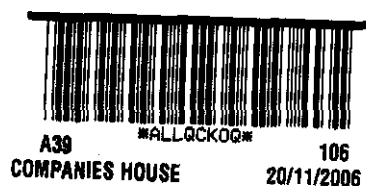


Company Registration No. 1985443 (England and Wales)

**SPECIAL QUALITY ALLOYS LIMITED**  
**ABBREVIATED ACCOUNTS**  
**FOR THE YEAR ENDED 31 MAY 2006**



# SPECIAL QUALITY ALLOYS LIMITED

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# **SPECIAL QUALITY ALLOYS LIMITED**

## **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MAY 2006**

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The directors present their report and financial statements for the year ended 31 May 2006.

### **Principal activities and review of the business**

The principal activities of the Company continue to be the manufacture and supply of special quality alloys and steels.

The prime markets for these alloys include aerospace, oil & gas and chemical processing.

Customers in the oil and gas market have experienced a dramatic growth in profits driven by the increasing oil price and this has resulted in a significant increase in demand for equipment to support further exploration. The Company and its subsidiary Special Quality Alloys Inc have been successful in meeting the consequent increase in demand for steel and have also been supported by the Special Steel Group of Companies metal processing and testing facilities.

The Group has undergone a period of sustained capital investment in facilities and infrastructure over the previous three years allowing us to better manage the upturn in demand whilst limiting impact on service and quality.

Turnover for the year has increased by 66% and profit before tax has increased from £2.3M to £5.5M, a return of 126% on capital employed compared with 83% for the previous year. Return on capital employed is calculated as profit before tax divided by opening shareholders funds.

The Company is in a strong financial position at the year end with shareholders funds up from £4.3M to £7.4M.

The Group is committed to further capital investment where necessary to maintain its competitive position in the market place. However, as a business involved in buying a globally traded commodity and being dependent on the movement in world supply and demand for oil and gas, any plans for future development of the business may be subject to unforeseen events outside of our control.

### **Results and dividends**

The results for the year are set out on page 4.

A final dividend in respect of 2005 of £400,000 was paid during the year together with an interim dividend for 2006 of £400,000. The directors do not propose any further dividend in respect of 2006.

### **Directors**

The following directors have held office since 1 June 2005:

A K Beardshaw  
S G S Marshall  
R L Stevens  
R Wood  
A C Beardshaw  
B J Beardshaw

### **Directors' interests**

The interests of the directors in the share capital of the holding company, Special Steel Co. Limited, are disclosed in that company's financial statements.

# SPECIAL QUALITY ALLOYS LIMITED

## DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

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### Auditors

The company has by elective resolution dispensed with the obligation to appoint auditors annually in accordance with section 386(1) of the Companies Act 1985. Therefore, the auditors, Barber Harrison & Platt, will be deemed to be reappointed for each succeeding financial year.

### Directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Statement of disclosure to auditor

(a) so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board



A K Beardshaw

Director

13 November 2006

# **SPECIAL QUALITY ALLOYS LIMITED**

## **INDEPENDENT AUDITORS' REPORT TO SPECIAL QUALITY ALLOYS LIMITED UNDER SECTION 247B OF THE COMPANIES ACT 1985**

We have examined the abbreviated accounts set out on pages 4 to 14, together with the financial statements of Special Quality Alloys Limited for the year ended 31 May 2006 prepared under section 226 of the Companies Act 1985.

This report is made solely to the company in accordance with Section 247B of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company those matters we are required to state to them in an auditor's report on abbreviated accounts and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

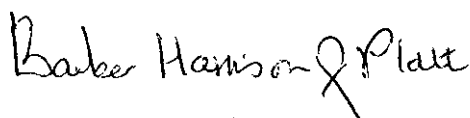
The directors are responsible for preparing the abbreviated accounts in accordance with section 246A of the Companies Act 1985. It is our responsibility to form an independent opinion as to whether the company is entitled to deliver abbreviated accounts prepared in accordance with section 246A(3) of the Act to the Registrar of Companies and whether the abbreviated accounts have been properly prepared in accordance with that provision and to report our opinion to you.

### **Basis of audit opinion**

We conducted our work in accordance with Bulletin 2006/3 "The special auditor's report on abbreviated accounts in the United Kingdom" issued by the Auditing Practices Board. In accordance with that Bulletin we have carried out the procedures we consider necessary to confirm, by reference to the financial statements, that the company is entitled to deliver abbreviated accounts and that the abbreviated accounts to be delivered are properly prepared.

### **Opinion**

In our opinion the company is entitled to deliver abbreviated accounts prepared in accordance with section 246A(3) of the Companies Act 1985, and the abbreviated accounts have been properly prepared in accordance with that provision.



