

**UK Steelstock Limited**

Financial statements

For the year ended 31 December 2003

Grant Thornton 



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29/10/04

**Company No. 2023155**

<b>Company registration number</b>	2023155
<b>Directors</b>	R W Colburn S A Hussey B A King
<b>Registered office</b>	The Hersham Centre Hersham Green Hersham Surrey KT12 4HP
<b>Secretary</b>	C J Fairman
<b>Auditors</b>	Grant Thornton UK LLP Registered Auditors Chartered Accountants Churchill House Chalvey Road East Slough Berkshire SL1 2LS

<b>Report of the directors</b>	4 - 6
<b>Report of the independent auditors</b>	7 - 8
<b>Consolidated profit and loss account</b>	9
<b>Balance sheets</b>	10
<b>Consolidated cash flow statement</b>	11
<b>Consolidated statement of total recognised gains and losses</b>	12
<b>Notes to the financial statements</b>	13 - 37

## Report of the directors

The directors present their report and the audited financial statements for the year ended 31 December 2003.

### **Principal activities and review of operations**

The principal activity of the group during the year was metal stockholding and the principal activity of this company was to act as a holding company.

The subsidiary undertakings principally affecting the profits or net assets of the group during the year are listed in note 13 to the financial statements.

### **Results and dividends**

The trading results for the year and the company's and group's financial position at the end of the year are shown in the attached financial statements. The directors do not recommend the payment of a dividend (2002: £nil).

### **Post balance sheet events**

On 1 January 2004 Amari Metals Limited, a wholly owned subsidiary undertaking of this company, sold its equity interests in Amari Aerospace Limited.

### **Directors**

The directors who served the company during the year were as follows:

R W Colburn

P Burke (deceased on 20 March 2004)

S A Hussey

B A King (appointed 9 December 2003)

None of the directors has any interest in the share capital of the company or any other company in the group headed by UK Steelstock Limited.

Directors' interests in the shares of the ultimate parent undertaking, if any, are not required to be disclosed under the Companies (Disclosure of Directors' Interests) (Exceptions) Regulations 1985 by virtue of the ultimate parent company being incorporated outside Great Britain.

### **Policy on the payment of creditors**

It is company policy to ensure that suppliers know the terms on which payment will take place when the business is agreed.

## Report of the directors

### **Directors' responsibilities**

Company law in the United Kingdom 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 group at the end of the year and of the group's profit or loss for the year then ended. In preparing those financial statements, the director is required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 group 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 group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Employee consultation and disabled employees**

Recruitment policies are designed to ensure equal opportunity of employment regardless of race or sex. Appropriate consideration is given to disabled applicants in offering employment.

Good communications and relations with employees are attempted, mainly by practices developed in each operating unit compatible with its own particular circumstances. Senior management are kept informed of group developments in certain financial, commercial, strategic and personnel matters as needed, and are thereby enabled to inform and discuss with the employees as appropriate at the individual operating units.

### **Creditor payment policy**

It is company policy to ensure that suppliers know the terms on which payment will take place when business is agreed.

## Report of the directors

### **Political and charitable donations**


During the year the group made charitable donations of £2,676 (2002: £4,245) and no political donations.

### **Auditors**

On 1 July 2004, the Grant Thornton partnership transferred its business to a limited liability partnership, Grant Thornton UK LLP. Under section 26(5) of the Companies Act 1989, the directors consented to extend the audit appointment to Grant Thornton UK LLP from 1 July 2004.

A resolution to re-appoint Grant Thornton UK LLP as auditors for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD



C J Fairman  
Secretary

28/10/04.....

Date:

## Report of the independent auditors to the members of UK Steelstock Limited

We have audited the financial statements of UK Steelstock Limited for the year ended 31 December 2003 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and notes 1 to 33. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with the relevant legal and regulatory requirements and United Kingdom auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read other information contained in the directors' report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of opinion**

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the director in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Report of the independent auditors to the members of UK Steelstock Limited

### **Qualified opinion arising from the omission of information**

The financial statements do not contain certain disclosure information relating to emoluments and benefits of directors as required by schedule 6 of the Companies Act 1985. The remuneration of the directors for the year ended 31 December 2003 was £194,609 (2002: £73,434).

Except for the failure to provide the above information, in our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 2003 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Grant Thornton UK LLP*

GRANT THORNTON UK LLP  
REGISTERED AUDITORS  
CHARTERED ACCOUNTANTS  
LONDON THAMES VALLEY OFFICE  
SLOUGH

Date...*29 October 2004*...



## Consolidated profit and loss account

	Note	2003 £	2002 £
Turnover	3	245,044,001	200,848,908
Net operating costs	4	<u>(240,649,067)</u>	<u>(197,191,168)</u>
Operating profit		4,394,934	3,657,740
Interest income	8	57,452	91,190
Interest expense and similar charges	9	<u>(2,097,555)</u>	<u>(2,220,776)</u>
Profit on ordinary activities before taxation		2,354,831	1,528,154
Tax on profit on ordinary activities	10	<u>(845,535)</u>	<u>(879,565)</u>
Profit for the financial year transferred to reserves	23	<u>1,509,296</u>	<u>648,589</u>

All of the activities of the group are classed as continuing.

