

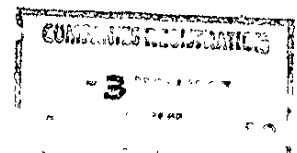
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UNITED MERCHANT BAR Plc

Year ended

31st December 1986

A Caparo Group Company



UNITED MERCHANT BANK PLC

Annual report and financial statements for the year ended 31st December 1986

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Directors

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Directors

Swraj Paul
J.A. Leek
R.I. Laucht
Akash Paul
G.H. Sambrook
J.T. Holson
J. Crossman
P.F. Lormor

Secretary and registered office

S. G. Mills, Neville House, 42-46 Hagley Road, Birmingham, B16 8PA.

Auditors

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

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Report of the directors for the year ended 31st December 1986

The directors submit their annual report, together with the audited financial statements for the year ended 31st December 1986.

Results and dividends

The profit and loss account is set out on page 3 and shows the company's result for the year.

The directors do not recommend the payment of a dividend for the year.

Review of business

During the first three months of 1986, the construction, refurbishment and upgrading of the rolling mill at Scunthorpe was completed. The first saleable product was produced on 27th March 1986 and the commissioning of the full product range was planned over the following twelve months.

Up to April 1986 the company acted as selling agents for the sales of merchant bar manufactured by the British Steel Corporation at Monks Hall and Jarrow. By August 1986 the British Steel Corporation had ceased manufacture.

On 4th September 1986 the refurbished mill was officially opened by the Chancellor of the Exchequer, the Rt. Hon. Nigel Lawson MP and by the end of 1986 the company had achieved significant output levels.

The financial position of the company is regarded as satisfactory and in line with the detailed projections set out at the commencement of the project.

Events since the year end

Commissioning of the penultimate product type was successfully completed in January 1987. The directors confidently expect the final product type to be commissioned within the original planned timescale.

Share capital

On 31st January 1986 the company called the remaining 75p unpaid on 1,800,001 ordinary shares. Of the 2,466,668 ordinary shares in issue, 616,667 (25%) are held by the British Steel Corporation and 1,850,001 (75%) by Caparo Industries PLC.

Fixed assets

Movements on fixed assets during the year are disclosed in note 12 to the accounts.

Directors

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

Mr. P.F. Lormor was appointed on 1st April 1986.

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

Directors interests

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.

Report of the directors for the year ended 31st December 1986 (Continued)

Directors interest (continued)

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

	1986	1985
Ordinary shares		
Akash Paul	5,000	5,000
8% Convertible cumulative redeemable preference shares		
Akash Paul	3,882	1,111
8.75% Convertible cumulative redeemable preference shares		
Akash Paul	5,000	-

Executive share option scheme

	Number of ordinary shares as at 31st December 1986	Period exercisable	Option price per share
J. Crossman	75,000	June 1988 - June 1995	29p
R.I. Laucht	30,000	July 1989 - July 1996	51p
P.F. Lormor	30,000	July 1989 - July 1996	51p

Personnel

The number of employees and their remuneration is shown in note 11 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 £57 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

S. G. Mills
S. G. MILLS

Secretary

6th April 1987

UNITED MERCHANT BANK PLC

Profit and loss account for the year ended 31st December 1986

	<u>Note</u>	<u>1986</u> <u>£000's</u>	<u>1985</u> <u>£000's</u>
Turnover	2	15,065	-
Cost of sales		(13,316)	-
Gross profit		1,749	-
Other operating expenses	3	(2,208)	(159)
Other operating income	4	45	86
Operating loss	5	(414)	(73)
Interest receivable	6	341	256
		(73)	183
Interest payable	7	(325)	-
Exceptional items	8	594	159
Profit on ordinary activities before taxation		196	342
Tax on profit on ordinary activities	9	(230)	-
(Loss)/profit for the financial year after taxation		(34)	342
Retained profit brought forward		342	-
Retained profit carried forward	19	308	342

The notes on pages 6 to 12 form part of these accounts

UNITED MERCHANT BANK Plc

Balance sheet at 31st December 1986

	Note	1986 £000's	1985 £000's
Fixed assets			
Tangible assets	12	4,193	3,486
Current assets			
Stocks	13	1,816	-
Debtors	14	7,180	1,965
Cash at bank and in hand		801	1,980
		<u>9,797</u>	<u>3,945</u>
Creditors			
Amounts falling due within one year	15	<u>(6,692)</u>	<u>(1,557)</u>
Net current assets		3,105	2,388
Total assets less current liabilities		<u>7,298</u>	<u>5,874</u>
Creditors			
Amounts falling due after more than one year	16	(2,140)	(2,862)
Provisions for liabilities and charges	17	(830)	-
		<u>4,328</u>	<u>3,012</u>
Capital and reserves			
Called up share capital	18	2,467	1,117
Reserves	19	1,861	1,895
		<u>4,328</u>	<u>3,012</u>

Swraj Paul

G.H. Sambrook *G.H. Sambrook*) Directors

The accounts were approved by the board of directors on 6th April 1987

The notes on pages 6 to 12 form part of these accounts.

