

REGISTRAR OF
COMPANIES

UNITED MERCHANT BAR Plc

Year ended

30th December 1990

A Caparo Group Company



UNITED MERCHANT BANK Plc

Annual report and financial statements for the year ended 30th December 1990

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Directors

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Directors

Executive	Non-Executive
Swraj Paul (Chairman)	J.A. Leek
J. Crossman (Chief Executive)	A.P. Pedder
P.F. Lormor	A.R. Thackery (alternative to A.P. Pedder)
D. Kirkup	P. Waterhouse
M.D. Simmons	
Akash Paul	

Secretary and registered office

D. Kirkup, Caparo House, 103 Baker Street, London, W1M 1FD.

Company number

1860172

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 30th December 1990

The directors submit their annual report, together with the audited financial statements for the year ended 30th December 1990.

Principal activities and trading review

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 1990 is set out on page 4. The pre-tax profit increased to £9.536 million from £9.474 million in 1989.

Total sales increased by 9% to £61.399 million from £56.085 million in 1989 with export sales increasing by over 48% in the year to £27.616 million from £18.571 million.

Operating profit fell slightly to £8.577 million from £8.942 million in 1989 as a result of the depressed state of the market and fierce competition, particularly during the latter part of the year.

A phased £4.5 million capital investment programme began during the year to increase capacity and reduce production costs. The first phase consisting of in-line computer optimisation and Orbis Gauge dimensional control of all hot rolled products was completed in May 1990. This was followed in August 1990 by the successful commissioning of the largest multi-strand in-line profile straightening machine in Europe.

Dividends

A final dividend of £3.2 million is proposed for the year under review.

No interim dividend was paid during the year.

Future developments

The final phase of the capital investment programme, involving the expansion of the in-line automatic bundling and tying of all products, is currently being brought into operation and will facilitate further growth.

The outlook for 1991 in the light of an uncertain UK market involves further concentration on sales to Europe and The Rest of the World.

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

At 1st January 1990 the plant and machinery of the company was revalued by Messrs Henry Butcher & Co on an existing economic use basis and these values, resulting in a total increase in net asset value of £6.5m, have been incorporated in the financial statements.

Further details of the revaluation and other additions and disposals are given in note 11.

Report of the directors for the year ended 30th December 1990 (Continued)

Directors

The directors of the company during the year were:

Swraj Paul (Chairman)	
J. Crossman	
J.A. Leek	
P.F. Lormor	
Akash Paul	
A.P. Pedder	
G.H. Sambrook	(resigned 1st August 1990)
M.D. Simmons	(appointed 2nd April 1990)
C.G. Steele	(resigned 2nd April 1990)
M.C. Taylor	(appointed 2nd April 1990)
A.R. Thackery	(appointed 1st August 1990 - alternative to A.P. Pedder)
P. Waterhouse	

On 2nd April 1991 Mr. M.C. Taylor resigned as a director and secretary and Mr. D. Kirkup was appointed a director and secretary.

The directors retiring in accordance with the Articles of Association and offering themselves for re-election are Messrs. Akash Paul, P. Waterhouse, M.D. Simmons, A.R. Thackery and D. Kirkup.

Directors interest

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

The shareholding interests of Dr. Swraj Paul and Messrs. 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.

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

Ordinary shares	Number of ordinary shares of 1p each	
	30th December 1990	31st December 1989
J. Crossman	14,000	30,000

Executive share option scheme

	Number of ordinary shares as at 30th December 1990	Period exercisable	Option price per share	Number of ordinary shares as at 31st December 1989
J. Crossman	15,000	June 1991 - June 1998	48p	15,000
	20,000	July 1993 - July 2000	61.5p	-
	40,000	Oct 1992 - Oct 1999	67.5p	40,000
P.F. Lormor	30,000	July 1990 - July 1996	51p	30,000
	10,000	Jan 1991 - Jan 1998	37p	10,000
	40,000	Oct 1992 - Oct 1999	67.5p	40,000
	20,000	July 1993 - July 2000	61.5p	-
M.D. Simmons	50,000	July 1993 - July 2000	61.5p	-
M.C. Taylor	50,000	July 1993 - July 2000	61.5p	-

UNITED MERCHANT BAR Plc

Report of the directors for the year ended 30th December 1990 (Continued)

Insurance

During the period the company made payments for insurance of directors against possible personal claims against them arising from the company's activities.

Personnel

The number of employees and their remuneration is shown in note 10 to the financial statements.