## Balance sheets as at 31 December 2003

	Note	Group 2003 £	Company 2003 £	Group 2002 £	Company 2002 £
<b>Fixed assets</b>					
Intangible assets	11	1,045,683	-	1,895,683	-
Tangible assets	12	8,036,810	342,403	8,052,929	506,967
Investments	13	-	79,803,810	-	78,116,994
		<u>9,082,493</u>	<u>80,146,213</u>	<u>9,948,612</u>	<u>78,623,961</u>
<b>Current assets</b>					
Stocks	14	39,698,349	-	30,554,406	-
Debtors	15	58,499,475	10,612,567	43,051,083	5,779,957
Cash at bank and in hand		<u>5,372,133</u>	<u>209,922</u>	<u>11,370,888</u>	<u>163,553</u>
		103,569,957	10,822,489	84,976,377	5,943,510
<b>Creditors: Amounts falling due within one year</b>	16	(88,047,305)	(86,662,632)	(69,906,470)	(77,090,970)
<b>Borrowings</b>	17	-	-	(17,931,439)	-
<b>Net current assets/(liabilities)</b>		<u>15,522,652</u>	<u>(75,840,143)</u>	<u>(2,861,532)</u>	<u>(71,147,460)</u>
<b>Total assets less current liabilities</b>		<u>24,605,145</u>	<u>4,306,070</u>	<u>7,087,080</u>	<u>7,476,501</u>
<b>Creditors: Amounts falling due after more than one year</b>	18	-	-	3,921,331	3,899,507
<b>Borrowings</b>	17	19,220,806	-	-	-
<b>Provisions for liabilities and charges</b>	20	709,294	49,690	-	49,690
<b>Capital and reserves</b>					
Called up share capital	22	45,600,002	45,600,002	45,600,002	45,600,002
Profit and loss account	23	<u>(40,924,957)</u>	<u>(41,343,622)</u>	<u>(42,434,253)</u>	<u>(42,072,698)</u>
<b>Equity shareholder's funds</b>	24	<u>4,675,045</u>	<u>4,256,380</u>	<u>3,165,749</u>	<u>3,527,304</u>
		<u>24,605,145</u>	<u>4,306,070</u>	<u>7,087,080</u>	<u>7,476,501</u>

These financial statements were approved by the Board of Directors on 28/10/04 and were signed on its behalf by

B King  
Director

The accompanying accounting policies and notes form part of these financial statements.

## Consolidated cash flow statement

	Note	2003 £	2002 £
Net cash inflow from operating activities	25	8,823,378	12,816,411
Returns on investments and servicing of finance	26	(2,039,692)	(2,146,099)
Taxation	26	(383,276)	(155,030)
Capital expenditure and financial investment	26	(2,517,349)	(2,084,847)
Acquisitions and disposals	26	<u>(7,415,551)</u>	<u>(1,103,144)</u>
Net cash (outflow)/inflow before financing		(3,532,490)	7,327,291
Financing	26	<u>(2,466,265)</u>	<u>(1,436,321)</u>
(Decrease) in the period	28	<u><u>(5,998,755)</u></u>	<u><u>5,890,970</u></u>

## Consolidated statement of total recognised gains and losses

	2003 £	2002 £
Profit for the financial year	1,509,296	648,589
Prior year adjustment (see note 21)	-	1,288,418
<b>Total gains and losses recognised since last financial statements</b>	<b><u>1,509,296</u></b>	<b><u>1,937,007</u></b>

## Notes to the financial statements

### **1 Going concern**

The company has net current liabilities of £75,840,143 (2002: £71,147,460). The directors have prepared the financial statements under the going concern concept as the company's parent undertaking has provided a letter of support, which confirms its intention to provide sufficient funding to enable the company to meet its liabilities as and when they fall due for the foreseeable future, being a period not less than 12 months from the date of approval of these financial statements.

### **2 Accounting policies**

#### **Basis of accounting**

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention.

The directors have reviewed the principal accounting policies of the group and consider they remain the most appropriate for the group. The principal accounting policies of the group have remained unchanged from the previous year and are set out below.

#### **Consolidation**

The consolidated financial statements include the financial statements of the parent company and its subsidiaries made up to the end of the financial year. Profits and losses on intra group transactions are eliminated in full.

On acquisition of a subsidiary its net assets acquired are consolidated at a fair value reflecting their condition at the date of acquisition. All changes to those assets and liabilities, and the resulting gains and losses, that arise after the group has gained control of the subsidiary are credited and charged to the post-acquisition profit and loss account or the statement of recognised gains and losses as appropriate.

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is estimated to be five years. Provision is made for any impairment losses.

As permitted by section 230 of the Companies Act 1985, the parent company has not presented its own profit and loss account in these financial statements. The profit for the year, after taxation, in the financial statements of the company was £729,076 (2002: £2,509,479).

#### **Turnover**

Turnover represents the invoiced value of sales for goods and services supplied during the year, excluding value added tax.

## Notes to the financial statements

### **Tangible fixed assets**

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment. All fixed assets are initially recorded at cost.

Depreciation is calculated so as to write off the cost of the tangible fixed assets on a straight line basis over their estimated useful economic lives as follows:

Motor vehicles	25%
Plant and equipment	12 ½% to 50%
Leasehold improvements	15%

### **Investments**

Fixed asset investments are shown at cost less any provision for impairment.

### **Stocks**

Stocks are valued at the lower of cost and net realisable value after making due allowance for any obsolete or slow moving items.

