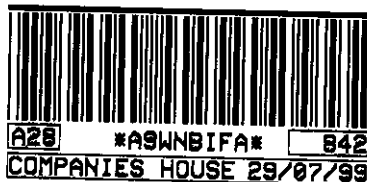


Caparo Investments Limited

**Directors' report and
financial statements**

**For the year ended
31 December 1998**

Registered number: 998732



BDO Stoy Hayward
Chartered Accountants

CAPARO INVESTMENTS LIMITED

Directors' report and financial statements

<i>Contents</i>	<i>Page</i>
Directors' report	1-2
Auditors' report	3
Profit and loss account	4
Balance sheet	5
Notes	6-9

CAPARO INVESTMENTS LIMITED

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1998.

Principal activity

The principal activity of the company is making investments and dealing in securities.

Business review and future developments

The profit and loss account is set out on page 4 and shows the loss for the year on ordinary activities after taxation of £51,000 (1997: £9,000).

The directors are satisfied with the results of the company during the year.

Dividends

The directors do not recommend the payment of a dividend (1997: £Nil).

Directors and directors' interests

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

The Honourable Ambar Paul
The Honourable Angad Paul
CG Steele

The interests of The Honourable Ambar Paul and The Honourable Angad Paul in the share capital of Caparo Group Limited, the parent company, are disclosed in the directors' report of that company. Mr CG Steele had no interest in the shares of the parent company.

No director had any interest in the share capital of any subsidiary company of the ultimate parent company.

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 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

CAPARO INVESTMENTS LIMITED

Directors' report (*Continued*)

Directors' responsibilities (*Continued*)

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 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.

Year 2000

The company has reviewed the effect of the Year 2000 on its operations. Recent capital and revenue expenditure has been incurred which is aimed at ensuring that the information systems of the company are substantially Year 2000 compliant. Further plans are in place to progress the compliance process, the costs of which are not expected to be of a material nature. A continuing process of review is also in place to identify those areas of the business infrastructure where Year 2000 compliance may be in doubt. Where such instances are identified then appropriate corrective action is being taken.

EMU Impact

Having reviewed its commercial and accounting transactions, the company is ready to manage the impact of the single currency.

Auditors

Pursuant to a shareholders' resolution, the company is not obliged to re-appoint its auditors annually and BDO Stoy Hayward will, therefore, continue in office.

By order of the board



CG Steele
Secretary

24 June 1999

Caparo House
103 Baker Street
London
W1M 2LN

Auditors' report to the members of Caparo Investments Limited

We have audited the financial statements on pages 4 to 9 which have been prepared under the accounting policies set out on page 6.

Respective responsibilities of directors and auditors

As described on pages 1 and 2, the directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 an 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 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**BDO STOY HAYWARD***Chartered Accountants
and Registered Auditor*
Nottingham

24 June 1999

CAPARO INVESTMENTS LIMITED

Profit and loss account for the year ended 31 December 1998

	Note	1998 £'000	1997 £'000
Administrative expenses		(74)	(13)
Loss on ordinary activities before taxation		<u>(74)</u>	<u>(13)</u>
Tax on loss on ordinary activities	3	23	4
Loss for the financial year		<u>(51)</u>	<u>(9)</u>
Deficit brought forward		(10,623)	(10,614)
Deficit carried forward		<u>(10,674)</u>	<u>(10,623)</u>

The results reported above all relate to continuing activities.

There are no recognised gains or losses other than the result for the year shown above.

CAPARO INVESTMENTS LIMITED

Balance sheet at 31 December 1998

	Note	1998 £'000	1997 £'000
Fixed assets			
Investments	4	-	50
Current assets			
Investments	5	7	10
Net current assets		7	10
Debtors: amounts falling due after more than one year	6	473	473
Total assets less current liabilities		480	533
Creditors: amounts falling due after more than one year	7	(11,144)	(11,146)
Net liabilities		(10,664)	(10,613)
Capital and reserves			
Called up share capital	8	10	10
Profit and loss account		(10,674)	(10,623)
Shareholders' deficit (including non-equity interests)	9	(10,664)	(10,613)

These financial statements were approved by the board of directors on 24 June 1999 and were signed on its behalf by:



CG Steele
Director

CAPARO INVESTMENTS LIMITED

Notes forming part of the financial statements

1 Accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with the applicable accounting standards. The following principal accounting policies have been applied:

Investments

Investments are stated at cost less provisions for permanent diminution in value.

