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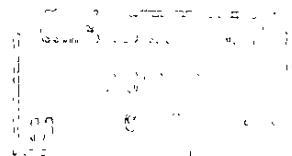
UNITED MERCHANT BANK Plc

Year ended

31st December 1987

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A Caparo Group Company



Annual Report and Financial Statements for the year ended 31st December 1987

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Directors

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Directors

Swraj Paul (Chairman)  
J.A. Leek  
Akash Paul  
G.H. Sambrook  
J.T. Hodson  
J. Crossman  
P.F. Lormor

Secretary and registered office

W.G. Jeavons, Neville House, 42-46 Hagley Road, Birmingham, B16 8PA.

Auditors

Stoy Hayward, 8 Baker Street, London, W1M 1DA.

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The directors submit their annual report, together with the audited financial statements for the year ended 31st December 1987.

#### Review of activities

The profit and loss account for 1987 is set out on page 4. The pre-tax profit rose to £2.885 million in this, the first full operational year.

The major improvements in terms of profitability are the increased production and sales volume coupled with effective control over the full conversion cost base.

The principal activity of the business is the re-rolling of a wide range of merchant bar flats, angles and channels. During the year, the operation continued to improve its efficiency by reducing costs and selective capital expenditure.

Both the level of business and the year end financial position were satisfactory. With the ending of quota regulations on merchant bars the directors expect the level of activity to increase and further enhance future levels of profitability.

#### Dividends

The directors recommend the payment of a final dividend of £1.8 million for the year under review.

#### Significant events

During the year, the full product mix was available which includes some 208 different products, the widest range of merchant bar offered by any UK rolling mill. The development of the finishing processing capacity has enabled the rolling unit to produce and sell 138,000 tonnes and 132,000 tonnes respectively which was some 15% above forecast for the business.

#### Future developments

Currently, a £250,000 extension is being installed to accommodate additional roller straightening equipment and more rapid automatic stacking which will achieve a cold processing rate approaching the hot-mill rolling capacity.

Subject to market stability and potential growth, additional rolling and finishing facilities are being actively pursued with a view to increasing the product range capability of the business.

# UNITED MERCHANT BARR PLC

Report of the directors for the year ended 31st December 1987 (Continued)

## Employment policies

The company operates a relatively unique employment arrangement based on harmonisation and reward for excellence.

The harmonised employment package enables each and every employee to enjoy the same holiday and sickness entitlements, and the benefits of a registered profit related pay scheme which qualifies for income tax relief in accordance with the Inland Revenue rules.

## Fixed assets

Movements in fixed assets during the year are disclosed in note 13 to the accounts.

## Directors

A list of the present directors is given on the contents page.

Mr. R.I. Laucht resigned on 30th September 1987.

The directors retiring in accordance with the Articles of Association and offering themselves for re-election are Messrs. J.T. Hodson, J. Crossman and Akash Paul.

## Directors interest

None of the directors had any interest in the share capital of the company during the year.

The shareholding interests of Mr. Swraj Paul and Mr. J.A. Leek in the share capital of the immediate holding company, Caparo Industries Plc, are shown in the directors' report of that company.

Other directors' shareholding interests in the share capital of the immediate holding company Caparo Industries Plc are as follows:

	<u>1987</u>	<u>1986</u>
Ordinary shares	5,078	5,000
Akash Paul		
8% Convertible cumulative redeemable preference shares	1,111	3,882
Akash Paul		
8.75% Convertible cumulative redeemable preference shares	-	5,000
Akash Paul		

Report of the directors for the year ended 31st December 1987 (Continued)

Directors' interest (continued)

Executive share option scheme

	Number of ordinary shares as at 31st December 1987	Period exercisable	Option price per share
J. Crossman	75,000	June 1988 - June 1995	29p
P.F. Lormor	30,000	July 1989 - July 1996	51p

Personnel

The number of employees and their remuneration is shown in note 12 to the accounts.

The importance of health and safety matters is recognised by the company which continues to provide and maintain safe and healthy working conditions. Applications from disabled persons are given full consideration, provided the disability does not seriously affect the performance of their duties. Such persons, once employed, are given appropriate training and equal opportunities.

The company aims to achieve a good degree of consultation with employees at all levels. Regular briefing sessions are held, with representatives appointed by the employees, at which the performance of the business is discussed. Membership of the Caparo Industries SAYE share option scheme is actively encouraged.

Donations

The company made charitable donations of £418 during the year. There were no political contributions.

Auditors

Stoy Hayward have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the annual general meeting.

