Profit and loss account
for the year ended 31 December 2002

	<i>Note</i>	Year ended 31 December 2002 £000	15 months ended 31 December 2001 £000
Turnover	2	3,032	5,310
Cost of sales		(2,748)	(4,883)
Gross profit		284	427
Distribution costs		(74)	(123)
Administrative expenses		(198)	(464)
Operating profit/(loss)		12	(160)
Bank interest receivable		1	6
Profit/(loss) on ordinary activities before taxation	3	13	(154)
Tax on profit/(loss) on ordinary activities	6	-	34
Profit/(loss) on ordinary activities after taxation		13	(120)
Dividends		(250)	-
Retained loss for the year	13	(237)	(120)

All operations are continuing.

There is no material difference between the results as shown in the profit and loss account and their historical cost equivalents.

There were no recognised gains or losses during the current or preceding year apart from the profit for the financial year shown above.

Balance sheet
as at 31 December 2002

	<i>Note</i>	2002 £000	2001 £000	£000
Fixed assets				
Tangible assets	7		561	614
Current assets				
Stocks	8	622	730	
Debtors	9	773	1,088	
Cash at bank and in hand		206	54	
		<u>1,601</u>	<u>1,872</u>	
Creditors: Amounts falling due within one year	10	<u>(1,655)</u>	<u>(1,738)</u>	
Net current (liabilities)/assets			(54)	134
Total assets less current liabilities			<u>507</u>	<u>748</u>
Provisions for liabilities and charges	11		(10)	(14)
Net assets			<u>497</u>	<u>734</u>
Capital and reserves				
Called up share capital	12		6	6
Revaluation reserve			254	272
Profit and loss account	13		237	456
Equity shareholder's funds			<u>497</u>	<u>734</u>

These financial statements were approved by the board of directors on 18 March 2003 and signed on their behalf by:


E Fisher
Director


P Harper
Director

Reconciliation of movements in shareholder's funds
for the year ended 31 December 2002

	Year ended 31 December 2002 £000	15 months ended 31 December 2001 £000
Loss for the financial year/period	(237)	(120)
Opening shareholder's funds	734	854
Closing equity shareholder's funds	497	734

Notes

(forming part of the financial statements)

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:

Basis of accounting

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, and in accordance with applicable Accounting Standards. The company has applied the transitional rules contained in FRS 15: *Tangible fixed assets* to retain previous valuations as the basis on which certain of these assets are held.

Cash flow statement

Under Financial Reporting Standard 1 (revised 1996) the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

Fixed assets and depreciation

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

Freehold buildings	- 50 years
Plant, equipment and vehicles	- 4 to 20 years

No depreciation is provided on freehold land

Stocks and work in progress

These are valued on a "first-in, first-out" basis at the lower of cost and net realisable value.

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.

Turnover

Turnover, which excludes value added tax and trade discounts represents the invoiced value of goods and services supplied.

Pension scheme arrangements

Contributions are charged to the profit and loss account so as to spread the cost of pensions evenly over employees' working lives with the company.

The company has adopted the transitional disclosure requirements of FRS 17.

Leased assets

Assets acquired under finance lease and hire purchase contracts are capitalised and the future lease obligations are shown in creditors. Finance charges are allocated to the profit and loss account over the period of the lease.

Rentals paid under operating leases are charged to the profit and loss account as incurred.

Notes (continued)

2 Turnover

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

	Year ended 31 December 2002 £000	15 months ended 31 December 2001 £000
United Kingdom	3,028	5,281
Rest of Europe	4	29
	<u>3,032</u>	<u>5,310</u>

3 Profit on ordinary activities before taxation

	Year ended 31 December 2002 £000	15 months ended 31 December 2001 £000
<i>Profit on ordinary activities before taxation is stated</i>		
<i>after charging:</i>		
Depreciation and amortisation of owned assets	47	72
Operating leases:		
Plant and equipment	-	1
Re-organisation of business	-	51
Auditors' remuneration	5	6
	<u>52</u>	<u>129</u>
<i>after crediting:</i>		
Profit on sale of tangible fixed assets	2	1
	<u>54</u>	<u>130</u>

4 Remuneration of directors

Aggregate directors' remuneration for the year was as follows:

	Year ended 31 December 2002 £000	15 months ended 31 December 2001 £000
Emoluments	91	136
	<u>91</u>	<u>136</u>
Number of directors who are members of defined benefit pension schemes	2	2
	<u>2</u>	<u>2</u>

Notes (continued)

5 Staff numbers and costs

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

	Year ended 31 December 2002 Number	15 months ended 31 December 2001 Number
Sales and distribution	11	8
Administration	6	14
	<hr/> 17	<hr/> 22
	<hr/>	<hr/>

The aggregate payroll costs of these persons were:

	£000	£000
Wages and salaries	274	551
Social security costs	30	49
Other pension costs	32	37
	<hr/> 336	<hr/> 637
	<hr/>	<hr/>

6 Tax on profit/(loss) on ordinary activities

	Year ended 31 December 2002 £000	15 months ended 31 December 2001 £000
<i>Corporation tax</i>		
Current tax on income for the year	4	(31)
	<hr/> 4	<hr/> (31)
Total current tax		
	4	(31)
<i>Effects of:</i>		
Origination/reversal of timing differences	8	(3)
Relating to prior period	(12)	-
	<hr/> -	<hr/> (34)
	<hr/>	<hr/>