### **Taxation**

Corporation tax payable is provided on taxable profits at the current rate.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date which will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exception:

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

## Notes to the financial statements

### **Finance lease agreements**

Where a company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated in accordance with the above depreciation policies. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account on a straight line basis, and the capital element which reduces the outstanding obligation for future instalments.

### **Operating lease agreements**

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

### **Foreign currencies**

Assets and liabilities in foreign currencies are translated into sterling at the rate of exchange prevailing at the balance sheet date, except, where transactions are covered by forward exchange contracts, in which case the rate of exchange specified in the contract is used. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction or, if hedged, at the forward contract rate. Exchange differences are taken into account in arriving at the operating profit.

### **Pension costs**

#### *Defined contribution scheme*

The pension costs charged against profits represent the amount of the contributions payable to the scheme in respect of the accounting period.

#### *Defined benefit schemes*

The costs charged against profits are based on actuarial methods and assumptions designed to spread the anticipated costs of providing these benefits over the service lives of the employees entitled to receive them, so as to ensure that the regular cost of providing benefits represents a substantially level percentage of current and expected future payroll.

Variations from the regular costs are spread over the average remaining working lives of current members in the scheme.

## Notes to the financial statements

### 3 Turnover

In the opinion of the directors there is no substantial difference between the activities carried out by each of the trading units of the group.

	2003 £	2002 £
Geographical analysis of turnover by destination:		
United Kingdom	228,711,748	185,954,857
Europe (excluding United Kingdom)	14,643,198	12,206,967
Other	1,689,055	2,687,084
	<u>245,044,001</u>	<u>200,848,908</u>
Geographical analysis of turnover by origin:		
United Kingdom	<u>245,044,001</u>	<u>200,848,908</u>

### 4 Net operating costs

The profit on ordinary activities is stated after charging/(crediting):

	2003 £	2002 £
Changes in stock levels	(9,143,941)	(2,870,861)
Raw materials and consumables	198,133,696	155,194,958
Staff costs (see notes 5 & 6)	26,287,968	23,461,175
Depreciation of tangible fixed assets	2,811,923	2,794,281
Other operating charges	17,361,927	14,238,915
Rent - land and buildings	4,666,051	3,447,700
Goodwill amortisation and release of negative goodwill	531,443	925,000
	<u>240,649,067</u>	<u>197,191,168</u>



## Notes to the financial statements

The depreciation shown above includes £133,502 (2002: £133,709) in respect of assets held under finance leases.

Other operating charges include the following:

	2003 £	2002 £
Auditors' remuneration:		
- for audit services	145,000	111,282
- for other services	97,790	35,322
Operating lease charges:		
- hire of plant and machinery	1,060,564	337,786
- land and buildings	4,666,051	3,447,700
Profit on disposal of fixed assets	<u>(69,559)</u>	<u>(35,029)</u>

### **5 Staff costs**

Staff costs, including remuneration of executive directors, are:-

	2003 £	2002 £
Wages and salaries	22,419,618	19,966,514
Social security costs	1,959,518	1,495,023
Pensions costs (see note 6)	1,908,832	1,999,638
	<u>26,287,968</u>	<u>23,461,175</u>

The average monthly number of employees, including executive directors, during the year was 1,073 (2002: 908) consisting primarily of sales and distribution staff.

## Notes to the financial statements

### 6 Retirement benefits

The employees of the group are members of a number of defined contribution and defined benefit pension schemes.

#### Defined contribution schemes

The group commenced to operate defined contribution schemes for the benefit of all its UK employees with the exception of Gould Alloys Limited and BACO Metal Centres Limited on 1 October 2003. The defined contribution scheme for BACO Metal Centre Limited commenced on 1 September 2003. The assets of the schemes are administered by trustees in funds independent from those of the group. The pension cost charge for the year to the group from these schemes was £186,855 (2002: £nil).

Gould Alloys Limited continued to operate a defined contribution scheme throughout the year for which the pension cost charge for the year amounted to £43,982 (2002: £53,295).

#### Defined benefit schemes

The group operated a defined benefit scheme for the benefit of all its UK employees with the exception of the employees of Gould Alloys Limited and BACO Metal Centres Limited. The assets of this scheme is administered by trustees in funds independent from those of the group and invested directly on the advice of independent professional investment managers. The group closed its defined benefit scheme to new members and future employee contributions on 30 September 2003. The group's defined benefit scheme was also closed to future accrual of benefits with effect from 30 September 2003 and the future pensions payable will not be linked to expected future salary increases for active members. The group will however continue to make contributions to the "frozen" defined benefit scheme in accordance with the advice of an independent actuary so as to fulfil pensions obligations in respect of members who have accrued benefits up to 30 September 2003.

The treatment of pension costs in these financial statements is in accordance with the provisions of Statement of Standard Account Practice (SSAP) 24 'Accounting for pension costs', as supplemented for the transitional arrangements set out in paragraph 94 of the Financial Reporting Standard (FRS) 17 'Retirement benefits'.

#### SSAP 24 Pension costs

Pension costs are assessed in accordance with the advice of an independent qualified actuary using the projected unit method and the following main assumptions:

- pension liabilities will be discounted at a rate of 5.5% per annum.
- increase in salaries of 4-5% per annum

## Notes to the financial statements

### Amari Metals Limited defined benefit scheme (Amari scheme)

The most recent actuarial valuation was at 31 March 2001 when the market value of the scheme assets was £23,155,000. The actuarial value of those assets was sufficient to cover 77% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

Company contributions, agreed between the group and the trustees, are currently being paid at rates of 10.5% to 33.8% of the pensionable salaries to the various pension schemes.