On behalf of the board

W.G. Jeavons

Secretary

5th May 1988

## UNITED MERCHANT BANK Plc

## Profit and loss account for the year ended 31st December 1987

	Note	1987 £000's	1986 £000's
Turnover	2	28,669	15,065
Cost of sales		(21,271)	(13,316)
Gross profit		7,398	1,749
Other operating expenses	3	(4,200)	(2,208)
Other operating income	4	3	45
Operating profit/(loss)	5	3,201	(414)
Interest receivable	6	96	341
		3,297	(73)
Interest payable	7	(412)	(325)
Exceptional item	8	-	594
Profit on ordinary activities before taxation		2,885	196
Tax on profit on ordinary activities	9	(880)	(230)
Profit/(loss) for the financial year after taxation		2,005	(34)
Dividends	10	(1,800)	-
Retained profit/(loss) for year		205	(34)
Retained profit brought forward		308	342
Retained profit carried forward	20	513	308

The notes on pages 7 to 14 form part of these accounts

UNITED MERCHANT BANK Plc

Balance sheet at 31st December 1987

	Note	1987 £000's	£000's	1986 £000's	£000's
<b>Fixed assets</b>					
Tangible assets	13		9,169		4,193
<b>Current assets</b>					
Stocks	14	2,722		1,816	
Debtors	15	10,243		7,180	
Cash at bank and in hand		406		801	
		13,371		9,797	
<b>Creditors</b>					
Amounts falling due within one year	16	(9,804)		(6,692)	
Net current assets			3,567		3,105
Total assets less current liabilities			12,736		7,298
<b>Creditors</b>					
Amounts falling due after more than one year	17		(1,907)		(2,140)
Provisions for liabilities and charges	18		(1,346)		(830)
			9,483		4,328
<b>Capital and reserves</b>					
Called up share capital	19		2,467		2,467
Reserves	20		7,016		1,861
			9,483		4,328

Swraj Paul

G.H. Sambrook

J. Crossman

The accounts were approved by the board of directors on 5th May 1988

The notes on pages 7 to 14 form part of these accounts.

Statement of source and application of funds for the year ended 31st December 1987

	1987	1986
	£000's	£000's
<b>Sources of funds</b>		
Profit on ordinary activities before taxation	2,885	196
Adjustment for items not involving the movement of funds		
Depreciation	204	141
<b>Total generated from operations</b>	<b>3,089</b>	<b>337</b>
<b>Funds from other sources</b>		
Calls on issued share capital	-	1,350
Disposal of fixed assets	-	25
		1,375
	<b>3,089</b>	<b>1,712</b>
<b>Application of funds</b>		
Purchase of fixed assets	(230)	(873)
	<b>2,859</b>	<b>839</b>
<b>Increase/(decrease) in working capital</b>		
Stocks	906	1,816
Debtors	2,003	3,917
Creditors	(506)	(129)
Inter-group related company	901	(3,246)
	<b>3,304</b>	<b>2,358</b>
<b>Decrease in net liquid funds</b>	<b>(445)</b>	<b>(1,519)</b>

The notes on pages 7 to 14 form part of these accounts



The financial statements have been prepared under the historical cost convention with the exception of certain assets which are included at a valuation in excess of original cost, using the following accounting policies:

Depreciation is provided on all tangible fixed assets, other than freehold land and buildings, at rates calculated to write off the cost of each asset evenly over its expected useful life, as follows:

Plant and machinery	-	4-10%
Computer equipment	-	20%
Computer software	-	33%
Rolls	-	25%
Mobile plant	-	25%

Assets costing less than £1,000 are written off in the year of purchase.

No depreciation is provided on freehold land and buildings as it is the company's policy to maintain the property in good condition to prolong its useful life. Maintenance is regularly undertaken and systematically charged to the profit and loss account. In the opinion of the directors this accounting policy ensures that the financial statements show a true and fair view.

Assets and liabilities in foreign currencies, except those covered by forward contracts, are translated at the rates of exchange ruling at the balance sheet date. All profits and losses on transactions are credited or charged in full to the profit and loss account.

Stocks are valued at the lower of cost and net realisable value with due allowance for obsolescence. In the case of finished goods and work in progress, cost comprises direct material, direct labour and an appropriate proportion of manufacturing overheads.

Net realisable value is based on estimated selling price less further costs to completion and sale.

Provision using the liability method is made for deferred taxation on all material timing differences which, in the opinion of the directors, may reverse in the foreseeable future.

Taxation losses have been carried forward to the extent that they are expected to be recoverable in the foreseeable future.

## 1. Accounting policies (continued)

## Leased assets

Leased assets are not capitalised. Rentals are charged to the profit and loss account over the shorter of the estimated useful operating life of the asset or the aggregate of the primary and secondary lease periods.

## Grants

Grants received towards the cost of capital expenditure are used to reduce the cost of the relevant fixed asset. All other grants are released to the profit and loss account on a cash received basis provided there is an unconditional agreement with the appropriate Government Department.

## Pensions

Employers' pension contributions are charged to the profit and loss account in the year in which they become payable.

