

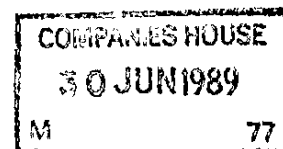
UNITED MERCHANT BAR Plc

Year ended

31st December 1988

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A Caparo Group Company



UNITED MERCHANT BAR Plc

Annual report and financial statements for the year ended 31st December 1988

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Directors

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Directors

Swraj Paul (Chairman)  
J. Crossman  
J.A. Leek  
P.F. Lormor  
Akash Paul  
G.H. Sambrook  
C.G. Steele  
P. Waterhouse

Secretary and registered office

C.G. Steele, 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 1988

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The directors submit their annual report, together with the audited financial statements for the year ended 31st December 1988.

#### Review of activities

The profit and loss account for 1988 is set out on page 4. The pre-tax profit increased to £5.665 million.

The major improvements in terms of profitability are associated with increased production and sales volume, better selling prices due to increased demand, and effective control over the full conversion cost base.

The increased activity enjoyed was greatly assisted by the ending of quota regulations on merchant bar products, coupled with the effect of selective capital investment which will continue to enable the inherent hot rolling mill capacity to be further exploited in 1989 and 1990.

The directors confidently expect the activity to increase in 1989 and further enhancement of the profitability to be achieved.

#### Dividends

An interim dividend of £976,000 was made during the year. The directors recommend the payment of a final dividend of £2,432,251 for the year under review.

#### Significant events

During the year, the widest range of merchant bar offered by any UK rolling mill was available to UMB's customer base. Further development of the straightening and stacking equipment enabled the company to produce and sell 174,675 tonnes and 176,268 tonnes respectively, a 35% increase on sales volume compared with the previous year.

This larger volume increased the company's market share by 11% to 35% and established UMB as the market leader in the merchant bar sector.

#### Future developments

During 1989, a £0.5m investment will be made in additional material handling facilities, involving two new radio-controlled 24 metre span semi-goliath cranes.

This is the first phase of an investment programme to increase capacity to in excess of 300,000 tonnes, and to expand the product range into ultra light angles and flats, placing UMB at the forefront of European merchant bar producers.

## UNITED MERCHANT S&A Plc

Report of the directors for the year ended 31st December 1988 (Continued)

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### 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 12 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 (appointed 30th June 1988)  
P. Waterhouse (appointed 31st October 1988)  
J.T. Hodson (resigned 31st October 1988)

Mr. W.G. Jeavons resigned as secretary on 30th June 1988 and Mr. C.G. Steele was appointed on that date.

The directors retiring in accordance with the Articles of Association and offering themselves for re-election are Messrs. C.G. Steele, P. Waterhouse, Swraj Paul and J.A. Leek.

### Directors interest

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 1988 (Continued)

## Directors interest (continued)

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

### Executive share option scheme

	Number of ordinary shares as at 31st December 1988	Period exercisable	Option price per share	Number of ordinary shares as at 31st December 1987
J. Crossman	75,000	June 1988 - June 1995	29p	75,000
J. Crossman	15,000	June 1991 - June 1998	48p	-
P.F. Lormor	30,000	July 1989 - July 1996	51p	30,000
P.F. Lormor	10,000	Jan. 1991 - Jan. 1998	37p	-
C.G. Steele	40,000	June 1988 - June 1995	29p	40,000

## 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.

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 £394 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

  
C.G. Steele

Secretary

25th April 1989

UNITED MERCHANT BAR Plc

Profit and loss account for the year ended 31st December 1988

	<u>Note</u>	<u>1988</u> £000's	<u>1987</u> £000's
Turnover	2	40,159	28,669
Cost of sales		(29,007)	(21,271)
Gross profit		11,152	7,398
Other operating expenses	3	(5,349)	(4,200)
Other operating income	4	-	3
Operating profit	5	5,803	3,201
Interest receivable	6	303	96
		6,106	3,297
Interest payable	7	(441)	(473)
Profit on ordinary activities before taxation		5,665	2,824
Tax on profit on ordinary activities	8	(2,038)	(859)
Profit for the financial year after taxation		3,627	1,965
Dividends	9	(3,408)	(1,800)
Retained profit for year		219	165
Retained profit brought forward			
As previously stated		513	308
Prior year adjustment	20	(219)	(179)
		294	129
Retained profit carried forward	19	513	294