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 £2,148 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

D. Kirkup

D. Kirkup

Secretary

3rd April 1991

UNITED MERCHANT BANK PLC

Profit and loss account for the year ended 30th December 1990

	<u>Note</u>	<u>1990</u> <u>£000's</u>	<u>1989</u> <u>£000's</u>
Turnover	2	61,399	56,085
Cost of sales		(45,556)	(41,009)
Gross profit		15,843	15,076
Other operating expenses	3	(7,266)	(6,134)
Operating profit	4	8,577	8,942
Interest receivable	5	1,237	1,010
		9,814	9,952
Interest payable	6	(278)	(478)
Profit on ordinary activities before taxation		9,536	9,474
Taxation on profit on ordinary activities	7	(3,156)	(3,308)
Profit on ordinary activities after taxation		6,380	6,166
Dividends	8	(3,200)	(2,400)
Retained profit for year	18	3,180	3,766

The notes on pages 6 to 16 form part of these financial statements

UNITED MERCHANT BANK PLC

Balance sheet at 30th December 1990

	Note	1990	1989
		£000's	£000's
Fixed assets			
Tangible assets	11	22,747	14,350
Current assets			
Stocks	12	6,177	5,431
Debtors	13	15,689	16,819
Cash at bank and in hand		<u>2,903</u>	<u>1,757</u>
		24,769	24,007
Creditors			
Amounts falling due within one year	14	<u>(22,588)</u>	<u>(22,356)</u>
Net current assets		2,181	1,651
Total assets less current liabilities		<u>24,928</u>	<u>16,001</u>
Creditors			
Amounts falling due after more than one year	15	(71)	(1,020)
Provisions for liabilities and charges	16	<u>(3,586)</u>	<u>(1,232)</u>
		<u>21,271</u>	<u>13,749</u>
Capital and reserves			
Called up share capital	17	2,467	2,467
Share premium account	18	1,553	1,553
Revaluation reserve	18	9,454	5,450
Profit and loss account	18	<u>7,797</u>	<u>4,279</u>
		<u>21,271</u>	<u>13,749</u>

These financial statements were approved by the Board on 3rd April 1991

J. Crossman

Director

As noted on pages 6 to 16 form part of these financial statements.

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, and are in accordance with applicable accounting standards.

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

Foreign currency transactions are translated at the rates ruling when they occurred, and monetary assets and liabilities at the rates ruling at the balance sheet date, except where they are covered by forward currency contract when the forward rate is used. All profits and losses on transactions are credited or charged 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.

1. Accounting policies (continued)

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.

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

Following the introduction of SSAP4 (revised) the accounting treatment for government grants was reviewed and from 1st January 1990 grants received towards the costs of capital expenditure are treated as deferred income and credited to the profit and loss account by instalments over the expected useful economic life of the related assets on a basis consistent with the related assets depreciation policy. Previously, capital grants were credited against the cost of the relevant assets.

In the opinion of the directors the effect of this change in accounting policy is not material to prior years and therefore no prior year adjustment has been made.

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 authority.

Pensions

Contributions to the group scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the age attained method.

UNITED MERCHANT BAR Plc

Notes forming part of the financial statements for the year ended 30th December 1990
(Continued)

2. Turnover

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

Turnover is analysed by geographical market below:

	1990 £000's	1989 £000's
United Kingdom	33,783	37,514
Other EEC countries	24,133	17,120
Rest of the world	3,512	1,451
	<u>61,399</u>	<u>56,085</u>

3. Other operating expenses

Distribution expenses	4,012	3,525
Administrative expenses	3,254	2,609
	<u>7,266</u>	<u>6,134</u>

4. Operating profit

Operating profit is stated after charging:

Auditors' remuneration	33	21
Hire of plant and machinery	51	50
Directors' emoluments (see note 9)	228	168
Depreciation - owned assets	760	257
- assets held under finance leases	438	352
Exchange differences	(204)	211
	<u></u>	<u></u>

5. Interest receivable

Bank deposit interest	449	296
Loans to holding company	788	714
	<u>1,237</u>	<u>1,010</u>

6. Interest payable

Bank overdrafts	172	199
Loans, repayable within 5 years		
- related company	13	133
- holding company	13	31
Finance leases	80	115
	<u>278</u>	<u>478</u>

7. Taxation

	1990 £000's	1989 £000's
Corporation tax at 34.25% on profit for the year	2,323	906
Subvention amounts payable in respect of corporation tax losses surrendered by fellow subsidiaries:		
Current year	526	2,266
Prior years	40	20
Deferred taxation:		
Current year	307	137
Prior years	(40)	(21)
	<u>3,156</u>	<u>3,308</u>

The deferred taxation charge for the year has been reduced by approximately £105,000 as a result of the proposed reduction in the rate of corporation tax to 33%.

