

REGISTRAR OF
COMPANIES

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UNITED MERCHANT BAR Plc

Year ended

31st December 1989

A Caparo Group Company

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UNITED MERCHANTS BAR PLC

Annual report and financial statements for the year ended 31st December 1989

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Directors

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Directors

Executive

Swraj Paul (Chairman)
J. Crossman (Chief Executive)
P.F. Lormor
M.C. Taylor
M.D. Simmons
Akash Paul

Non-Executive

J.A. Leek
G.H. Sambrook
P. Waterhouse
A.P. Pedder

Secretary and registered office

M.C. Taylor, Caparo House, 103 Baker Street, London, W1M 1FD.

Auditors

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

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UNITED MERCHANT BAR PLC

Report of the directors for the year ended 31st December 1989

The directors submit their annual report together with the audited financial statements for the year ended 31st December 1989.

Review of activities

The principal activity of the company continues to be that of a merchant bar rolling mill for steel flats and light sections.

The profit and loss account for 1989 is set out on page 4. The pre-tax profit increased to £9.474 million from £5.665 million in 1988, an increase of 67%.

The company generated further profits growth organically by the careful management of fixed costs and margins and by controlled sales growth in existing and new markets.

The customer base has been expanded in European markets by providing a quality product, competitively priced with an excellent level of service. This stands United Merchant Bar Plc in a good position, ready for the single market in 1992.

Similarly in the United Kingdom, where United Merchant Bar Plc offers an extensive range of quality products, market share has been increased. Service levels have been improved as a result of capital expenditure in the warehouse and despatch areas.

Dividends

The directors recommend the payment of a final dividend of £2.4 million for the year under review.

Future developments

The expansion plans in 1990 will complete the development of existing mill capacity and product range. This will include the ability to manufacture rounds. For future years active consideration is being given to a second rolling mill to expand the product range further. The company is currently preparing its long range corporate plan which will cover manufacturing and marketing strategies. The management team at Scunthorpe has been strengthened to meet the organic growth envisaged over the next three years.

UNITED MERCHANT BANK PLC

Report of the directors for the year ended 31st December 1989 (Continued)

Employment policies

The company operates a harmonised employment package based on maximum flexibility and reward for excellence. The harmonised package enables each and every employee to enjoy the same holiday and sickness benefit 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 11 to the accounts.

Directors

The directors of the company during the year were:

Swraj Paul (Chairman)
J. Crossman
J.A. Leek
P.F. Lormor
Akash Paul
G.H. Sambrook
C.G. Steele
P. Waterhouse
A.P. Pedder (appointed 28th November 1989)

The directors retiring in accordance with the Articles of Association and offering themselves for re-election are Messrs. P.F. Lormor, G.H. Sambrook and A.P. Pedder.

On 2nd April 1990 Mr. C.G. Steele resigned and Messrs. M.C. Taylor and M.D. Simmons were appointed as directors.

Directors interests

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

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

UNITED MERCHANT BAR Plc

Report of the directors for the year ended 31st December 1989 (Continued)

Directors interest (continued)

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

<u>Number of ordinary shares of 1p each</u>	<u>31st December 1989</u>	<u>31st December 1986</u>
J. Crossman	30,000	-

Executive share option scheme

	<u>Number of ordinary shares as at 31st December 1989</u>	<u>Period exercisable</u>	<u>Option price per share</u>	<u>Number of ordinary shares as at 31st December 1988</u>
J. Crossman	-	June 1989 - June 1995	29p	75,000
J. Crossman	15,000	June 1991 - June 1998	48p	15,000
J. Crossman	40,000	Oct. 1992 - Oct. 1999	67.5p	-
P.F. Lormor	30,000	July 1989 - July 1996	51p	30,000
P.F. Lormor	10,000	Jan. 1991 - Jan. 1998	37p	10,000
P.F. Lormor	40,000	Oct. 1992 - Oct. 1999	67.5p	-
C.G. Steele	40,000	June 1989 - June 1995	29p	40,000

Personnel

The number of employees and their remuneration is shown in note 10 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.

All employees are covered by a non-contributory private medical care scheme.

The company continues to achieve a good degree of consultation with employees at all levels via the monthly Works Council Meeting.

Membership of the Caparo Industries SAYE share option scheme is actively encouraged.