## 2. Turnover

Turnover is wholly attributable to the company's principal activity of steel re-rolling.

Turnover is analysed by geographical market below:

	1987 £000's	1986 £000's
United Kingdom	23,431	13,070
Other EEC	4,181	1,720
Other	<u>1,057</u>	<u>275</u>
	<u>28,669</u>	<u>15,065</u>

## 3. Other operating expenses

Distribution expenses	2,284	936
Administration expenses	<u>1,916</u>	<u>1,272</u>
	<u>4,200</u>	<u>2,208</u>

## 4. Other operating income

Commission received	<u>3</u>	<u>45</u>
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## UNITED MERCHANT BANK PLC

Notes forming part of the accounts for the year ended 31st December 1987 (Continued)

	1987 £000's	1986 £000's
5. Operating profit/(loss)		
Operating profit/(loss) is stated after charging:		
Auditors' remuneration	12	6
Hire of plant and machinery	51	36
Directors' emoluments (see note 11)	150	90
Depreciation	204	141
	<u>          </u>	<u>          </u>
6. Interest receivable		
Bank deposit interest	5	125
Holding company	91	158
Other	-	58
	<u>          </u>	<u>          </u>
	96	341
	<u>          </u>	<u>          </u>
7. Interest payable		
Bank overdrafts	161	21
Loans, repayable within 5 years		
- related company	66	88
- holding company	63	84
- other	-	38
Finance leases	120	94
Other	2	-
	<u>          </u>	<u>          </u>
	412	325
	<u>          </u>	<u>          </u>
8. Exceptional item		
Release of Government grants to offset commissioning costs	-	594
	<u>          </u>	<u>          </u>
9. Taxation		
Overprovision in previous years	139	-
Subvention amounts (payable)/receivable in respect of corporation tax losses surrendered (by)/to fellow subsidiaries	(353)	600
Deferred taxation	(666)	(830)
	<u>          </u>	<u>          </u>
	(880)	(230)
	<u>          </u>	<u>          </u>
10. Dividend		
Proposed dividend	1,800	-
	<u>          </u>	<u>          </u>

HELEED MERCHANT BAR Plc

Notes forming part of the accounts for the year ended 31st December 1987 (Continued)

11. Directors emoluments	1987 £000's	1986 £000's
Remuneration for executive services	150	90
Remuneration of chairman	-	-
Remuneration of highest paid director (excluding pension contributions)	71	39
The emoluments of the other directors (excluding pension contributions) fell within the following ranges:	Number	Number
£ Nil to £5,000	4	4
£15,001 to £20,000	-	1
£20,001 to £25,000	1	-
£25,001 to £30,000	-	1
£45,001 to £50,000	1	-
	6	6
12. Employees	£000's	£000's
Staff costs including directors emoluments		
Wages and salaries	1,538	1,041
Social security costs	132	73
Other pension costs	84	57
	1,754	1,171
The average number of employees, including directors, during the year were:	Number	Number
Production	105	75
Administration and management	20	16
	125	91

UNITED MERCHANT BANK Plc

Notes forming part of the accounts for the year ended 31st December 1987 (Continued)

13. Tangible fixed assets

	Freehold land and buildings £000's	Plant and machinery £000's	Vehicles and mobile plant £000's	Total £000's
Cost				
At 1st January 1987	200	4,128	7	4,335
Additions for year	-	219	9	228
Revaluation	4,950	-	-	4,950
Inter-group transfer	-	2	-	2
At 31st December 1987	<u>5,150</u>	<u>4,349</u>	<u>16</u>	<u>9,515</u>
Depreciation				
At 1st January 1987	-	140	2	142
Charge for year	-	197	7	204
At 31st December 1987	<u>-</u>	<u>337</u>	<u>9</u>	<u>346</u>
Net book value				
At 31st December 1987	<u>5,150</u>	<u>4,012</u>	<u>7</u>	<u>9,169</u>
At 31st December 1986	<u>200</u>	<u>3,988</u>	<u>5</u>	<u>4,193</u>

The freehold land and buildings were valued professionally on a depreciated replacement cost basis because of the inability to reasonably assess the open market value for existing use. The valuations were carried out in 1987 by Messrs. Chesterton Bigwood, Chartered Surveyors.

14. Stocks

	<u>1987</u> £000's	<u>1986</u> £000's
Stocks comprise:		
Rolls	342	306
Stores and spares	292	200
Raw materials	441	369
Finished goods	<u>1,647</u>	<u>941</u>
	<u>2,722</u>	<u>1,816</u>

In the opinion of the directors, there were no material differences between the replacement costs of stocks and those stated above.