The notes on pages 7 to 15 form part of these accounts

UNITED MERCHANT BANK Plc

Balance sheet at 31st December 1988

	Note	1988 £000's	1987 £000's
Fixed assets			
Tangible assets	12	13,413	13,055
Current assets			
Stocks	13	2,881	2,722
Debtors	14	13,268	8,633
Cash at bank and in hand		2,537	406
		<u>18,686</u>	<u>11,761</u>
Creditors			
Amounts falling due within one year	15	<u>(18,356)</u>	<u>(10,483)</u>
Net current (liabilities)/assets		330	1,278
Total assets less current liabilities		<u>13,743</u>	<u>14,333</u>
Creditors			
Amounts falling due after more than one year	16	(2,647)	(3,841)
Provisions for liabilities and charges	17	(1,113)	(1,228)
		<u>9,983</u>	<u>9,264</u>
Capital and reserves			
Called up share capital	18	2,467	2,467
Reserves	19	7,516	6,797
		<u>9,983</u>	<u>9,264</u>

Swraj Paul

G.H. Sambrook Directors

J. Crossman

The accounts were approved by the board of directors on 25th April 1989

The notes on pages 7 to 15 form part of these accounts.

UNITED MERCHANT BANK PLC

Statement of source and application of funds for the year ended 31st December 1988

	<u>1988</u> £000's	<u>1987</u> £000's
Sources of funds		
Profit on ordinary activities before taxation	5,665	2,824
Adjustment for items not involving the movement of funds		
Depreciation	587	648
Profit on sale of fixed assets	(6)	-
	<hr/>	<hr/>
Total generated from operations	6,246	3,372
Funds from other sources		
Disposal of fixed assets	8	-
	<hr/>	<hr/>
	6,254	3,372
Application of funds		
Purchase of fixed assets	(447)	(265)
Taxation paid	<u>(231)</u>	<u>-</u>
	(678)	(265)
	<hr/>	<hr/>
	5,576	3,107
Increase/(decrease) in working capital		
Stocks	159	906
Debtors	2,177	1,654
Creditors	(95)	(576)
Inter-group related company	<u>1,601</u>	<u>1,568</u>
	3,842	3,552
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Increase/(decrease) in net liquid funds	1,734	(445)
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The notes on pages 7 to 15 form part of these accounts



## UNITED MERCHANT BAR Plc

Notes forming part of the accounts for the year ended 31st December 1988

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### 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.

## 1. Accounting policies (continued)

## Leased assets

Following the introduction of SSAP21, the accounting treatment of assets under finance leases was changed and the consequent prior year adjustment is referred to in note 20. From 1st January 1988 the group's policy for assets financed by leasing agreements that give rights approximating to ownership is that such assets 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. As a result of the adoption of SSAP21 interest is now charged to the profit and loss account over the shorter of the estimated useful life of the asset or the primary lease period, whereas in previous years interest was charged over the shorter of the estimated useful life or the aggregate of the primary and secondary lease periods.

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

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:

	1988 £000's	1987 £000's
United Kingdom	30,253	23,431
Other EEC	8,978	4,181
Other	928	1,057
	<u>40,159</u>	<u>28,669</u>

UNITED MERCHANT BANK Plc

Notes forming part of the accounts for the year ended 31st December 1988 (Continued)

3. Other operating expenses

	<u>1988</u> £000's	<u>1987</u> £000's
Distribution expenses	2,730	2,284
Administration expenses	<u>2,619</u>	<u>1,916</u>
	<u>5,349</u>	<u>4,200</u>

4. Other operating income

Commission received	-	3
	<u>-</u>	<u>3</u>

5. Operating profit

Operating profit is stated after charging:

Auditors' remuneration	16	12
Hire of plant and machinery	50	51
Directors' emoluments (see note 10)	200	150
Depreciation - owned assets	236	204
- assets held under finance leases	351	344
	<u>853</u>	<u>761</u>

6. Interest receivable

Bank deposit interest	36	5
Loans to holding company	<u>267</u>	<u>91</u>
	<u>303</u>	<u>96</u>

