

E.L.G HANIEL METALS LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31ST DECEMBER 1996

Company Registration No. 1517971

ATKIN MACREDIE & CO
Westbourne Place
23, Westbourne Road
Sheffield S10 2QQ



E.L.G HANIEL METALS LIMITED

CONTENTS PAGE

1. CONTENTS PAGE
- 2-4. DIRECTORS REPORT
5. AUDITORS' REPORT
6. PROFIT AND LOSS ACCOUNT
7. BALANCE SHEET
8. STATEMENT OF CASH FLOWS
- 9-20. NOTES TO THE FINANCIAL STATEMENTS
21. TRADING ACCOUNT
- 22-23. NOTES TO THE TRADING ACCOUNT

E.L.G HANIEL METALS LIMITEDREPORT OF THE DIRECTORS

The Directors submit their Annual Report and the Audited Financial Statements of the Company for the year ended 31st December, 1996.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of Metal Traders.

BUSINESS REVIEW

The Directors are pleased to report a net profit for the year of £ 3,528,126 (1995 - Profit £ 8,146,512).

As anticipated in last years report, 1996 saw a significant reduction in demand of stainless steel finished products, and this in turn brought a fall in the price of stainless steel raw materials of approximately 20%. This affected profitability, but nevertheless, we were able to sustain reasonable margins and profit return.

The steel making division of the company, Carrs Special Steel Division, continued to add a significant contribution. However, towards the end of the year, the unfavorable exchange rate of sterling against the deutch mark and lira affected considerably, export business to Germany and Italy.

During 1996, the ELG Group acquired a further steel making operation in South Carolina, U.S.A., named American Stainless and Alloy Products, Inc., which will be managed by the Carrs Special Steels Division.

The company is confident of increasing profitability during 1997.

DIVIDENDS

The following Dividends have been paid during the year:-

- a) A net dividend of £1.666666 per share on the 'A' Ordinary shares paid on 25th November 1996.
- b) A net dividend of £1.666666 per share on the 'B' Ordinary shares paid on 25th November 1996.

DIRECTORS

The Directors who served the company during the year and were Directors at the 31st December, 1996 were:-

M. G. Wright
F. Terorde
U. Lessmann
A. E. Ellis (Appointed 1st October 1996)
T. Pashley (Appointed 1st October 1996)

E.L.G HANIEL METALS LIMITEDREPORT OF THE DIRECTORS**DIRECTORS' INTERESTS IN SHARES**

'B' Ordinary Shares of £1 each

	1996	1995
	<u> </u>	<u> </u>
M. G. Wright	300,000	300,000

CHANGES IN FIXED ASSETS

The movements in fixed assets during the year are set out in Note 11 to the accounts.

DIRECTORS RESPONSIBILITIES

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

- a) select suitable accounting policies and then apply them consistently;
- b) make judgements and estimates that are reasonable and prudent;
- c) follow applicable accounting standards, subject to any material departures disclosed and explained in the accounts;
- d) prepare the accounts on a 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 to enable them to ensure that the accounts 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.

DIRECTORS INTEREST IN CONTRACTS

None of the Directors had a material interest in any contract of significance to which the company was a party during the financial year.

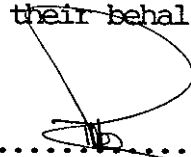
E.L.G HANIEL METALS LIMITED

REPORT OF THE DIRECTORS

AUDITORS

Messrs. Atkin Macredie & Co, Chartered Accountants, have signified their willingness to offer themselves for re-election as Auditors to the company in accordance with Section 385 of the Companies Act 1985.

Approved by the board of directors on 14th March 1997 and signed on their behalf by:


.....T. Pashley - Secretary

AUDITORS' REPORT TO THE MEMBERS OF

E.L.G HANIEL METALS LIMITED

We have audited the financial statements on Pages 6 to 20 which have been prepared under the historical cost convention and the accounting policies set out on pages 9 and 10.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 3, the company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

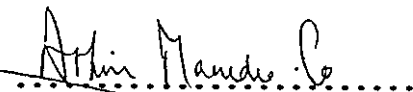
BASIS OF OPINION

We conducted our audit in accordance with 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company'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 accounts 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 accounts.

OPINION

In our opinion the accounts give a true and fair view of the state of the Company's affairs as at 31st December, 1996 and of its profit and cash-flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


.....