The above rates include an allowance to eliminate the deficit disclosed on the ongoing basis at the last valuation over a 15 year period from 1 January 2002. The contribution rates are subject to review at future valuations.

### Equinox International Limited defined benefit scheme (Equinox scheme)

The most recent valuation was as at 1 August 1999 when the market value of the scheme assets was £3,500,864. The actuarial value of those assets was sufficient to cover 96% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The scheme had a deficit of £118,000 at 1 August 1999 and the scheme actuary recommended increasing the contribution rate from 15% to 23% from 1 March 2000.

On 1 March 2002 the scheme and assets of Equinox International Limited were transferred to the Amari scheme. The company contribution rates for the Equinox scheme members were agreed at 10.7% per annum of the pensionable salaries following their introduction to the Amari scheme on 1 March 2002.

### FRS 17 Retirement benefits

Additional disclosures regarding the group's defined benefit scheme are required under the transitional provisions of FRS 17 and these are set out below. The disclosures have been prepared as if the Amari and Equinox schemes had always operated on a combined basis.

The last full actuarial valuation was carried out using the projected unit method at 31 March 2001 and 1 August 1999 for the Amari and Equinox schemes respectively and updated to 31 December 2003 by a qualified independent actuary.

The major assumptions used by the actuary were as follows:

	2003 %	2002 %
Rate of increase in salaries	n/a	3.9
Rate of increase in deferred pensions	2.7	2.4
Rate of increase in pensions in payment	As guaranteed by the Scheme Rules	As guaranteed by the Scheme Rules
Discount rate	5.4	5.5
Inflation assumption	2.7	2.4

## Notes to the financial statements

The assets in the scheme and the expected long-term rates of return were as follows:

	Expected rate of return at 31 December 2003 %	Value at 31 December 2003 £'000	Expected rate of return at 31 December 2002 %	Value at 31 December 2002 £'000
Equities	7.2	26,116	7.0	22,396
Bonds	4.7	2,517	4.5	575
Cash	3.8	439	4.5	52
Total market value of assets		29,072		23,023
Estimated present value of scheme liabilities		(40,057)		(41,040)
Deficit in the scheme		(10,985)		(18,017)
Related deferred tax asset		3,296		5,405
Net pension liability		(7,689)		(12,612)

The amount charged to operating profit for the year ended 31 December 2003 would have been:

	2003 £'000	2002 £'000
Current service cost	1,836	1,799
Gains on curtailment	(5,450)	-
	(3,614)	1,799

Other finance costs for the year ended 31 December 2003 would have comprised:

	2003 £'000	2002 £'000
Expected return on pension scheme assets	1,658	1,906
Interest on pension scheme liabilities	(2,154)	(1,961)
	(496)	(55)

## Notes to the financial statements

The amount recognised in the statement of total recognised gains and losses for the year ended 31 December 2003 would have been:

	2003 £'000	2002 £'000
Actual return less expected return on pension scheme assets	2,594	(7,461)
Experience gains and losses arising on scheme liabilities	1,690	206
Changes in the assumptions underlying the present value of the scheme liabilities	(2,311)	(4,033)
Net gain/(loss) recognised	<u>1,973</u>	<u>(11,288)</u>

The history of experience gains and losses for the year ended 31 December 2003 would have been:

	2003	2002
Difference between expected and actual return on scheme assets		
Amounted (£'000)	2,594	7,461
Percentage on scheme assets	9%	(32%)
Experience gains and losses on scheme liabilities		
Amount (£'000)	1,690	206
Percentage on present value of the scheme liabilities	4%	1%
Total actuarial gains and losses		
Amount (£'000)	1,973	(11,288)
Percentage of present value of scheme liabilities	5%	(28%)

The movement in the deficit in the year ended 31 December 2003 would have been:

	2003 £'000	2002 £'000
Deficit in scheme at beginning of year	(18,017)	(6,975)
Current service costs	(1,836)	(1,799)
Contributions	1,941	2,100
Gain on curtailment	5,450	-
Other finance costs	(496)	(55)
Actuarial gain/(loss)	<u>1,973</u>	<u>(11,288)</u>
Deficit in scheme at end of year	<u>(10,985)</u>	<u>(18,017)</u>

## Notes to the financial statements

If the above pension liability were to be recognised in the financial statements, the group's net assets and profit and loss reserve would be as follows:

	2003 £'000	2002 £'000
Net assets before excluding pension liability	5,231	3,166
Pension liability	(10,985)	(18,017)
Net liabilities after pension liability	<u>(5,754)</u>	<u>(14,851)</u>
Profit and loss account deficit before excluding pension liability	(40,369)	(42,434)
Pension liability	(10,985)	(18,017)
Profit and loss account deficit after pension liability	<u>(51,354)</u>	<u>(60,451)</u>

### **7 Directors emoluments**

The company respects the privacy of its employees as assured by Article 8 of the European Convention for the Protection of Human Rights and Fundamental Freedoms, and does not make public disclosure of emoluments of those employees.

Article 7 of the Convention restricts the rights of member states to interfere with enumerated rights. The Companies Act 1985 is in contravention of the right to privacy and the company elects to abide by the Convention and not disclose salary and related information.