**Barber Harrison & Platt**

13 November 2006

Chartered Accountants

**Registered Auditor**

2 Rutland Park  
Sheffield  
S10 2PD

# SPECIAL QUALITY ALLOYS LIMITED

## ABBREVIATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MAY 2006

		2006	2005
	Notes	£	as restated £
Gross profit		8,000,704	3,584,660
Administrative expenses		(2,472,498)	(1,174,782)
Operating profit	2	5,528,206	2,409,878
Investment income	3	8,220	7,645
Other interest receivable and similar income		4,105	852
Interest payable and similar charges	4	(56,135)	(91,339)
Profit on ordinary activities before taxation		5,484,396	2,327,036
Tax on profit on ordinary activities	5	(1,648,610)	(699,767)
Profit for the year	16	3,835,786	1,627,269

The profit and loss account has been prepared on the basis that all operations are continuing operations.

# SPECIAL QUALITY ALLOYS LIMITED

## ABBREVIATED BALANCE SHEET AS AT 31 MAY 2006

		2006		2005 as restated	
	Notes	£	£	£	£
<b>Fixed assets</b>					
Tangible assets	7		628,337		282,019
Investments	8		183,488		183,488
			<u>811,825</u>		<u>465,507</u>
<b>Current assets</b>					
Stocks	9	7,869,042		5,178,201	
Debtors	10	5,470,604		3,698,055	
Cash at bank and in hand		1,698,575		-	
		<u>15,038,221</u>		<u>8,876,256</u>	
<b>Creditors: amounts falling due within one year</b>	11	(8,447,909)		(4,930,881)	
<b>Net current assets</b>			<u>6,590,312</u>		<u>3,945,375</u>
<b>Total assets less current liabilities</b>			<u>7,402,137</u>		<u>4,410,882</u>
<b>Creditors: amounts falling due after more than one year</b>	12		-		(53,531)
<b>Provisions for liabilities</b>	13		(29,700)		(20,700)
			<u>7,372,437</u>		<u>4,336,651</u>
<b>Capital and reserves</b>					
Called up share capital	15		100,000		100,000
Profit and loss account	16		7,272,437		4,236,651
<b>Shareholders' funds</b>	17		<u>7,372,437</u>		<u>4,336,651</u>

These abbreviated accounts have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to medium-sized companies.

Approved by the Board and authorised for issue on 13 November 2006

  
A.K. Beardshaw  
Director

# **SPECIAL QUALITY ALLOYS LIMITED**

## **NOTES TO THE ABBREVIATED ACCOUNTS FOR THE YEAR ENDED 31 MAY 2006**

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### **1 Accounting policies**

#### **1.1 Accounting convention**

The financial statements are prepared under the historical cost convention.

The company has taken advantage of the exemption in Financial Reporting Standard No 1 from the requirement to produce a cashflow statement on the grounds that it is a wholly owned subsidiary.

#### **1.2 Compliance with accounting standards**

The financial statements are prepared in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), which have been applied consistently (except as otherwise stated).

#### **1.3 Turnover**

Turnover represents amounts receivable for goods and services net of VAT and trade discounts.

#### **1.4 Tangible fixed assets and depreciation**

Tangible fixed assets other than freehold land are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Plant and machinery	10% or 20%
Motor vehicles	25%

#### **1.5 Leasing**

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

#### **1.6 Investments**

Fixed asset investments are stated at cost less provision for diminution in value.

#### **1.7 Stock**

Stock is valued at the lower of cost and net realisable value.

#### **1.8 Pensions**

The company operates a defined contribution scheme for the benefit of its employees. Contributions payable are charged to the profit and loss account in the year they are payable.

#### **1.9 Deferred taxation**

Deferred taxation is provided at appropriate rates on all timing differences using the liability method.

#### **1.10 Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

#### **1.11 Government grants**

Grants are credited to deferred revenue. Grants towards capital expenditure are released to the profit and loss account over the expected useful life of the assets. Grants towards revenue expenditure are released to the profit and loss account as the related expenditure is incurred.



# SPECIAL QUALITY ALLOYS LIMITED

## NOTES TO THE ABBREVIATED ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

### 1 Accounting policies

(continued)

#### 1.12 Group accounts

The financial statements present information about the company as an individual undertaking and not about its group. The company has not prepared group accounts as it is exempt from the requirement to do so by section 228 of the Companies Act 1985 as it is a subsidiary undertaking of Special Steel Co. Limited, a company incorporated in England, and is included in the consolidated accounts of that company.