7. Interest payable

Bank overdrafts	93	161
Loans repayable within 5 years		
- related company	151	66
- holding company	48	63
Finance leases	149	181
Other	<u>-</u>	<u>2</u>
	<u>441</u>	<u>473</u>

UNITED MERCHANT EAR Plc

Notes forming part of the accounts for the year ended 31st December 1988 (Continued)

8. Taxation

	<u>1988</u> £000's	<u>1987</u> £000's
Corporation tax at 35% on profit for the year	672	-
Subvention amounts payable/(receivable) in respect of corporation tax losses surrendered by/(to) fellow subsidiaries:		
Current year	1,239	353
Prior years	169	(139)
Deferred taxation:		
Current year	71	645
Prior year	<u>(133)</u>	<u>-</u>
	<u>2,038</u>	<u>859</u>

9. Dividend

Interim dividend	976	-
Proposed dividend - final	<u>2,432</u>	<u>1,800</u>
	<u>3,408</u>	<u>1,800</u>

10. Directors emoluments

Remuneration for executive services	200	150
Remuneration of chairman	-	-
Remuneration of highest paid director (excluding pension contributions)	112	71

The emoluments of the other directors (excluding pension contributions) fell within the following ranges:

	Number	Number
£ Nil to £5,000	6	4
£15,001 to £20,000	-	-
£20,001 to £25,000	-	1
£25,001 to £30,000	-	-
£45,001 to £50,000	-	1
£70,001 to £75,000	<u>1</u>	<u>-</u>
	<u>7</u>	<u>6</u>

UNITED MERCHANT BAR Plc

Notes forming part of the accounts for the year ended 31st December 1988 (Continued)

11. Employees	1988 £000's	1987 £000's
Staff costs including directors emoluments		
Wages and salaries	1,997	1,538
Social security costs	167	132
Other pension costs	108	84
	<u>2,272</u>	<u>1,754</u>
The average number of employees, including directors, during the year were:	Number	Number
Production	116	105
Administration and management	21	20
	<u>137</u>	<u>125</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 or valuation				
At 1st January 1988	5,150	4,345	16	9,511
Capitalisation of leased assets	-	4,485	-	4,485
At 1st January 1988 as restated	5,150	8,834	16	14,000
Additions for year	-	441	6	447
Revaluation	500	-	-	500
Disposals in year	-	-	(9)	(9)
At 31st December 1988	<u>5,650</u>	<u>9,275</u>	<u>13</u>	<u>14,938</u>
Depreciation				
At 1st January 1988	-	337	9	346
Capitalisation of leased assets	-	599	-	599
At 1st January 1988 as restated	-	936	9	945
Charge for year	-	584	3	587
Disposals in year	-	-	(7)	(7)
At 31st December 1988	<u>-</u>	<u>1,520</u>	<u>5</u>	<u>1,525</u>
Net book value				
At 31st December 1988	<u>5,650</u>	<u>7,755</u>	<u>8</u>	<u>13,413</u>
At 31st December 1987	<u>5,150</u>	<u>7,898</u>	<u>7</u>	<u>13,055</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 during 1988 by Messrs. Chesterton Bigwood, Chartered Surveyors.

UNITED MERCHANT BAR Plc

Notes forming part of the accounts for the year ended 31st December 1988 (Continued)

13. Stocks	<u>1988</u> £000's	<u>1987</u> £000's
Stocks comprise:		
Rolls	215	342
Stores and spares	302	292
Raw materials	914	441
Finished goods	<u>1,450</u>	<u>1,647</u>
	2,881	2,722

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

14. Debtors	<u>1988</u> £000's	<u>1987</u> £000's
Trade debtors	8,149	5,919
Other debtors	81	52
Prepayments and accrued income	36	118
Amount due from group companies	657	682
Amount due from holding company	3,000	799
Amount due from related company	<u>1,345</u>	<u>1,063</u>
	13,268	8,633

Included within amounts due from holding company is £2,716,000 (1987 - £799,000) which falls due for payment after more than one year.