The number of directors who participated in the defined benefit scheme was 2 (2002: 1).

### **8 Interest income**

	2003 £	2002 £
Bank and other	<u>57,452</u>	<u>91,910</u>

## Notes to the financial statements

### 9 Interest expense and similar charges

	2003 £	2002 £
Bank interest	1,503,898	1,688,103
Finance lease interest	3,883	18,022
Other interest	589,774	514,651
	<u>2,097,555</u>	<u>2,220,776</u>

### 10 Tax on profit on ordinary activities

The tax charge represents:

	2003 £	2002 £
United Kingdom corporation tax at 30% (2002: 30%)	1,031,478	401,659
Adjustment in respect of prior periods	(23,872)	153,668
Total current tax	<u>1,007,606</u>	<u>555,327</u>
Deferred tax	<u>(162,071)</u>	<u>324,238</u>
Tax on profit on ordinary activities	<u>845,535</u>	<u>879,565</u>

#### Factors affecting tax charge for period

The tax assessed for the period is higher than the standard rate of corporation tax in the UK of 30% (2002: 30%). The differences are explained as follows:

## Notes to the financial statements

	2003 £	2002 £
Profit on ordinary activities before taxation	<u>2,354,831</u>	<u>1,528,154</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002: 30%)	<u>706,449</u>	<u>458,446</u>
Effect of:		
Expenses not deductible for tax purposes	112,310	393,142
Excess of capital allowances over depreciation	(67,675)	(163,745)
Utilisation of tax losses	(46,415)	(20,971)
Release of provisions on which tax was assessed in prior years	-	(148,678)
Other timing differences	<u>326,809</u>	<u>(116,535)</u>
	<u>1,031,478</u>	<u>401,659</u>

### 11 Intangible fixed assets

	Goodwill on consolidation £	Negative goodwill £	Total £
Cost			
At 1 January 2003	43,666,771	-	43,666,771
Additions	<u>-</u>	<u>(318,557)</u>	<u>(318,557)</u>
At 31 December 2003	<u>43,666,771</u>	<u>(318,557)</u>	<u>43,348,214</u>
Amortisation and amounts written off			
At 1 January 2003	41,771,088	-	41,771,088
Charge for the year	800,000	-	800,000
Written back in the year	<u>-</u>	<u>(268,557)</u>	<u>(268,557)</u>
At 31 December 2003	<u>42,571,088</u>	<u>(268,557)</u>	<u>42,302,531</u>
Net book value at 31 December 2003	<u>1,095,683</u>	<u>(50,000)</u>	<u>1,045,683</u>
Net book value at 31 December 2002	<u>1,895,683</u>	<u>-</u>	<u>1,895,683</u>

On 28 February 2003, the group acquired the trade and certain business assets of British Aluminium Limited (see note 33). The negative goodwill arising on the transaction of £318,557 has been recognised and is being released in line with the depreciation and/or sale of non-monetary assets acquired.



## Notes to the financial statements

### 12 Tangible assets

	Group leasehold improve- ments	Group Plant, equipment & Motor vehicles	Group Total	Company Plant & equipment
Cost				
At 1 January 2003	1,974,289	24,042,953	26,017,242	1,055,515
Additions	-	2,940,347	2,940,347	-
Disposals	-	(1,225,194)	(1,225,194)	-
At 31 December 2003	<u>1,974,289</u>	<u>25,758,106</u>	<u>27,732,395</u>	<u>1,055,515</u>
Accumulated Depreciation				
At 1 January 2003	1,209,428	16,754,885	17,964,313	548,548
Charge for year	20,812	2,791,111	2,811,923	164,564
Disposals	-	(1,080,651)	(1,080,651)	-
At 31 December 2003	<u>1,230,240</u>	<u>18,465,345</u>	<u>19,695,585</u>	<u>713,112</u>
Net book value at 31 December 2003	<u>744,049</u>	<u>7,292,761</u>	<u>8,036,810</u>	<u>342,403</u>
Net book value at 31 December 2002	<u>764,861</u>	<u>7,288,068</u>	<u>8,052,929</u>	<u>506,967</u>

Plant, equipment and vehicles include amounts at cost of £651,657 (2002:£767,312) and aggregate depreciation of £568,951 (2002:£554,889) in respect of assets held under finance leases. The depreciation charged to the financial statement in the year in respect of such assets amounted to £133,502 (2002:£133,709).

## Notes to the financial statements

### 13 Investments

	Company 2003 £
<b>Shares in subsidiaries</b>	
Cost	
At 1 January 2003	140,669,848
Additions	<u>1,000,000</u>
At 31 December 2003	<u>141,669,848</u>
Amounts written off	
At 1 January 2003	62,552,854
Reversal of impairment losses	<u>(686,816)</u>
At 31 December 2003	<u>61,866,038</u>
Net book value at 31 December 2003	<u>79,803,810</u>
Net book value at 1 January 2003	<u>78,116,994</u>

The company has 100% interest in the ordinary share capital of the following trading subsidiary companies (all of which are included in these consolidated financial statements):

Name	Nature of Business	Holding
*Amari Metals Limited	Metal Stockholding	Ordinary shares
Amari Aerospace Limited	Metal Stockholding	Ordinary shares
*Cashmores Metals Limited	Metals Stockholding	Ordinary shares
Aalco Metals Management Company Limited	Service Company	Ordinary shares
*Equinox International Limited	Metal Stockholding	Ordinary shares
Equinox Special Steels Pty Limited	Metal Stockholding	Ordinary shares
*Gould Alloys Limited	Metal Stockholding	Ordinary shares
*BACO Metal Centres Limited	Metal Stockholding	Ordinary shares

\*Held directly by the company. All remaining holdings are held indirectly.