Atkin Macredie & Co.
Chartered Accountants
Registered Auditor

Date: 14th March 1997

Westbourne Place
23, Westbourne Road
Sheffield
S10 2QQ

E.L.G HANIEL METALS LIMITED

PROFIT AND LOSS ACCOUNT
YEAR ENDED 31ST DECEMBER 1996

		1996	1995
	Note	£	£
TURNOVER	2	62,498,581	69,566,307
COST OF SALES		(54,125,454)	(56,930,385)
GROSS PROFIT		8,373,127	12,635,922
Operating Expenses	3	(4,898,358)	(4,764,754)
Other Operating Income		141,888	220,475
OPERATING PROFIT	4	3,616,657	8,091,643
Income Receivable	5	53,900	82,686
Interest Payable	6	(142,431)	(27,817)
PROFIT BEFORE TAXATION		3,528,126	8,146,512
TAXATION	9	(1,185,130)	(2,677,188)
PROFIT AFTER TAXATION		2,342,996	5,469,324
Dividend Received		324,979	—
RETAINED PROFIT		2,667,975	5,469,324
Dividends Paid and Proposed	10	(5,000,000)	(1,500,000)
RETAINED PROFIT BROUGHT FORWARD		11,390,093	7,420,769
RETAINED PROFIT CARRIED FORWARD		£ 9,058,068	£ 11,390,093

In each of the years ended 31st December 1996 and 1995 the only gain recognised by the company was the profit for the year, all of the activities undertaken by the company were continuing activities.

The accompanying notes form part of these financial statements

E.L.G HANIEL METALS LIMITED

BALANCE SHEET AS AT

31ST DECEMBER 1996

		<u>1996</u>		<u>1995</u>	
	Note	£	£	£	£
FIXED ASSETS					
Tangible Assets	11		7,478,620		6,876,381
Investments:					
Subsidiaries	15		202,070		1,322,994
			<u>7,680,690</u>		<u>8,199,375</u>
CURRENT ASSETS					
Stocks	12	7,747,309		7,260,055	
Debtors	13	14,803,671		11,243,189	
Cash at Bank and in Hand		64,385		48,935	
		<u>22,615,365</u>		<u>18,552,179</u>	
CREDITORS: Amounts falling due within one year	14	(18,043,631)		(12,193,913)	
NET CURRENT ASSETS			<u>4,571,734</u>		<u>6,358,266</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>12,252,424</u>		<u>14,557,641</u>
PROVISIONS FOR LIABILITIES AND CHARGES	17		(194,356)		(167,548)
		£	<u>12,058,068</u>	£	<u>14,390,093</u>
CAPITAL AND RESERVES					
Called-up Share Capital	20		3,000,000		3,000,000
Profit and Loss Account	18		9,058,068		11,390,093
SHAREHOLDERS' FUNDS		£	<u>12,058,068</u>	£	<u>14,390,093</u>

Approved by the board of directors on 14th March 1997 and signed on their behalf by:

..... M. G. Wright — Director

The accompanying notes form part of these financial statements

E.L.G HANIEL METALS LIMITEDCASH FLOW STATEMENTYEAR ENDED 31ST DECEMBER 1996

	<u>1996</u>		<u>1995</u>	
	£	£	£	£
OPERATING ACTIVITIES				
OPERATING PROFIT		3,616,657		8,091,643
Depreciation		447,746		333,374
Disposal of Fixed Assets		(18,360)		(19,765)
Increase in Stocks		(487,254)		(4,140,320)
Increase in Debtors		(2,310,482)		1,049,477
Increase in Creditors		4,740,740		(2,272,726)
Net Cash Inflow		5,989,047		3,041,683
RETURN ON INVESTMENT AND SERVICING OF FINANCE				
Dividend Received	1,122,027		—	
Income Receivable	53,900		82,686	
Interest Payable	(142,431)		(27,817)	
Dividends Payable	(5,000,000)		(1,500,000)	
Net Cash Outflow		(3,966,504)		(1,445,131)
TAXATION				
Corporation Tax Paid	(1,513,322)		(934,532)	
ACT Paid	(1,125,000)		(125,000)	
Tax Paid		(2,638,322)		(1,059,532)
INVESTING ACTIVITIES				
Purchase of Tangible Assets	(1,100,413)		(1,179,374)	
Sale of Fixed Assets	68,789		139,550	
Repayment of Investments	323,876		—	
Net Cash Outflow		(707,748)		(1,039,824)
TOTAL CASH OUTFLOW FOR THE YEAR		£ (1,323,527)		£ (502,804)
MOVEMENT IN NET LIQUID FUNDS				
Bank and Cash Balances		(1,323,527)		(502,804)
		£ (1,323,527)		£ (502,804)