Donations

The company made charitable donations of £872 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

M.C. Taylor

Secretary

11th April 1990

UNITED MERCHANT FAR Plc

Profit and loss account for the year ended 31st December 1989

	<u>Note</u>	<u>1989</u>	<u>1988</u>
		£000's	£000's
Turnover	2	56,085	40,15.
Cost of sales		(41,009)	(29,007)
Gross profit		15,076	11,152
Other operating expenses	3	(6,134)	(5,349)
Operating profit	4	8,942	5,803
Interest receivable	5	1,010	303
		9,952	6,106
Interest payable	6	(478)	(441)
Profit on ordinary activities before taxation		9,474	5,665
Tax on profit on ordinary activities	7	(3,308)	(2,038)
Profit for the financial year after taxation		6,166	3,627
Dividends	8	(2,400)	(3,408)
Retained profit for year		3,766	219
Retained profit brought forward			
As previously stated		513	513
Prior year adjustment	19	-	(219)
		513	294
Retained profit carried forward	18	4,279	513

The notes on pages 7 to 16 form part of these accounts

UNITED MERCHANT BANK Plc

Balance sheet at 31st December 1989

	Note	1989 £000's	1988 £000's
Fixed assets			
Tangible assets	11	14,350	13,413
Current assets			
Stocks	12	5,431	2,881
Debtors	13	16,819	13,268
Cash at bank and in hand		1,757	2,537
		<u>24,007</u>	<u>18,686</u>
Creditors			
Amounts falling due within one year	14	(22,356)	(18,356)
Net current assets		<u>1,651</u>	<u>330</u>
Total assets less current liabilities		<u>16,001</u>	<u>13,743</u>
Creditors			
Amounts falling due after more than one year	15	(1,020)	(2,647)
Provisions for liabilities and charges	16	(1,232)	(1,113)
		<u>13,749</u>	<u>9,983</u>
Capital and reserves			
Called up share capital	17	2,467	2,467
Reserves	18	11,282	7,516
		<u>13,749</u>	<u>9,983</u>

Swraj Paul

Directors

J. Crossman

The accounts were approved by the board of directors on 11th April 1990

The notes on pages 7 to 16 form part of these accounts.

UNITED MERCHANT BANK Plc

Statement of source and application of funds for the year ended 31st December 1989

	<u>1989</u> £000's	<u>1988</u> £000's
Sources of funds		
Profit on ordinary activities before taxation	9,474	5,665
Adjustment for items not involving the movement of funds		
Depreciation	609	587
Profit on sale of fixed assets	-	(C)
	<hr/>	<hr/>
Total generated from operations	10,083	6,246
Funds from other sources		
Disposal of fixed assets	-	8
	<hr/>	<hr/>
	10,083	6,254
Application of funds		
Purchase of fixed assets	(1,546)	(447)
Taxation paid	<u>(192)</u>	<u>(231)</u>
	(1,738)	(678)
	<hr/>	<hr/>
	8,345	5,576
Increase/(decrease) in working capital		
Stocks	2,550	159
Debtors	1,852	2,177
Creditors	(688)	(95)
Inter-group and related company	<u>6,445</u>	<u>1,601</u>
	10,159	3,842
	<hr/>	<hr/>
(Decrease)/increase in net liquid funds	(1,814)	1,734
	<hr/>	<hr/>

The notes on pages 7 to 16 form part of these accounts

UNITED MERCHANT BAR Plc

Notes forming part of the accounts for the year ended 31st December 1989

1. Accounting policies

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

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.

Foreign currencies

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.

Stock and work in progress

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.

Deferred taxation

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 are carried forward to the extent that they are expected to be recoverable in the foreseeable future.

UNITED MERCHANT BAR Plc

Notes forming part of the accounts for the year ended 31st December 1989 (Continued)

1. Accounting policies (continued)

Leased assets

Assets financed by leasing agreements that give rights approximating to ownership are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor. Depreciation on the relevant assets is charged to the profit and loss account. Lease payments are treated as consisting of capital and interest elements and the interest is charged to the profit and loss account using the annuity method. Interest is charged to the profit and loss account over the shorter of the estimated useful life of the asset or the primary lease period.

All other leases are operating leases and the annual rentals are charged to trading profit on a straight line basis over the lease term.

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

Contributions to the group scheme are charged to the profit and loss account so as to spread the cost of pension for employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations and the age attained method. For 1989 charges against profit and loss are calculated in accordance with SSAP 24.

No adjustment has been made to the 1988 comparatives which were computed on a payable basis.