All the above companies were incorporated in England and Wales except for Equinox Special Steels Pty Limited, which was incorporated in Australia.

The acquisition of BACO Metal Centres Limited is referred to in note 33 below. Amari Aerospace Limited was sold on 1 January 2004.

## Notes to the financial statements

### 14 Stocks

	31 December 2003		31 December 2002	
	Group	Company	Group	Company
	£	£	£	£
Goods held for resale	39,698,349	-	30,554,406	-

### 15 Debtors

	31 December 2003		31 December 2002	
	Group	Company	Group	Company
	£	£	£	£
Trade debtors	54,658,112	-	38,976,584	-
Amounts owed by subsidiary companies	-	10,612,567	-	5,779,957
Amounts owed by other related parties	-	-	39,523	-
Other debtors	792,427	-	295,419	-
Prepayments and accrued income	1,997,158	-	2,766,576	-
Corporation tax	-	-	83,274	-
Deferred tax asset (see note 21)	1,051,778	-	889,707	-
	<u>58,499,475</u>	<u>10,612,567</u>	<u>43,051,083</u>	<u>5,779,957</u>

A provision of £1,571,154 (2002: £1,757,363) has been made in UK Steelstock Limited against amounts due from Equinox International Limited, a subsidiary undertaking which has deficiency of net assets.

### 16 Creditors : Amounts falling due within one year

	31 December 2003		31 December 2002	
	Group	Company	Group	Company
	£	£	£	£
Trade creditors	61,325,166	-	46,862,538	-
Amounts owed to subsidiary companies	-	76,664,339	-	65,361,747
Amounts owed to other related parties	14,072,637	9,700,000	14,556,544	11,610,000
Amounts owed to directors	3,486,268	-	2,088,085	-
Other taxation and social security	2,351,231	5,250	1,815,307	-
Other creditors and accruals	5,989,051	19,200	4,467,799	50,092
Corporation tax	541,056	-	-	-
Obligations under finance leases	8,053	-	116,197	69,131
Loan Note for Equinox International Limited (note 18)	273,843	273,843	-	-
	<u>88,047,305</u>	<u>86,662,632</u>	<u>69,906,470</u>	<u>77,090,970</u>

## Notes to the financial statements

### 17 Borrowings

	31 December 2003		31 December 2002	
	Group	Company	Group	Company
	£	£	£	£
Amounts due within one year				
Bank borrowings	-	-	17,931,439	-
Amounts due after one year				
Bank borrowings	19,220,806	-	-	-

The bank borrowings are repayable on or before 6 June 2005 and are secured against all the assets of the group and a guarantee by the parent undertaking.

### 18 Creditors: Amounts falling due after more than one year

	31 December 2003		31 December 2002	
	Group	Company	Group	Company
	£	£	£	£
Obligations under finance leases	-	-	21,824	-
Loan note for Gould Alloys Limited	-	-	3,625,664	3,625,664
Loan note for Equinox International Limited	-	-	273,843	273,843
	-	-	3,921,331	3,899,507

The loan note for Gould Alloys Limited was held by the previous shareholders of Gould Alloys Limited and was repaid on 7 April 2003 at par together with accrued interest of 0.5% below the base lending rate.

The loan note for Equinox International Limited is payable to Henley Management Company, the ultimate parent company, on 31 December 2004.

### 19 Obligations under leases

#### Finance leases

Future commitments under finance leases, net of finance charges are as follows:

	31 December 2003		31 December 2002	
	Group	Company	Group	Company
	£	£	£	£
Amounts due within one year	8,053	-	116,197	69,131
Amounts due within one to two years	-	-	15,239	-
Amounts due within two to five years	-	-	6,585	-
	8,053	-	138,021	69,131

## Notes to the financial statements

All amounts due under finance lease agreements are secured on the assets acquired.

### Operating leases

Operating lease payments amounting to £5,509,288 (2002: £3,738,644) are due within one year. The leases to which these amounts relate expire as follows:

	31 December 2003		31 December 2002	
	Land and buildings	Other	Land and buildings	Other
	£	£	£	£
On leases which expires:-				
Within one year	275,280	672,071	106,500	74,733
Between two to five years	1,308,923	501,038	642,972	469,967
On more that five years	2,748,222	3,754	2,444,472	-
	<u>4,332,425</u>	<u>1,176,863</u>	<u>3,193,944</u>	<u>544,700</u>

## 20 Provisions for liabilities and charges

	31 December 2003		31 December 2002	
	Group Dilapidation provisions	Company Deferred taxation	Group Dilapidation provisions	Company Deferred taxation
	£	£	£	£
At beginning of year	-	49,690	-	-
On acquisition of business	738,000	-	-	-
Movement within year	(28,706)	-	-	49,690
	<u>709,294</u>	<u>49,690</u>	<u>-</u>	<u>49,690</u>

Dilapidation provisions relate to obligations under tenancy leases and are expected to be utilised over the remaining lease terms.

The company's provision for deferred taxation is in respect of accelerated capital allowances (see note 21).