UNITED MERCHANT BANK PLC

Statement of source and application of funds for the year ended 31st December 1986

	1986		1985	
	£000's	£000's	£000's	£000's
Sources of funds				
Profit on ordinary activities before taxation		196		342
Adjustment for items not involving the movement of funds				
Depreciation		141		3
		<hr/>		<hr/>
Total generated from operations		337		345
Funds from other sources				
Calls on issued share capital	1,350		-	
Issue of share capital	-		2,670	
Issue of loan stock	-		1,161	
Disposal of fixed assets	25		-	
	<hr/>	1,375	<hr/>	3,831
		<hr/>		<hr/>
		1,712		4,176
Application of funds				
Purchase of fixed assets		(873)		(3,489)
		<hr/>		<hr/>
		839		687
Increase/(decrease) in working capital				
Stocks	1,816		-	
Debtors	3,917		1,787	
Creditors	(129)		(1,456)	
Inter-group loans	(3,246)		(1,624)	
	<hr/>	2,358	<hr/>	(1,293)
		<hr/>		<hr/>
Increase/(decrease) in net liquid funds		(1,519)		1,980
		<hr/>		<hr/>

The notes on pages 6 to 12 form part of these accounts

Notes forming part of the accounts for the year ended 31st December 1986

1. Accounting policies

The financial statements have been prepared under the historical cost convention 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%
Plant commissioning costs	-	20%
Computer	-	20%
Rolls and guides	-	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.

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

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.

1. Accounting policies (continued)

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:

	1986 £000's	1985 £000's
United Kingdom	13,070	-
Other EEC	1,720	-
Other	275	-
	<u>15,065</u>	<u>-</u>

3. Other operating expenses

Distribution expenses	936	-
Administration expenses	<u>1,272</u>	<u>159</u>
	<u>2,208</u>	<u>159</u>

4. Other operating income

Commission received	<u>45</u>	<u>86</u>
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5. Operating loss

Operating loss is stated after charging:

Auditors' remuneration	6	2
Hire of plant and machinery	36	-
Directors' emoluments (see note 10)	90	35
Depreciation	<u>141</u>	<u>3</u>

UNITED MERCHANT BANK PLC

Notes forming part of the accounts for the year ended 31st December 1986 (Continued)

6. Interest receivable	1986 £000's	1985 £000's
Bank deposit interest	125	169
Holding company	158	-
Other	58	87
	<u>341</u>	<u>256</u>
7. Interest payable		
Bank overdrafts	21	-
Loans, repayable within 5 years		
- related company	88	-
- holding company	84	-
- other	38	-
Finance leases	94	-
	<u>325</u>	<u>-</u>
8. Exceptional items		
Release of Government grants to offset commissioning costs	<u>594</u>	<u>159</u>
9. Taxation		
Subvention payments receivable in respect of corporation tax losses surrendered to fellow subsidiaries	600	-
Deferred taxation	(830)	-
	<u>(230)</u>	<u>-</u>
10. Directors emoluments		
Remuneration for executive services	<u>90</u>	<u>35</u>
Remuneration of chairman	<u>-</u>	<u>-</u>
Remuneration of highest paid director (excluding pension contributions)	<u>39</u>	<u>25</u>
The emoluments of the other directors (excluding pension contributions) fell within the following ranges:	Number	Number
£ Nil to £5,000	4	6
£ 5,001 to £10,000	-	1
£15,001 to £20,000	1	-
£25,001 to £30,000	1	-
	<u>6</u>	<u>7</u>

Notes forming part of the accounts for the year ended 31st December 1986 (Continued)

11. Employees

	1986 £000's	1985 £000's
Staff costs and directors emoluments		
Wages and salaries	1,041	57
Social security costs	73	4
Other pension costs	57	5
	<u>1,171</u>	<u>66</u>

The average number of employees, including directors,
during the year were:

	Number	Number
Production	75	-
Administration and management	<u>16</u>	<u>4</u>
	<u>91</u>	<u>4</u>