Foreign currencies

Profit and loss accounts of overseas subsidiary undertakings are translated at average rates of exchange prevailing during the year. Their net assets are translated at year end rates, the difference on exchange being taken to reserves.

Other monetary assets and liabilities denominated in foreign currencies are translated at year end rates, the exchange differences arising being taken to the profit and loss.

Cash flow statement

Under FRS 1 (revised), the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking.

2 Directors' remuneration and employees

No director received any remuneration during either year.

The company had no employees during either year.

3 Tax on loss on ordinary activities

	1998 £'000	1997 £'000
UK corporation tax	23	4
	<u> </u>	<u> </u>

CAPARO INVESTMENTS LIMITED

Notes forming part of the financial statements (*Continued*)

4 Fixed asset investments

	Shares in subsidiary undertakings £'000	Shares in participating interest £'000	Total £'000
<i>At cost</i>			
At beginning of year	50	335	385
Additions in year	-	20	20
At end of year	50	355	405
<i>Provisions</i>			
At beginning of year	50	285	335
Provisions movement in year	-	70	70
At end of year	50	355	405
<i>Net book value</i>			
At 31 December 1998	-	-	-
At 31 December 1997	-	50	50

The following were subsidiaries of the company at the balance sheet date:

Subsidiary undertaking	Percentage of equity shares held	Principal activity
<i>Directly held</i>		
Steel Sales Limited	100%	Intermediate holding company
Caparo Properties Limited	100%	Investment company
<i>Indirectly held:</i>		
Osborne Hotel Torquay Limited	100%	Hoteliers and timeshare operators
Atlantic Merchants Limited	100%	Dormant

Consolidated financial statements are not prepared as the company is a wholly owned subsidiary of Caparo Group Limited. The results of the company are included within the consolidated results of Caparo Group Limited.

CAPARO INVESTMENTS LIMITED

Notes forming part of the financial statements (Continued)

5 Current asset investments

	1998 £'000	1997 £'000
Listed investments:		
On London Stock Exchange	7	10
	<u>7</u>	<u>10</u>

6 Debtors

Amounts falling due after more than one year:

Amounts owed by fellow subsidiary undertakings	473	473
	<u>473</u>	<u>473</u>

7 Creditors: amounts falling due after more than one year

Amount owed to ultimate parent company	11,144	11,146
	<u>11,144</u>	<u>11,146</u>

This loan has no fixed repayment date and bears no interest.

8 Share capital

Authorised:

100,000 deferred ordinary shares of £1 each	100	100
1,000 ordinary shares of 10p each	-	-
	<u>100</u>	<u>100</u>

Allotted, called up and fully paid:

10,000 deferred ordinary shares of £1 each	10	10
1,000 ordinary shares of 10p each	-	-
	<u>10</u>	<u>10</u>

The non-equity deferred ordinary shares have no voting rights or distribution rights and are only entitled to a distribution limited to the nominal value of the shares in the event of the company being wound up.

CAPARO INVESTMENTS LIMITED

Notes forming part of the financial statements (Continued)

9 Reconciliation of movements in shareholders' deficit

	1998	1997
	£'000	£'000
Loss for the financial year	(51)	(9)
Shareholders' deficit brought forward	(10,613)	(10,604)
Shareholders' deficit carried forward	<u>(10,664)</u>	<u>(10,613)</u>

10 Related party transactions

Caparo Investments Limited owns 33.3% of the equity share capital of Victor Film Company Limited. The Honourable Angad Paul is a director of Victor Film Company Limited.

The company has taken advantage of the exemption available under FRS8 not to disclose transactions with entities that are part of Caparo Group Limited, on the grounds that the exemption is available as the company is a wholly owned subsidiary of Caparo Group Limited.

11 Ultimate parent company

The company is a subsidiary of Caparo Group Limited, which is the ultimate parent company.

12 Continued support

The ultimate parent company has confirmed that it will continue to support the company to enable it to fulfil its remaining obligations.