## Notes to the financial statements

### 21 Deferred taxation

The movement in the deferred tax asset/(liability) during the year was:

	31 December 2003		31 December 2002	
	Group £	Company £	Group £	Company £
Balance brought forward	889,707	(49,690)	(74,473)	-
Prior year adjustment on adoption of FRS 19	-	-	1,288,418	-
Balance brought forward (as restated)	889,707	(49,690)	1,213,945	-
Profit and loss account movement during the year	162,071	-	(324,238)	(49,690)
Balance carried forward	<u>1,051,778</u>	<u>(49,690)</u>	<u>889,707</u>	<u>(49,690)</u>

The deferred tax asset/(liability) provided for in the financial statements (see notes 15 and 20) consists of the tax effect of timing differences in respect of:

	31 December 2003		31 December 2002	
	Group £	Company £	Group £	Company £
Accelerated capital allowances	639,012	(49,690)	808,909	(49,690)
Other timing differences	412,766	-	80,798	-
	<u>1,051,778</u>	<u>(49,690)</u>	<u>889,707</u>	<u>(49,690)</u>

The deferred tax asset not recognised in the financial statements is as set out below.

	31 December 2003		31 December 2002	
	Group £	Company £	Group £	Company £
Trading losses carried forward	593,051	36,416	872,444	82,228
Other timing differences	-	-	233,744	233,744
	<u>593,051</u>	<u>36,416</u>	<u>1,106,188</u>	<u>315,972</u>

## Notes to the financial statements

In accordance with Statement of Standard Accounting Practice 15 'Deferred taxation', deferred tax was not provided for in respect of certain timing differences in prior years as the company and the group did not anticipate the reversal of the underlying timing differences in the foreseeable future. In 2002, on adoption of Financial Reporting Standard No 19 'Deferred Taxation', the company and the group changed the accounting policy and provided for the deferred tax arising in respect of all timing differences in full, except that no recognition has been made for deferred tax assets on certain timing differences as there is uncertainty of the period over which these timing differences will reverse.

### 22 Called up share capital

	2003 £	2002 £
Authorised:		
£1 ordinary shares	20,000,000	20,000,000
£1 0% Redeemable preference shares	35,600,000	35,600,000
	<u>55,600,000</u>	<u>55,600,000</u>
	2003 £	2002 £
Allotted, called up and fully paid:		
£1 ordinary shares	10,000,002	10,000,002
£1 0% redeemable preference shares	35,600,000	35,600,000
	<u>45,600,002</u>	<u>45,600,002</u>

The shares rank pari-passu with the exception that the redeemable preference shares have no dividend rights. The redeemable preference shares can be redeemed at par at any time having given not less than three months previous notice in writing. The notice in writing should state the particular shares to be redeemed, the date fixed for redemption and the time and place at which the certificates for such shares are to be presented for redemption.

## Notes to the financial statements

### 23 Profit and loss account

	31 December 2003		31 December 2002	
	Group £	Company £	Group £	Company £
At beginning of year (as previously stated)	(42,434,253)	(42,072,698)	(44,371,260)	(44,582,177)
Prior year adjustment (see note 21)	-	-	1,288,418	-
At beginning of year as (as restated)	(42,434,253)	(42,072,698)	(43,082,842)	(44,582,177)
Profit for the year	1,509,296	729,076	648,589	2,509,479
At end of year	<u>(40,924,957)</u>	<u>(41,343,622)</u>	<u>(42,434,253)</u>	<u>(42,072,698)</u>

As permitted by section 230 of the Companies Act 1985, no separate profit and loss account is presented in these financial statements in respect of the parent company.

### 24 Reconciliation of movement in equity shareholder's funds

	31 December 2003		31 December 2002	
	Group £	Company £	Group £	Company £
At beginning of year	3,165,749	3,527,304	2,517,160	1,017,825
Profit for the year	1,509,296	729,076	648,589	2,509,479
At end of year	<u>4,675,045</u>	<u>4,256,380</u>	<u>3,165,749</u>	<u>3,527,304</u>



## Notes to the financial statements

### 25 Reconciliation of operating profit to operating cash flows

	2003 £	2002 £
Operating profit	4,394,934	3,657,740
Depreciation	2,811,923	2,794,281
Goodwill amortisation and release of negative goodwill	531,443	925,000
Profit on sale of tangible fixed assets	(69,559)	(35,029)
(Increase) in stocks	(880,730)	(2,292,227)
(Increase)/decrease in debtors	(15,369,595)	707,685
Increase in creditors	17,404,963	7,058,961
Net cash inflow from operating activities	<u>8,823,378</u>	<u>12,816,411</u>

### 26 Analysis of cash flows

	2003 £	2002 £
<b>Returns on investments and servicing finance</b>		
Interest received	39,340	91,190
Interest paid	(2,079,032)	(2,219,267)
Interest element of finance lease rentals	-	(18,022)
Net cash outflow from returns on investments and servicing of finance	<u>(2,039,692)</u>	<u>(2,146,099)</u>
<b>Taxation</b>		
UK corporation tax paid	<u>(383,276)</u>	<u>(155,030)</u>
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(2,731,451)	(2,253,872)
Sale of tangible fixed assets	214,102	169,025
Net cash outflow from capital expenditure and financial investment	<u>(2,517,349)</u>	<u>(2,084,847)</u>
<b>Acquisitions and disposals</b>		
Purchase of business undertakings (see note 33)	<u>(7,415,551)</u>	<u>(1,103,144)</u>
<b>Financing</b>		
Receipts/(repayment) from/(of) borrowings	1,289,367	(1,263,259)
Repayment of loan notes	(3,625,664)	-
Capital element of finance lease repayments	(129,968)	(173,062)
Net cash outflow from financing	<u>(2,466,265)</u>	<u>(1,436,321)</u>