12. 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 1986	200	3,255	34	3,489
Additions for year	-	873	-	873
Disposals in year	-	-	(27)	(27)
At 31st December 1986	<u>200</u>	<u>4,128</u>	<u>7</u>	<u>4,335</u>
Depreciation				
At 1st January 1986	-	1	2	3
Charge for year	-	139	2	141
Disposals in year	-	-	(2)	(2)
At 31st December 1986	<u>-</u>	<u>140</u>	<u>2</u>	<u>142</u>
Net book value				
At 31st December 1986	<u>200</u>	<u>3,988</u>	<u>5</u>	<u>4,193</u>
At 31st December 1985	<u>200</u>	<u>3,254</u>	<u>32</u>	<u>3,486</u>

13. Stocks

	1986 £000's	1985 £000's
Stocks comprise:		
Rolls and guides	306	-
Stores and spares	200	-
Raw materials	369	-
Finished goods	<u>941</u>	<u>-</u>
	<u>1,816</u>	<u>-</u>

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

SHEDD MERCHANT BAR Plc

Notes forming part of the accounts for the year ended 31st December 1986 (Continued)

14. Debtors

	1986 £000's	1985 £000's
Trade debtors	4,127	-
Other debtors	182	486
Prepayments and accrued income	126	494
Amount due from group companies	606	-
Amount due from holding company	741	178
Amount due from related company	137	-
Leased asset prepayment	<u>1,261</u>	<u>807</u>
	7,180	1,965

The amounts due from group companies of £606,000, and amount due from holding company of £741,000 are receivable after more than one year.

15. Creditors falling due within one year

	1986 £000's	1985 £000's
Trade creditors	403	187
Other creditors	76	1,052
Taxation and social security	52	-
Accruals and deferred income	632	200
Amount due to related company	<u>5,048</u>	<u>118</u>
	6,211	1,557
Borrowings		
Bank overdraft (secured)	340	-
Related company loans	<u>141</u>	<u>-</u>
	6,692	1,557

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

16. Creditors falling due after more than one year

	1986 £000's	1985 £000's
9% unsecured loan notes - due to related company	1,161	1,161
Other creditors	421	17
Amount due to group company	64	-
Amount due to holding company	-	859
Amount due to related company	<u>494</u>	<u>825</u>
	2,140	2,862

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.

17. Provisions for liabilities and charges

Deferred taxation	1986		1985	
	Amount unprovided £000's	Provided in accounts £000's	Amount unprovided £000's	Provided in accounts £000's
Accelerated capital allowances	-	680	-	-
Short term timing differences	-	375	-	-
Unutilised losses	-	(225)	-	-
	-	830	-	-

18. Called up share capital

	1986 £000's	1985 £000's
Authorised		
2,500,000 ordinary shares of £1 each	<u>2,500</u>	<u>2,500</u>
Allotted		
606,667 ordinary shares of £1, fully paid	667	667
1,800,001 ordinary shares of £1, fully paid (1985 - 25p paid)	<u>1,800</u>	<u>450</u>
	<u>2,467</u>	<u>1,117</u>

19. Reserves

	Profit and loss account £000's	Share premium account £000's	Total £000's
At 1st January 1986	342	1,553	1,895
Deficit sustained for the year	<u>(34)</u>	<u>-</u>	<u>(34)</u>
At 31st December 1986	<u>308</u>	<u>1,553</u>	<u>1,861</u>

20. Capital commitments

	1986 £000's	1985 £000's
Contracted but not provided for	-	544
Authorised but not contracted for	<u>129</u>	<u>214</u>
	<u>129</u>	<u>758</u>

Notes forming part of the accounts for the year ended 31st December 1986 (Continued)

21. 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 1986 this liability amounted to £1,133,996 (1985 - £767,000).
- b) Discounted bills of exchange amounted to £422,000 (1985 - £Nil).
- 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.

22. 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 1986 is an amount of £13,000 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 £38,000. All transactions were on normal commercial terms.

23. Leasing

The company was committed to the following net obligations under non-cancellable finance leases as at 31st December 1986:

	1986 £000's	1985 £00's
Due within one year	683	674
Two to five years	2,728	2,697
Over five years	-	675
	<u>3,411</u>	<u>4,046</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 3 to 12 in accordance with approved Auditing Standards.

In our opinion, the financial statements, which have been prepared under the historical cost convention, give a true and fair view of the state of the company's affairs at 31st December 1986 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.

6th April 1987