8. Dividend

	1990 £000's	1989 £000's
Proposed dividend - final	<u>3,200</u>	<u>2,400</u>

9. Directors emoluments

Remuneration for executive services	<u>228</u>	<u>168</u>
	£	£
Remuneration of chairman	<u>Nil</u>	<u>Nil</u>
Remuneration of highest paid director (excluding pension contributions)	<u>89,074</u>	<u>92,392</u>

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

	Number	Number
£ Nil to £ 5,000	7	6
£25,001 to £30,000	1	-
£30,001 to £35,000	1	-
£55,001 to £60,000	1	-
£60,001 to £65,000	<u>-</u>	<u>1</u>
	10	7

10. Employees

	1990 £000's	1989 £000's
Staff costs including directors emoluments consist of:		
Wages and salaries	2,723	2,388
Social security costs	218	192
Other pension costs	248	235
	<u>3,189</u>	<u>2,815</u>

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

	Number	Number
Production	139	127
Administration and management	22	22
	<u>161</u>	<u>149</u>

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 1990	5,650	10,821	13	16,484
Additions for year	-	3,099	-	3,099
Revaluation	-	6,494	2	6,496
	<u>5,650</u>	<u>20,414</u>	<u>15</u>	<u>26,079</u>
At 30th December 1990				
Depreciation				
At 1st January 1990	-	2,125	9	2,134
Charge for year	-	1,195	3	1,198
	<u>-</u>	<u>3,320</u>	<u>12</u>	<u>3,332</u>
At 30th December 1990				
Net book value				
At 30th December 1990	5,650	17,094	3	22,747
	<u>5,650</u>	<u>8,696</u>	<u>4</u>	<u>14,350</u>
At 31st December 1989				

11. Tangible fixed assets (continued)

	Freehold land and buildings £000's	Plant and machinery £000's	Vehicles and mobile plant £000's	Total £000's
Analysis of cost or valuation:				
At cost		4,227	6	4,233
At valuation				
1988	5,650	-	-	5,650
1990	-	16,187	9	16,196
	5,650	20,414	15	26,079
Original cost of revalued assets	200	9,693	7	9,900

The plant, machinery and vehicles both owned and held under finance leases were valued professionally as at 1st January 1990 on an existing use basis by a firm of surveyors and valuers, Henry Butcher & Co.

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.

In the opinion of the directors the value of tangible assets at 30th December 1990 is not significantly different from that included in the financial statements.

The net book value of plant, machinery, vehicles and mobile plant at 30th December 1990 includes the following amounts in respect of assets held under finance leases:

	£
1990	4,788,137
1989	3,189,282

11. Tangible fixed assets (continued)

The historical net book value of tangible assets is as follows:

	Freehold land and buildings £000's	Plant and machinery £000's	Vehicles and mobile plant £000's	Total £000's
Historical cost at 30th December 1990	200	13,920	13	14,133
Accumulated depreciation based on historical cost	<u>-</u>	<u>2,800</u>	<u>11</u>	<u>2,811</u>
Historical cost net book value at 30th December 1990	<u>200</u>	<u>11,120</u>	<u>2</u>	<u>11,322</u>
Historical cost at 31st December 1989	200	10,821	13	11,034
Accumulated depreciation based on historical cost	<u>-</u>	<u>2,125</u>	<u>9</u>	<u>2,134</u>
Historical cost net book value at 31st December 1989	<u>200</u>	<u>8,696</u>	<u>4</u>	<u>8,900</u>

12. Stocks

	<u>1990</u> £000's	<u>1989</u> £000's
Stocks comprise:		
Rolls	209	193
Stores and spares	550	321
Raw materials	1,165	1,939
Finished goods	<u>4,253</u>	<u>2,978</u>
	<u>6,177</u>	<u>5,431</u>

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

UNITED MERCHANT BANK Plc

Notes forming part of the financial statements for the year ended 30th December 1990
(Continued)

13. Debtors

	<u>1990</u> £000's	<u>1989</u> £000's
Trade debtors	3,338	9,624
Other debtors	855	429
Prepayments and accrued income	92	65
Amount due from group companies	721	558
Amount due from holding company	5,000	5,000
Amount due from related company	683	1,143
	<u>15,689</u>	<u>16,819</u>

There is no intention of demanding repayment of the amount due from the holding company before 30th December 1991.

All other debtors fall due for payment within one year.

14. Creditors falling due within one year

	<u>1990</u> £000's	<u>1989</u> £000's
Borrowings		
Bank overdraft (secured)	1,115	1,821
Related company loans	71	291
Trade creditors	4,677	1,617
Other creditors	1,348	1,329
Obligations under finance leases	766	761
Taxation and social security	139	85
Corporation tax	2,590	1,309
Accruals and deferred income	735	818
Amount due to related company	6,924	9,045
Amount due to group companies	424	208
Amount due to holding company	599	2,672
Proposed dividends	3,200	2,400
	<u>22,588</u>	<u>22,356</u>

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

15. Creditors falling due after more than one year

	<u>1990</u> £000's	<u>1989</u> £000's
Obligations under finance leases	3	757
Other creditors	68	119
Amount due to related company	-	71
Amount due to holding company	-	73
	<u>71</u>	<u>1,020</u>