The accompanying notes form part of these financial statements

E.L.G HANIEL METALS LIMITEDNOTES TO THE FINANCIAL STATEMENTSYEAR ENDED 31ST DECEMBER 1996**1.ACCOUNTING POLICIES**

The principal accounting policies of the Company have remained unchanged from the previous year, and are set out below.

a)Basis of Accounting

The financial statements have been prepared under the historical cost convention.

b)Depreciation

Depreciation is calculated so as to write off the Cost of Fixed Assets on a straight line basis over their estimated economic lives. The principal annual rates are:-

Freehold Buildings	2	%
Plant & Equipment	12.5	%
Fixtures & Fittings	10	%
Motor Vehicles	20	%

c)Stock

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

d)Deferred Taxation

Deferred Taxation is the taxation attributable to timing differences between profits computed for taxation purposes and profits as stated in the financial statements.

e)Turnover

Turnover represents the amount receivable by the company in the ordinary course of business with outside customers for goods supplied as a principal and for services provided, excluding Value Added Tax.

f)Regional Development Grants

Grants receivable under the provision of the Industry Act 1972 have been deducted from the cost of Fixed Assets to which they relate.

CONTINUED...

E.L.G HANIEL METALS LIMITEDNOTES TO THE FINANCIAL STATEMENTSYEAR ENDED 31ST DECEMBER 1996

1.ACCOUNTING POLICIES -- CONTINUED...

g)Foreign Exchange

Assets and Liabilities expressed in foreign currencies have been converted to sterling at the rate ruling at the date of the Balance Sheet or at an agreed contractual rate with the company's bankers. All differences on exchange are taken to the Profit and Loss account.

h)Pension Contributions

The company operates a combined pension scheme for the benefit of the majority of its employees. The funds of the scheme are administered by trustees and are separate from the company. Contributions to the scheme are paid in accordance with actuaries' recommendations. The company costs of the scheme are charged against profit so as to secure the benefit set out with rules allocated over the service lives of the employees.

i)Exemption from Obligation to Prepare Group Accounts

The company is exempt from the obligation to prepare group accounts. The company accounts are included with those of its immediate parent company ELG Haniel GmbH, a company incorporated in Germany.

2.TURNOVER

Turnover analysed by geographical market:-

	<u>1996</u>	<u>1995</u>
	£	£
United Kingdom Sales	54,245,935	56,049,358
European Sales	7,709,178	12,154,450
Rest of the World Sales	543,468	1,362,499
	<u>£ 62,498,581</u>	<u>£ 69,566,307</u>

E.L.G HANIEL METALS LIMITEDNOTES TO THE FINANCIAL STATEMENTSYEAR ENDED 31ST DECEMBER 1996

3. OPERATING EXPENSES

The operating expenses are made up as follows:-

	<u>1996</u>	<u>1995</u>
	£	£
Premises	592,730	438,023
Administration	4,182,947	4,280,047
Financial Expenses	122,681	46,684
	<u>£ 4,898,358</u>	<u>£ 4,764,754</u>

4. OPERATING PROFIT

The operating profit is stated after charging:-

	<u>1996</u>	<u>1995</u>
	£	£
Depreciation	447,746	333,374
Disposal of Fixed Assets	(18,360)	(19,765)
Audit Fee	22,000	22,000
Equipment Hire	105,313	84,630
Directors Emoluments	214,193	171,173

5. INCOME RECEIVABLE

	<u>1996</u>	<u>1995</u>
	£	£
Bank Interest	17,369	47,186
Rent	36,531	35,500
	<u>£ 53,900</u>	<u>£ 82,686</u>

E.L.G HANIEL METALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31ST DECEMBER 1996

6. INTEREST PAYABLE

	<u>1996</u>	<u>1995</u>
	£	£
Bank Interest	48,000	27,817
Group Loan Interest	94,431	—
	<u>£ 142,431</u>	<u>£ 27,817</u>