15. Creditors falling due within one year	<u>1988</u> £000's	<u>1987</u> £000's
Leasing creditors	714	679
Trade creditors	764	581
Other creditors	971	302
Taxation and social security	73	55
Corporation tax	395	150
Accruals and deferred income	660	759
Amount due to related company	7,247	5,331
Amount due to group company	86	148
Amount due to holding company	2,531	147
Proposed dividends	<u>2,432</u>	<u>1,800</u>
	15,873	9,952
Borrowings		
Bank overdraft (secured)	787	390
Related company loans	535	141
9% unsecured loan notes 1989 - due to related company	<u>1,161</u>	<u>-</u>
	18,356	10,483

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

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

UNITED MERCHANT BAR Plc

Notes forming part of the accounts for the year ended 31st December 1988 (Continued)

16. Creditors falling due after more than one year

	<u>1988</u> £000's	<u>1987</u> £000's
Leasing creditors	1,518	1,934
9% unsecured loan notes 1989		
- due to related company	-	1,161
Other creditors	98	393
Amount due to related company	361	353
Amount due to holding company	<u>570</u>	<u>-</u>
	<u>2,647</u>	<u>3,841</u>

17. Provisions for liabilities and charges

Deferred taxation	<u>1988</u>		<u>1987</u>	
	Amount unprovided £000's	Provided in accounts £000's	Amount unprovided £000's	Provided in accounts £000's
Accelerated capital allowances	-	928	-	978
Capital gains tax that would arise if properties were sold at revalued amounts	1,907	-	1,732	-
Short term timing differences	-	388	-	400
Advance corporation tax recoverable	<u>-</u>	<u>(203)</u>	<u>-</u>	<u>(150)</u>
	<u>1,907</u>	<u>1,113</u>	<u>1,732</u>	<u>1,228</u>

Movement on deferred taxation

	£000's
At 1st January 1988 as previously stated	1,346
Prior year adjustment	<u>(118)</u>
At 1st January 1988 as restated	1,228
Charged to profit and loss account	(62)
Advance corporation tax arising on 1988 dividends	(284)
Advance corporation tax set off against the corporation tax liability	<u>231</u>
At 31st December 1988	<u>1,113</u>

UNITED MERCHANT BAR Plc

Notes forming part of the accounts for the year ended 31st December 1988 (Continued)

18. Called up share capital

	1988 £000's	1987 £000's
Authorised		
2,500,000 ordinary shares of £1 each	2,500	2,500
	<hr/>	<hr/>
Allotted		
2,466,667 ordinary shares of £1, fully paid	2,467	2,467
	<hr/>	<hr/>

19. Reserves

	Revaluation reserve £000's	Profit and loss account £000's	Share premium account £000's	Total £000's
At 1st January 1988	4,950	513	1,553	7,016
Prior year adjustment (note 20)	--	(219)	--	(219)
At 1st January 1988 as restated	4,950	294	1,553	6,797
Revaluation in year	500	--	--	500
Profit retained for the year	--	219	--	219
At 31st December 1988	5,450	513	1,553	7,516
	<hr/>	<hr/>	<hr/>	<hr/>

20. Prior year adjustments

The prior year adjustments represent 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, is now 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 is to increase the interest charges in prior years by £336,000 and to reduce deferred taxation by £117,000. The effect of this change on the 1987 profit and loss account is to increase interest payable by £61,000 and to reduce deferred taxation by £21,000.

21. Capital commitments

	1988 £000's	1987 £000's
Contracted but not provided for	125	65
Authorised but not contracted for	373	241
	<hr/>	<hr/>
	498	306
	<hr/>	<hr/>



UNITED MERCHANT BARR PLC

Notes forming part of the accounts for the year ended 31st December 1988 (Continued)

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 1988 this liability amounted to £1,343,000 (1987 - £1,546,000).
- b) Discounted bills of exchange amounted to £828,000 (1987 - £598,000).
- 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.
- d) The company is liable together with other group companies under cross guarantee arrangements for overdrafts relating to group companies. At 31st December 1988 this liability amounted to £1,400,000.

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 1988 is an amount of £46,000 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 £89,000. 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 1988:

	<u>1988</u> £000's	<u>1987</u> £00's
Due within one year	692	690
Two to five years	<u>1,380</u>	<u>2,067</u>
	<u>2,072</u>	<u>2,757</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 15 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 1988 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,  
Chartered Accountants,  
8 Baker Street,  
London W1M 1DA.

25th April 1989