## Notes to the financial statements

### 27 Analysis of net debt

	2002 £	Cash flow £	2003 £
Cash at bank and in hand	11,370,888	(5,998,755)	5,372,133
Bank borrowings due within one year	(17,931,439)	17,931,439	-
Bank borrowings due after one year	-	(19,220,806)	(19,220,806)
Other debt due within one year	(16,642,671)	(916,234)	(17,558,905)
Other debt due after one year	(3,899,507)	3,625,664	(273,843)
Finance leases	(138,021)	129,968	(8,053)
	<u>(27,240,750)</u>	<u>(4,448,724)</u>	<u>(31,689,474)</u>

### 28 Reconciliation of net cash flow to movement in net debt

	2003 £	2002 £
(Decrease)/increase in cash	(5,998,755)	5,890,970
Cash flow from changes in debt and lease financing	<u>1,550,031</u>	<u>(2,671,897)</u>
Change in net debt raising from cash flows	(4,448,724)	3,219,073
New finance leases	-	10,854
Movement in net debt	<u>(4,448,724)</u>	<u>3,229,927</u>
Net debt at beginning of year	<u>(27,240,750)</u>	<u>(30,470,677)</u>
Net debt at end of year	<u>(31,689,474)</u>	<u>(27,240,750)</u>

### 29 Capital commitments

	31 December 2003		31 December 2002	
	Group £	Company £	Group £	Company £
Authorised but not contracted	322,251	-	172,978	-
Contracted for but not provided	-	-	905,447	-
	<u>322,251</u>	<u>-</u>	<u>1,078,425</u>	<u>-</u>

## Notes to the financial statements

### 30 Contingent liabilities

There is a contingent liability in respect of bank borrowings of all companies within the group as such borrowings are secured by an intercompany cross guarantee. The contingent liabilities under this arrangement, being the aggregate group bank borrowings, at 31 December 2003 amounted to £19,220,806 (2002: £17,925,885).

### 31 Ultimate parent company and controlling related party

The immediate and ultimate parent company and controlling related party of this company is Henley Management Company, a company registered in the USA. The largest and smallest group of undertakings for which audited group accounts have been drawn up is that headed by UK Steelstock Limited.

### 32 Related party transactions

The company has taken advantage of the exemption in Financial Reporting Standard No 8 'Related Party Disclosures' not to disclose transactions with fellow group companies included within the group financial statements.

There are other companies that may from time to time be deemed to be subject to the same ultimate control as UK Steelstock Limited.

During the period the group made sales of £139,528 (2002: £172,740) to fellow metal distribution subsidiaries of Henley Management Company.

During the period the group received fees of £301,200 (2002: £277,400) from fellow metal trading subsidiaries of Henley Management Company.

The group owed £9,700,000 (2002: £11,610,000) to Henley Management Company and £3,486,268 (2002: £2,088,085) to a director of the company. Interest of £204,543 (2002: £144,056) was payable on the director's balance.

At the end of the year the group owed £4,811,430 (2002: £2,946,544) to a director of Henley Management Company. £274,599 (2002: £207,424) interest has been charged on this balance during the year.

The group has made payments to a fellow subsidiary of Henley Management Company in respect of leases to the value of £117,000 (2002 - £114,600) and made payments to companies connected to certain shareholders of Henley Management Company in respect of leases of £376,750 (2002 - £531,615). In the opinion of the directors all transactions were at market rates.

The group has guaranteed the bank borrowings of a metal distribution subsidiary of Henley Management Company. The balance at the year end was £282,845 (2002 - £196,025).

## Notes to the financial statements

### 33 Acquisitions

On 28 February 2003 the group acquired the trade and certain assets of British Aluminium Limited for consideration of £7,415,551 in cash. The purchase of the trade and certain assets of British Aluminium Limited has been accounted for by the acquisition method of accounting and the negative goodwill arising has been recognised in accordance with Financial Reporting Standard No 10 'Goodwill and Intangible Assets'.

The assets and liabilities acquired were as follows:

	Book value £	Adjustments £	Fair value £
Tangible assets	208,896	-	208,896
Packaging stock	15,000	(15,000)	-
Stocks	8,663,212	(400,000)	8,263,212
Dilapidation provisions	-	(738,000)	(738,000)
Net assets	<u>8,887,108</u>	<u>(1,153,000)</u>	<u>7,734,108</u>
Negative goodwill			<u>(318,557)</u>
			<u>7,415,551</u>
Satisfied by:			
Cash consideration			7,243,290
Professional fees			172,261
			<u>7,415,551</u>

Fair value adjustments were made to write down the book value of stocks for provisions against slow-selling stocks and to recognise dilapidation provisions representing the onerous obligation upon the transfer of the property leases to the group.

## Notes to the financial statements

The business acquired during the year made the following contribution to and utilisation of group cash flow:

	2003 £
Net cash inflow from operating activities	160,977
Capital expenditure and financial investment	(303,335)
Decrease in cash	<u>(142,358)</u>