Notes (continued)

6 Tax on profit/(loss) on ordinary activities (continued)

Factors affecting tax credit for the year:

The effective current tax credit for the year is lower (2001: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 31 December 2002 £000	15 months ended 31 December 2001 £000
Profit/(loss) on ordinary activities before taxation	13	(154)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	4	(46)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	8	12
Difference between capital allowances for period and depreciation	4	3
Income and expenditure timing differences	(12)	-
Current tax charge/(credit)	4	(31)

7 Tangible fixed assets

	Freehold land and buildings £000	Plant, equipment and vehicles £000	Total £000
<i>Cost or valuation</i>			
At beginning of year	456	603	1,059
Disposals	-	(26)	(26)
At end of year	456	577	1,033
<i>Depreciation</i>			
At beginning of year	11	434	445
Charge for the year	5	42	47
Disposals	-	(20)	(20)
At end of year	16	456	472
<i>Net book value</i>			
At 31 December 2002	440	121	561
At 31 December 2001	445	169	614

Freehold land and buildings were revalued at 30 September 1999 to £450,000, based on the directors' estimate of their open market value for existing use purposes, having taken appropriate professional advice.

The gross book value of land and buildings includes freehold land of £200,000 (2001: £200,000).

Notes (continued)

7 Tangible fixed assets (continued)

The amount of revalued property as determined according to the historical cost accounting rule is:

	2002 £000	2001 £000
Cost	262	262
Depreciation	(58)	(55)
Net book value	<u>204</u>	<u>207</u>

There were no contracted capital commitments in either the current or preceding years.

8 Stocks

	2002 £000	2001 £000
Finished goods and goods for resale	<u>622</u>	<u>730</u>

9 Debtors

	2002 £000	2001 £000
Trade debtors	702	1,038
Amounts owed by group undertakings	40	9
Prepayments and accrued income	31	13
Corporation tax	-	28
	<u>773</u>	<u>1,088</u>

10 Creditors: amounts falling due within one year

	2002 £000	2001 £000
Trade creditors	780	1,023
Amounts owed to group undertakings	823	572
Other creditors	-	7
Corporation tax	6	-
Other tax and social security	25	59
Accruals and deferred income	21	77
	<u>1,655</u>	<u>1,738</u>

Notes (continued)

11 Provision for liabilities and charges

Details of amounts provided for deferred taxation and movements in the period are set out below:

	£000
At beginning of year	14
Profit and loss account	(4)
	<hr/>
At end of year	10
	<hr/>

	2002 £000	2001 £000
Difference between accumulated depreciation, amortisation and capital allowances	10	14
	<hr/>	<hr/>

12 Share capital

	2002 £000	2001 £000
<i>Authorised:</i>		
10,000 ordinary shares of £1 each	10	10
	<hr/>	<hr/>
<i>Allotted called up and fully paid:</i>		
6,000 ordinary shares of £1 each	6	6
	<hr/>	<hr/>

13 Movement on reserves

	Revaluation reserve £000	Profit and loss account £'000
At beginning of year	272	456
Retained loss for the period	-	(237)
Transfer	(18)	18
	<hr/>	<hr/>
At end of year	254	237
	<hr/>	<hr/>

14 Contingent liabilities

The company is a party to cross-guarantees given for bank loans and overdrafts of the parent company and certain fellow subsidiaries of £68,480,000 (2001: £73,189,000).

The company has a bond, guarantee and indemnity to Customs & Excise for £20,000 (2001: £6,000).

15 Financial commitments

	Land and buildings 2002 £000	2001 £000
Leases expiring:		
Within one year	-	1
	<hr/>	<hr/>

Notes (continued)

16 Pension scheme

The company is a subsidiary of Hill & Smith Holdings PLC and was a member of the Hill & Smith Group Pension and Assurance Scheme. Benefits under this scheme ceased accruing as at 5 April 2001. The company now contributes to two new group pension schemes; one providing benefits accruing in the future on a defined benefit basis and a second scheme providing benefits that are on a defined contribution basis. Details of the scheme and their most recent actuarial valuation are contained in the financial statements of Hill & Smith Holdings PLC. The company's pension cost charge for the year was £30,000 (2001: £30,000). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

The company also operates its own defined contribution scheme, the assets of which are held separately from those of the company in an independently administered fund. The pensions cost of this scheme for the year, representing contributions payable by the company to the fund, were £2,000 (2001: £7,000).

The company is a member of the Group pension scheme which provides benefits on final pensionable pay. As the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17: *Retirement Benefits*, the scheme will be accounted for by the company when the accounting standard is fully adopted by the company as if they were defined contribution schemes.

17 Related party transactions

The company has taken advantage of the exemption available under FRS 8: *Related party transactions* not to disclose transactions that have been made between the company and other fellow subsidiaries of Hill & Smith Holdings PLC.

18 Ultimate parent company

The company is a wholly owned subsidiary of Hill & Smith Holdings PLC, a company registered in England. Copies of the Group financial statements may be obtained from group headquarters:

2 Highlands Court
Cranmore Avenue
Shirley, Solihull
B90 4LE