7. EMPLOYEE INFORMATION

a) Employment Costs — all employees including executive directors:—

	<u>1996</u>	<u>1995</u>
	£	£
Wages and Salaries	3,788,958	3,911,242
Social Security Costs	367,492	401,483
Pension Costs	336,594	241,518

b) The average number of persons employed by the Company including executive directors during the year is analysed below:—

	<u>1996</u>	<u>1995</u>
Production	146	145
Selling and Administration	60	56
	<u>206</u>	<u>201</u>

E.L.G HANIEL METALS LIMITEDNOTES TO THE FINANCIAL STATEMENTSYEAR ENDED 31ST DECEMBER 1996

8.DIRECTORS REMUNERATION

The emoluments of the Directors of the company, including pension contributions are made up as follows:-

	<u>1996</u>	<u>1995</u>
	£	£
Directors Emoluments	179,985	155,333
Social Security Costs	34,750	43,989
Directors Pension Costs	34,208	15,840
Directors Benefits	10,375	7,080

Directors' emoluments excluding pension contributions are shown below:-

	<u>1996</u>	<u>1995</u>
	£	£
Highest paid Director	111,931	162,413

Number of other Directors within the range:-

	<u>1996</u>	<u>1995</u>
£0 - £5,000	2	2
£20,001 - £25,000	1	—
£55,001 - £60,000	1	—

E.L.G HANIEL METALS LIMITEDNOTES TO THE FINANCIAL STATEMENTSYEAR ENDED 31ST DECEMBER 1996

9. TAXATION

The tax charge is based on the profit at the current rate of taxation of 33% :-

	<u>1996</u>	<u>1995</u>
	£	£
U.K. Corporation Tax		
Charge	1,170,000	2,650,000
Over Provision	(11,678)	(15,468)
Deferred Tax Charge	26,808	42,656
	<u>£ 1,185,130</u>	<u>£ 2,677,188</u>

10. DIVIDENDS

	<u>1996</u>	<u>1995</u>
	£	£
Ordinary:-		
Dividend Paid on 'A' Ordinary Shares of £1.666666 per share (1995 - 50p)	£4,500,000	£1,350,000
Dividend Paid on 'B' Ordinary Shares of £1.666666 per share (1995 - 50p)	<u>£ 500,000</u>	<u>£ 150,000</u>

E.L.G HANIEL METALS LIMITEDNOTES TO THE FINANCIAL STATEMENTSYEAR ENDED 31ST DECEMBER 1996**11. TANGIBLE FIXED ASSETS**

	Freehold Property	Plant and Equipment	Fixtures and Fittings	Motor Vehicles	Total
	£	£	£	£	£
<u>Cost</u>					
1st January 1996	5,350,273	2,338,913	300,103	573,721	8,563,010
Additions	335,572	451,084	17,473	296,284	1,100,413
Disposals	—	(183,819)	—	(143,694)	(327,513)
31st December 1996	5,685,845	2,606,178	317,576	726,311	9,335,910
<u>Depreciation</u>					
1st January 1996	197,311	1,144,707	118,235	226,375	1,686,628
Charge	63,570	240,547	29,737	113,892	447,746
Disposals	—	(154,896)	—	(122,188)	(277,084)
31st December 1996	260,881	1,230,358	147,972	218,079	1,857,290
<u>Net Book Values</u>					
31st December 1996	£5,424,964	1,375,820	£ 169,604	£ 508,232	£7,478,620
1st January 1996	£5,152,962	1,194,205	£ 181,868	£ 347,346	£6,876,381

12. STOCKS

	1996	1995
	£	£
Stocks	7,747,309	7,260,055
	£ 7,747,309	£ 7,260,055

E.L.G HANIEL METALS LIMITEDNOTES TO THE FINANCIAL STATEMENTSYEAR ENDED 31ST DECEMBER 1996

13. DEBTORS

Amounts falling due within one year:—

	1996	1995
	<u>£</u>	<u>£</u>
Trade Debtors	12,464,022	9,897,338
Due from Group		
Undertakings	470,390	305,386
ACT Recoverable	1,250,000	—
Other Debtors &		
Prepayments (Note a)	619,259	1,040,465
	<u>£ 14,803,671</u>	<u>£ 11,243,189</u>

a) Other Debtors & Prepayments

The figure includes a staff loan made to an officer of the Company totalling £120,000.