2. Turnover

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

Turnover is analysed by geographical market below:

	1989 £000's	1988 £000's
United Kingdom	37,514	25,253
Other EEC	17,120	3,978
Other	<u>1,451</u>	<u>928</u>
	56,085	40,159

UNITED MERCHANT BANK Plc

Notes forming part of the accounts for the year ended 31st December 1989 (Continued)

3. Other operating expenses

	<u>1989</u> £000's	<u>1988</u> £000's
Distribution expenses	3,525	2,730
Administration expenses	<u>2,609</u>	<u>2,619</u>
	<u>6,134</u>	<u>5,349</u>

4. Operating profit

Operating profit is stated after charging:

Auditors' remuneration	21	16
Hire of plant and machinery	50	50
Directors' emoluments (see note 10)	168	200
Depreciation - owned assets	257	236
- assets held under finance leases	352	351
	<u> </u>	<u> </u>

5. Interest receivable

Bank deposit interest	296	36
Loans to holding company	<u>714</u>	<u>267</u>
	<u>1,010</u>	<u>303</u>

6. Interest payable

Bank overdrafts	199	93
Loans, repayable within 5 years	133	151
- related company	31	48
- holding company	<u>115</u>	<u>149</u>
Finance leases	<u>478</u>	<u>441</u>

UNITED MERCHANT BAR Plc

Notes forming part of the accounts for the year ended 31st December 1989 (Continued)

7. Taxation

	<u>1989</u> £000's	<u>1988</u> £000's
Corporation tax at 35% on profit for the year	906	672
Subvention amounts payable in respect of corporation tax losses surrendered by fellow subsidiaries:		
Current year	2,266	1,239
Prior years	20	189
Deferred taxation:		
Current year	137	71
Prior years	<u>(21)</u>	<u>(133)</u>
	<u>3,308</u>	<u>2,038</u>

8. Dividend

Interim dividend	-	976
Proposed dividend - final	<u>2,400</u>	<u>2,432</u>
	<u>2,400</u>	<u>3,408</u>

9. Directors emoluments

Remuneration for executive services	168	200
Remuneration of chairman	Nil	Nil
Remuneration of highest paid director (excluding pension contributions)	92	112
The emoluments of the other directors (excluding pension contributions) fell within the following ranges:	Number	Number
£ Nil to £5,000	6	6
£60,001 to £65,000	1	-
£70,001 to £75,000	<u>-</u>	<u>1</u>
	<u>7</u>	<u>7</u>

UNITED MERCHANT BAR Plc

Notes forming part of the accounts for the year ended 31st December 1989 (Continued)

J. Employees	1989 £000's	1988 £000's
Staff costs including directors emoluments		
Wages and salaries	2,388	1,997
Social security costs	192	167
Other pension costs	235	108
	<u>2,815</u>	<u>2,272</u>
The average number of employees, including directors, during the year were:	Number	Number
Production	127	116
Administration and management	22	21
	<u>149</u>	<u>137</u>
The remuneration, excluding pension contributions, of higher paid United Kingdom employees fell within the following range:		
£30,001 - £35,000	3	-

11. Tangible fixed assets

	Freehold land and buildings £000's	Plant and machinery £000's	Vehicles and mobile plant £000's	Total £000's
Cost or valuation				
At 1st January 1989	5,650	9,275	13	14,938
Additions for year	-	1,546	-	1,546
At 31st December 1989	<u>5,650</u>	<u>10,821</u>	<u>13</u>	<u>16,484</u>
Depreciation				
At 1st January 1989	-	1,520	5	1,525
Charge for year	-	605	4	609
At 31st December 1989	<u>-</u>	<u>2,125</u>	<u>9</u>	<u>2,134</u>
Net book value				
At 31st December 1989	<u>5,650</u>	<u>8,696</u>	<u>4</u>	<u>14,350</u>
At 31st December 1988	<u>5,650</u>	<u>7,755</u>	<u>8</u>	<u>13,413</u>

The freehold land and buildings were valued professionally in 1988 on a depreciated replacement cost basis because of the inability to reasonably assess the open market value for existing use.

UNITED MERCHANT BANK Plc

Notes forming part of the accounts for the year ended 31st December 1989 (Continued)

11. Tangible fixed assets (continued)

The historic cost of revalued assets is £200,000 in respect of land and buildings.

The net book value of plant, machinery, vehicles and mobile plant at 31st December includes the following amounts in respect of assets held under finance leases:

	£
1989	3,189,282
1988	3,541,132

12. Stocks

	<u>1989</u> £000's	<u>1988</u> £000's
Stocks comprise:		
Rolls	193	215
Stores and spares	321	302
Raw materials	1,939	914
Finished goods	<u>2,978</u>	<u>1,450</u>
	5,431	2,881

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

13. Debtors

	<u>1989</u> £000's	<u>1988</u> £000's
Trade debtors	9,624	8,149
Other debtors	429	81
Prepayments and accrued income	65	36
Amount due from group companies	558	657
Amount due from holding company	5,000	3,000
Amount due from related company	<u>1,143</u>	<u>1,345</u>
	16,819	13,268

Included within amounts due from holding company is £Nil (1988 - £2,716,000) which falls due for payment after more than one year.