#### 1.13 Changes in accounting policy - dividends

In accordance with changes in company law and the implementation of Financial Reporting Standard 21- 'Events after the balance sheet date', dividends charged in the profit and loss account do not include dividends proposed after the year end. This represents a change in accounting policy for 2006. Prior year comparatives have been restated as appropriate. The effect of the prior year adjustment is to increase shareholders equity at 31 May 2005 by £400,000.

2	Operating profit	2006 £	2005 £
	Operating profit is stated after charging:		
	Depreciation of tangible assets	83,293	80,597
	Operating lease rentals		
	- Plant and machinery	2,064	4,231
	- Other assets	12,000	12,000
	Auditors' remuneration	7,400	7,175
	and after crediting:		
	Government grants	-	373
		<u>          </u>	<u>          </u>
3	Investment income	2006 £	2005 £
	Interest received from subsidiary undertaking	8,220	7,645
		<u>          </u>	<u>          </u>
		8,220	7,645
		<u>          </u>	<u>          </u>
4	Interest payable	2006 £	2005 £
	On amounts payable to group companies	51,000	51,000
	On bank loans and overdrafts	2,757	40,339
	Other interest	2,378	-
		<u>          </u>	<u>          </u>
		56,135	91,339
		<u>          </u>	<u>          </u>

# SPECIAL QUALITY ALLOYS LIMITED

## NOTES TO THE ABBREVIATED ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

5	Taxation	2006 £	2005 £
	<b>Domestic current year tax</b>		
	U.K. corporation tax	1,639,610	702,167
	<b>Current tax charge</b>	1,639,610	702,167
	<b>Deferred tax</b>		
	Deferred tax charge/credit current year	9,000	(2,400)
		1,648,610	699,767
	<b>Factors affecting the tax charge for the year</b>		
	Profit on ordinary activities before taxation	5,484,396	2,327,036
	Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2005 - 30.00%)	1,645,319	698,111
	Effects of:		
	Non deductible expenses	3,321	1,655
	Depreciation add back	24,988	24,179
	Capital allowances	(34,018)	(21,778)
		(5,709)	4,056
	<b>Current tax charge</b>	1,639,610	702,167
6	<b>Dividends</b>	2006 £	2005 £
	2004 ordinary final paid	-	200,000
	2005 ordinary final paid	400,000	-
	2006 ordinary interim paid	400,000	-
		800,000	200,000

# SPECIAL QUALITY ALLOYS LIMITED

## NOTES TO THE ABBREVIATED ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

### 7 Tangible fixed assets

	Land and buildings Freehold	Plant and machinery	Motor vehicles	Total
	£	£	£	£
<b>Cost</b>				
At 1 June 2005	-	700,202	161,196	861,398
Additions	236,973	140,678	79,710	457,361
Disposals	-	-	(51,774)	(51,774)
At 31 May 2006	236,973	840,880	189,132	1,266,985
<b>Depreciation</b>				
At 1 June 2005	-	503,659	75,720	579,379
On disposals	-	-	(24,024)	(24,024)
Charge for the year	-	51,967	31,326	83,293
At 31 May 2006	-	555,626	83,022	638,648
<b>Net book value</b>				
At 31 May 2006	236,973	285,254	106,110	628,337
At 31 May 2005	-	196,543	85,476	282,019

The net book value of plant and machinery includes £27,720 in respect of payments on account of assets in the course of construction.

### 8 Fixed asset investments

	Shares in group undertakings	Loans to group undertakings	Total
	£	£	£
<b>Cost</b>			
At 1 June 2005 & at 31 May 2006	46,846	136,642	183,488
<b>Net book value</b>			
At 31 May 2006	46,846	136,642	183,488
At 31 May 2005	46,846	136,642	183,488

The company owns 75% of the ordinary share capital of Special Quality Alloys Inc., a company incorporated in the United States of America and whose principal activity is stockholding special quality alloys.