14. CREDITORS

Amounts falling due within one year:—

	1996	1995
	<u>£</u>	<u>£</u>
Bank Overdraft	1,684,162	345,184
Trade Creditors	3,486,514	4,701,839
Due to Group		
Undertakings	9,715,873	1,978,185
Social Security and		
Taxation	467,023	428,074
Accruals	270,059	590,631
A.C.T. Payable	1,250,000	—
Corporation Tax	1,170,000	2,650,000
Dividend Proposed	—	1,500,000
	<u>£ 18,043,631</u>	<u>£ 12,193,913</u>

E.L.G HANIEL METALS LIMITEDNOTES TO THE FINANCIAL STATEMENTSYEAR ENDED 31ST DECEMBER 1996

15. INVESTMENTS

Subsidiary Companies

<u>Name</u>	<u>Cost or Valuation</u>	<u>% Owned</u>	<u>Trade</u>
National Scrap Metals Ltd.	194,000	100	Dormant Company
T. W. Ward (Steel & Alloys) Ltd.	8,070	100	Dormant Company

Flowstream Ltd.
(Formerly Ni-chro Alloys (Barking) Ltd)

Original Cost	1,070,924
Less: Repayment of Nominal	
Share Capital	(273,876)
Loss via Dividend Paid	
28th November 1996	(797,048)

European Trade Sales Ltd.

Original Cost	50,000
Less: Repayment of Nominal	
Share Capital	(50,000)

£ 202,070

16. BANK BORROWINGS

The Company's Bank Overdraft is secured by a Group Facility.

E.L.G HANIEL METALS LIMITEDNOTES TO THE FINANCIAL STATEMENTSYEAR ENDED 31ST DECEMBER 1996

17.DEFERRED TAXATION

This consists of the following items, calculated on the liability method:—

	<u>1996</u>	<u>1995</u>
	£	£
Accelerated Capital Allowances	194,356	167,548
	<u>£ 194,356</u>	<u>£ 167,548</u>

18.RESERVES

PROFIT AND LOSS ACCOUNT

At 1st January 1996	11,390,093
Profit for the year	2,342,996
Dividend Received	324,979
	<u>14,058,068</u>
Dividends Paid and Proposed	(5,000,000)
At 31st December 1996	<u>£ 9,058,068</u>

E.L.G HANIEL METALS LIMITEDNOTES TO THE FINANCIAL STATEMENTSYEAR ENDED 31ST DECEMBER 1996

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>1996</u>	<u>1995</u>
	£	£
Opening Shareholders Funds	14,390,093	10,420,769
Profit for the year after Taxation	2,342,996	5,469,324
Dividend Received	324,979	—
	<u>17,058,068</u>	<u>15,890,093</u>
Dividends Paid and Proposed	(5,000,000)	(1,500,000)
Closing Shareholders Funds	£ <u>12,058,068</u>	£ <u>14,390,093</u>

20. CALLED UP SHARE CAPITAL

	<u>1996</u>	<u>1995</u>
	£	£
Authorised:—		
2,700,000 'A' Ordinary Shares of £1 each	2,700,000	2,700,000
300,000 'B' Ordinary Shares of £1 each	300,000	300,000
	<u>£3,000,000</u>	<u>£3,000,000</u>
Issued and fully paid:—		
2,700,000 'A' Ordinary Shares of £1 each	2,700,000	2,700,000
300,000 'B' Ordinary Shares of £1 each	300,000	300,000
	<u>£3,000,000</u>	<u>£3,000,000</u>

E.L.G HANIEL METALS LIMITEDNOTES TO THE FINANCIAL STATEMENTSYEAR ENDED 31ST DECEMBER 1996

21. CAPITAL COMMITMENTS

a) The Company's Capital Commitments amount to :-	£	Nil	£	Nil
		<u> </u>		<u> </u>
b) Other Commitments.				
Obligations under operating leases:				
Amounts due on leases expiring:				
Within 1 year		121,775		102,618
2 - 5 years		156,562		148,609
		<u> </u>		<u> </u>
	£	278,337	£	251,227
		<u> </u>		<u> </u>

22. CONTINGENT LIABILITIES

The Company has the following contingent liabilities to Barclays Bank plc in respect of a guarantee:-

- 1) Guarantee to H.M. Customs and Excise for £ 500,000 in respect of a deferment of payment of VAT and duty on imports.
- 2) Foreign Bills for Negotiation Facility of £ 12,021.

23. HOLDING COMPANY

The Company's ultimate holding company is Franz Haniel & Cie GmbH, a Company incorporated in Germany.