UNITED MERCHANT BAR Plc

Notes forming part of the accounts for the year ended 31st December 1989 (Continued)

14. Creditors falling due within one year

	<u>1989</u> £000's	<u>1988</u> £000's
Borrowings		
Bank overdraft (secured)	1,821	787
Related company loans	291	535
9% unsecured loan notes 1989 - due to related company	-	1,161
Trade creditors	1,617	764
Other creditors	1,329	971
Leasing creditors	761	714
Taxation and social security	85	73
Corporation tax	1,309	395
Accruals and deferred income	818	660
Amount due to related company	9,045	7,247
Amount due to group company	208	86
Amount due to holding company	2,672	2,531
Proposed dividends	<u>2,400</u>	<u>2,432</u>
	<u>22,356</u>	<u>18,356</u>

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

The 9% unsecured loan notes bore interest from 1st January 1988 and were repaid during the year.

15. Creditors falling due after more than one year

	<u>1989</u> £000's	<u>1988</u> £000's
Leasing creditors	757	1,518
Other creditors	119	98
Amount due to related company	71	361
Amount due to holding company	<u>73</u>	<u>670</u>
	<u>1,020</u>	<u>2,647</u>

UNITED MERCHANTS BAR Plc

Notes forming part of the accounts for the year ended 31st December 1989 (Continued)

16. Provisions for liabilities and charges

Deferred taxation	<u>1989</u>		<u>1988</u>	
	Amount unprovided £000's	Provided in accounts £000's	Amount unprovided £000's	Provided in accounts £000's
Accelerated capital allowances	-	1,108	-	928
Capital gains tax that would arise if properties were sold at revalued amounts	1,907	-	1,907	-
Short term timing differences	-	324	-	388
Advance corporation tax recoverable	-	(200)	-	(203)
	<u>1,907</u>	<u>1,232</u>	<u>1,907</u>	<u>1,113</u>

Movement on deferred taxation	£000's
At 1st January 1989	1,113
Charged to profit and loss account	116
Advance corporation tax arising on 1989 dividends	(200)
Advance corporation tax set off against the corporation tax liability	203
At 31st December 1989	<u>1,232</u>

17. Called up share capital

	<u>1989</u> £000's	<u>1988</u> £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

UNITED MERCHANT BAR Plc

Notes forming part of the accounts for the year ended 31st December 1989 (Continued)

18. Reserves

	Revaluation reserve £000's	Profit and loss account £000's	Share premium account £000's	Total £000's
At 1st January 1989	5,450	513	1,553	7,516
Profit retained for the year	-	3,766	-	-
At 31st December 1989	5,450	4,279	1,553	11,282

19. Prior year adjustments

The prior year adjustments in 1988 represented the effect of the change in accounting policy for charging interest on finance leases. Such interest previously charged to the profit and loss account over the shorter of the estimated useful life of the asset or the aggregate of the primary and secondary lease periods, was as a result of the introduction of SSAP 21 charged over the shorter of the estimated useful life of the asset or the primary lease period. The effect of this change was to increase the interest charges in prior years by £336,000 and to reduce deferred taxation by £117,000.

20 Pensions

The company is a member of the Caparo Industries pension scheme which provides benefits based on pensionable pay. The most recent valuation was at 1st July 1988 and details of the actuarial valuation are set out in the accounts of the holding company, Caparo Industries Plc.

The pension charge for the period was £235,000 (1988 - £108,000).

21. Capital commitments

	1989 £000's	1988 £000's
Contracted but not provided for	1,911	125
Authorised but not contracted for	1,095	373
	3,006	498

UNITED MERCHANT BAR Plc

Notes forming part of the accounts for the year ended 31st December 1989 (Continued)

22. Contingent liabilities and commitments

- a) The company is party to a group VAT registration and is therefore jointly and severally liable with all other group registered companies which include Caparo Group Limited and certain of its subsidiaries for the total VAT liability. At 31st December 1989 this liability amounted to £1,580,539 (1988 - £1,343,000).
- b) Discounted bills of exchange amounted to £534,000 (1988 - £828,000).

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 1989 is an amount of £18,000 due to Caparo Group Limited. Mr. S. Paul and Mr. A. Paul have interests in Caparo Group Limited as defined under S.317 Companies Act 1985. Purchases from Caparo Group Limited in the year amounted to £26,000. 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 1989:

	<u>1989</u> £000's	<u>1988</u> £000's
Due within one year	761	692
Two to five years	<u>757</u>	<u>1,380</u>
	<u>1,518</u>	<u>2,072</u>

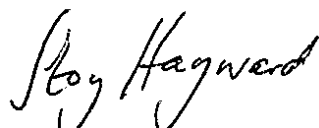
UNITED MERCHANT BAR Plc

Report of the auditors

To the members of United Merchant Bar Plc

We have audited the financial statements on pages 4 to 16 in accordance with Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31st December 1989 and of its result and source and application of funds for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



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

11th April 1990