# SPECIAL QUALITY ALLOYS LIMITED

## NOTES TO THE ABBREVIATED ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

<b>9</b>	<b>Stocks</b>	<b>2006</b>	<b>2005</b>
		<b>£</b>	<b>£</b>
	Finished goods and goods for resale	7,869,042	5,178,201
		<u>          </u>	<u>          </u>
<b>10</b>	<b>Debtors</b>	<b>2006</b>	<b>2005</b>
		<b>£</b>	<b>£</b>
	Trade debtors	4,244,894	3,123,118
	Amounts owed by subsidiary undertakings	1,199,350	568,750
	Other debtors	362	-
	Prepayments and accrued income	25,998	6,187
		<u>          </u>	<u>          </u>
		5,470,604	3,698,055
		<u>          </u>	<u>          </u>
<b>11</b>	<b>Creditors: amounts falling due within one year</b>	<b>2006</b>	<b>2005</b>
		<b>£</b>	<b>£</b>
	Bank overdraft	-	48,856
	Payments received on account	43,513	-
	Trade creditors	4,396,321	2,410,631
	Consignment stock creditors	1,216,692	898,242
	Amounts owed to parent and fellow subsidiary undertakings	1,534,987	793,671
	Corporation tax	889,775	462,167
	Other taxes and social security costs	141,665	148,775
	Other creditors	5,173	6,099
	Accruals and deferred income	219,783	162,440
		<u>          </u>	<u>          </u>
		8,447,909	4,930,881
		<u>          </u>	<u>          </u>
<b>12</b>	<b>Creditors: amounts falling due after more than one year</b>	<b>2006</b>	<b>2005</b>
		<b>£</b>	<b>£</b>
	Loan from parent undertaking	-	53,531
		<u>          </u>	<u>          </u>

# SPECIAL QUALITY ALLOYS LIMITED

## NOTES TO THE ABBREVIATED ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

### 13 Provisions for liabilities and charges

	Deferred tax liability £
Balance at 1 June 2005	20,700
Profit and loss account	9,000
	<u>29,700</u>
Balance at 31 May 2006	<u>29,700</u>

The deferred tax liability is made up as follows:

	2006 £	2005 £
Accelerated capital allowances	<u>29,700</u>	<u>20,700</u>

### 14 Pension costs

#### Defined contribution

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund. Contributions totalling £nil (2005- £nil) were payable to the fund at the year end and are included in creditors.

	2006 £	2005 £
Contributions payable by the company for the year	<u>165,542</u>	<u>14,171</u>

### 15 Share capital

	2006 £	2005 £
<b>Authorised</b>		
100,000 Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
<b>Allotted, called up and fully paid</b>		
100,000 Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>

# SPECIAL QUALITY ALLOYS LIMITED

## NOTES TO THE ABBREVIATED ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

### 16 Statement of movements on profit and loss account

	Profit and loss account £
Balance at 1 June 2005 as previously reported	3,836,651
Prior year adjustment	400,000
Balance at 1 June 2005 as restated	4,236,651
Profit for the year	3,835,786
Dividends paid	(800,000)
Balance at 31 May 2006	7,272,437

This prior year adjustment arises on a change in company law and accounting policy as explained in note 1.13 above.

### 17 Reconciliation of movements in shareholders' funds

	2006 £	2005 £
Profit for the financial year	3,835,786	1,627,269
Dividends	(800,000)	(200,000)
Net addition to shareholders' funds	3,035,786	1,427,269
Opening shareholders' funds	4,336,651	2,909,382
Closing shareholders' funds	7,372,437	4,336,651

Opening shareholders' funds were originally £3,936,651 before adding prior year adjustments of £400,000.

### 18 Capital commitments

	2006 £	2005 £
At 31 May 2006 the company had capital commitments as follows:		
Contracted for but not provided in the financial statements	64,680	-

# SPECIAL QUALITY ALLOYS LIMITED

## NOTES TO THE ABBREVIATED ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

19 Directors' emoluments	2006 £	2005 £
Emoluments for qualifying services	227,693	184,387
Company pension contributions to money purchase schemes	157,291	6,533
	<u>384,984</u>	<u>190,920</u>

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 3 (2005 - 3).

Emoluments disclosed above include the following amounts paid to the highest paid director:

Emoluments for qualifying services	79,096	65,942
Company pension contributions to money purchase schemes	<u>2,277</u>	<u>1,928</u>

## 20 Employees

### Number of employees

The average monthly number of employees (including directors) during the year was:

	2006 Number	2005 Number
Production	20	18
Selling and distribution	12	11
Administration	6	6
	<u>38</u>	<u>35</u>

### Employment costs

	2006 £	2005 £
Wages and salaries	909,899	788,589
Social security costs	95,528	83,176
Other pension costs	165,542	14,171
	<u>1,170,969</u>	<u>885,936</u>

## 21 Ultimate parent company

The ultimate parent company is Special Steel Co. Limited, a company registered in England and Wales.

# **SPECIAL QUALITY ALLOYS LIMITED**

## **NOTES TO THE ABBREVIATED ACCOUNTS (CONTINUED)** ***FOR THE YEAR ENDED 31 MAY 2006***

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### **22 Related party transactions**

The company has taken advantage of the exemptions conferred by Financial Reporting Standard No 8 and has not included in these financial statements any details of transactions with its parent undertaking and fellow subsidiary undertakings.