UNITED MERCHANT BAR Plc

Notes forming part of the accounts for the year ended 31st December 1987 (Continued)

15. Debtors	1987 £000's	1986 £000's
Trade debtors	5,919	4,127
Other debtors	52	182
Prepayments and accrued income	118	126
Amount due from group companies	682	606
Amount due from holding company	799	741
Amount due from related company	1,063	137
Leased asset prepayment	<u>1,610</u>	<u>1,261</u>
	<u>10,243</u>	<u>7,180</u>

Debtors receivable after more than one year includes £220,000 within amounts due from group companies of £682,000, and £799,000 due from the holding company.

16. Creditors falling due within one year	1987 £000's	1986 £000's
Trade creditors	581	403
Other creditors	302	76
Taxation and social security	55	52
ACT payable	150	-
Accruals and deferred income	759	632
Amount due to related company	5,331	5,048
Amount due to group company	148	-
Amount due to holding company	147	-
Proposed dividends	<u>1,800</u>	<u>-</u>
	<u>9,273</u>	<u>6,211</u>
Borrowings		
Bank overdraft (secured)	390	340
Related company loans	<u>141</u>	<u>141</u>
	<u>9,804</u>	<u>6,692</u>

The bank overdraft is secured by a mortgage debenture over the book and other debts of the company.

17. Creditors falling due after more than one year	1987 £000's	1986 £000's
9% unsecured loan notes - due to related company	1,161	1,161
Other creditors	393	421
Amount due to group company	-	64
Amount due to related company	<u>353</u>	<u>494</u>
	<u>1,907</u>	<u>2,140</u>

The 9% unsecured loan notes bear interest from 1st January 1988 and are repayable at par at one months notice, and must be repaid by 31st December 1989.

## UNITED MERCHANT BANK Plc

Notes forming part of the accounts for the year ended 31st December 1987 (Continued)

## 18. Provisions for liabilities and charges

Deferred taxation	1987		1986	
	Amount unprovided £000's	Provided in accounts £000's	Amount unprovided £000's	Provided in accounts £000's
Accelerated capital allowances	-	978	-	680
Capital gains tax that would arise if properties were sold at revalued amounts	1,732	-	-	-
Short term timing differences	-	518	-	375
Unutilised losses	-	-	-	(225)
Advance corporation tax recoverable	-	(150)	-	-
	1,732	1,346	-	830

## 19. Called up share capital

	1987 £000's	1986 £000's
Authorised		
2,500,000 ordinary shares of £1 each	2,500	2,500
Allotted		
2,466,667 ordinary shares of £1, fully paid	2,467	2,467

## 20. Reserves

	Revaluation reserve £000's	Profit and loss account £000's	Share premium account £000's	Total £000's
At 1st January 1987	-	308	1,553	1,861
Revaluation in year	4,950	-	-	4,950
Profit retained for the year	-	205	-	205
At 31st December 1987	4,950	513	1,553	7,016

## 21. Capital commitments

	1987 £000's	1986 £000's
Contracted but not provided for	65	-
Authorised but not contracted for	241	129
	306	129

## 22. Contingent liabilities and commitments

- a) The company is party to a group VAT registration and is therefore jointly and severally liable together with all registered companies for the total VAT liability. At 31st December 1987 this liability amounted to £1,546,000 (1986 - £1,134,000).
- b) Discounted bills of exchange amounted to £598,000 (1986 - £422,000).
- c) The grants received from the Department of Trade and Industry which relate to the building of the mill, require full or partial repayment if various conditions are not fulfilled. In the opinion of the directors the conditions under which the grants were made have been fulfilled, and it is not anticipated that any repayment will be required.

## 23. Holding company

The immediate holding company is Caparo Industries Plc and the ultimate holding company is Caparo Group Limited, both companies being incorporated in England.

Included within creditors at 31st December 1987 is an amount of £14,000 due to Caparo Group Limited. Mr. S. Paul has an interest in Caparo Group Limited as defined under S.317 Companies Act 1985. Purchases from Caparo Group Limited in the year amounted to £57,000. All transactions were on normal commercial terms.

## 24. Leasing

The company was committed to the following net obligations under non-cancellable finance leases as at 31st December 1987:

	<u>1987</u> £000's	<u>1986</u> £00's
Due within one year	690	683
Two to five years	<u>2,067</u>	<u>2,728</u>
	<u>2,757</u>	<u>3,411</u>



UNITED MERCHANT BAR Plc

Report of the auditors

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To the members of United Merchant Bar Plc

We have audited the financial statements on pages 4 to 14 in accordance with approved Auditing Standards.

In our opinion, the financial statements, which have been prepared under the historical cost convention, including the revaluation of certain assets, give a true and fair view of the state of the company's affairs at 31st December 1987 and of its result and source and application of funds for the year ended on that date and comply with the Companies Act 1985.

Stoy Hayward,  
8 Baker Street,  
London W1M 1DA.

5th May 1988