UNITED MERCHANTS BAR PLC

Notes forming part of the financial statements for the year ended 30th December 1990
(Continued)

16. Provisions for liabilities and charges

Deferred taxation	<u>1990</u>		<u>1989</u>	
	Amount unprovided £000's	Provided in accounts £000's	Amount unprovided £000's	Provided in accounts £000's
Accelerated capital allowances	-	3,393	-	1,108
Capital gains tax that would arise if properties were sold at revalued amounts	1,799	-	1,907	-
Short term timing differences		460	-	324
Advance corporation tax recoverable	-	(257)	-	(200)
	<u>1,799</u>	<u>3,586</u>	<u>1,907</u>	<u>1,232</u>

Following the proposed reduction in the rate of corporation tax, deferred taxation has been provided at 33% on timing differences.

Movement on deferred taxation	£000's
At 1st January 1990	1,232
Charged to profit and loss account	267
Advance corporation tax arising on 1990 dividends	(267)
Advance corporation tax set off against the corporation tax liability	200
Arising on the revaluation of plant and machinery	2,154
At 30th December 1990	<u>3,586</u>

17. Called up share capital

	<u>1990</u> £000's	<u>1989</u> £000's
Authorised		
2,500,000 ordinary shares of £1 each	2,500	2,500
Allotted		
2,465,667 ordinary shares of £1, fully paid	2,467	2,467

UNITED MERCHANT BANK PLC

Notes forming part of the financial statements for the year ended 30th December 1990
(Continued)

18. Reserves

	Revaluation reserve £000's	Profit and loss account £000's	Share premium account £000's	Total £000's
At 1st January 1990	5,450	4,279	1,553	11,282
Profit retained for the year	-	3,180	-	3,180
Revaluation of plant and machinery (net of deferred tax)	4,342	-	-	4,342
Adjustment in respect of revaluation of plant and machinery on depreciation in year	(338)	338	-	-
At 30th December 1990	9,454	7,797	1,553	18,804

19. Pensions

The company is a member of the Caparo Industries Plc 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 financial statements of the holding company, Caparo Industries Plc.

The pension charge for the year was £247,000 (1989 - £235,000).

20. Capital commitments

	1990 £000's	1989 £000's
Contracted but not provided for	186	1,911
Authorised but not contracted for	174	1,095
	360	3,006

21. Contingent liabilities and commitments

- 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 30th December 1990 this liability amounted to £1,063,054 (1989 - £1,580,539).
- Discounted bills of exchange amounted to £539,000 (1989 - £534,000).
- The company has entered into forward currency contracts totalling £8,051,104 as at 30th December 1990.

UNITED MERCHANT BANK Plc

Notes forming part of the financial statements for the year ended 30th December 1990
(Continued)

22. Holding company, and directors interest in transactions

The immediate holding company is Caparo Industries Plc and the ultimate holding company is Caparo Group Limited, both companies being incorporated in England. Copies of group accounts may be obtained from the registered office of the company.

Included within creditors at 30th December 1990 is an amount of £4,000 due to Caparo Group Limited. Dr. 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 and its subsidiary undertakings in the year amounted to £30,000. 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 30th December 1990:

	<u>1990</u> £000's	<u>1989</u> £000's
Due within one year	685	761
Two to five years	<u>3</u>	<u>757</u>
	688	1,518

UNITED MERCHANT S&A Plc

Statement of source and application of funds for the year ended 30th December 1986

	<u>1990</u> £000's	<u>1989</u> £000's
Sources of funds		
Profit on ordinary activities before taxation	9,536	9,474
Adjustment for item not involving the movement of funds		
Depreciation	1,198	609
Total generated from operations	<u>10,734</u>	<u>10,083</u>
Application of funds		
Purchase of fixed assets	(3,099)	(1,546)
Taxation paid	(1,109)	(192)
Dividend paid	<u>(2,400)</u>	<u>(2,432)</u>
	<u>(6,608)</u>	<u>(4,170)</u>
	4,126	5,913
Increase/(decrease) in working capital		
Stocks	746	2,550
Debtors	(833)	1,852
Creditors	(2,250)	(688)
Inter-group and related company	<u>4,611</u>	<u>4,013</u>
	<u>2,274</u>	<u>7,727</u>
Increase/(decrease) in net liquid funds		
Cash at bank and in hand	1,146	(780)
Bank overdraft	<u>706</u>	<u>(1,034)</u>
	<u>1,852</u>	<u>(1,814)</u>

The notes on pages 6 to 16 form part of these financial statements

UNITED MERCHANT EAR PLC

Report of the auditors

To the members of United Merchant Ear Plc

We have audited the financial statements on pages 4 to 17 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 30th December 1990 and of its profit 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.

3rd April 1991