

ARMCO LIMITED
DIRECTORS' REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31ST OCTOBER 1996



ARMCO LIMITED

COMPANY INFORMATION

Directors	H Schneider B D Green B D H Cooper N H Walker (appointed 25.4.96)
Secretary	B D H Cooper
Company Number	932617
Registered Office	Suite 2, Construction House Paddockhall Road Haywards Heath West Sussex RH16 1HE
Auditors	Watts Knowles Chartered Accountants Howard House 121-123 Norton Way South Letchworth Herts SG6 1NZ
Bankers	Midland Bank plc Station Place Letchworth Herts SG6 3AJ

ARMCO LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31ST OCTOBER 1996

The directors present their report together with the audited accounts for the year ended 31st October 1996.

Principal Activities and Review of Business

The company's principal activity continued to be that of the importation and sale of speciality steel products from associated companies and licensed producers.

Turnover for the year was £2,431,810 (1995 £3,513,879) with profit before tax of £105,900 (1995 £123,488).

The company's business activities will continue to be developed.

Results

The results for the year are set out in the profit and loss account on page 4.

The directors consider the profit achieved on ordinary activities before taxation to be acceptable given the limited supply of raw materials during the year.

The directors consider the state of the company's affairs to be satisfactory.

Dividends

After the Balance Sheet date an interim dividend of £23,396 was declared and a further dividend of £60,000 was proposed.

Directors

The directors who served during the year were:

H Schneider
B D Green
B D H Cooper
J R Scarborough (resigned 25.4.96)
N H Walker (appointed 25.4.96)

None of the directors has any beneficial interest in the shares of the company. The interests of the directors in the shares of the ultimate holding company are not reported, since disclosure is exempted under the Companies (Disclosure of Directors' Interests) (Exceptions) Regulations 1985.

ARMCO LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31ST OCTOBER 1996

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 the company's affairs and of the profit or loss for that year. In preparing these accounts the directors are required to:

Select suitable accounting policies and then apply them consistently;

Make judgements and estimates that are reasonable and prudent;

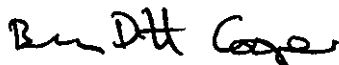
Prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 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.

Auditors

A resolution to reappoint Watts Knowles, Chartered Accountants as auditors will be put to the members at the Annual General Meeting.

This report was approved by the board on ^{July} 10th June 1997, and signed on its behalf.



B D H Cooper, Secretary

**AUDITORS' REPORT TO THE
MEMBERS OF ARMCO LIMITED**

We have audited the accounts on pages 4 to 12 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

Respective Responsibilities of Directors and Auditors

As described on page 2 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and 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 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 the 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 October 1996 and of its profit and cashflow for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Watts Knowles
Chartered Accountants
and Registered Auditors
Howard House
121-123 Norton Way South
Letchworth
Herts
SG6 1NZ

Date: 4th August 1997

ARMCO LIMITED**PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 31ST OCTOBER 1996**

	Notes	1996 £	1995 £
Turnover	2	2,431,810	3,513,879
Cost of sales		2,057,928	3,098,361
Gross Profit		373,882	415,518
Administrative expenses		289,926	307,760
		83,956	107,758
Other operating income		9,867	4,008
Operating Profit	3	93,823	111,766
Interest receivable		12,490	11,908
Interest payable and similar charges	4	(413)	(186)
Profit on Ordinary Activities before Taxation		105,900	123,488
Tax on profit on ordinary activities	6	38,590	43,177
Profit for the Financial Year		67,310	80,311
Dividends	7	-	50,000
Retained Profit for the Year	13	67,310	30,311
Retained Profit Brought Forward		474,923	444,612
Retained Profit Carried Forward		542,233	474,923

All amounts relate to continuing activities.

There were no recognised gains or losses for 1996 or 1995 other than those included in the profit and loss account.

ARMCO LIMITED

BALANCE SHEET

AS AT 31ST OCTOBER 1996

	Notes	1996	1995
		£	£
Fixed Assets			
Tangible assets	8	10,451	1
Current Assets			
Stocks	9	508,894	381,349
Debtors	10	502,303	1,266,546
Cash at bank and in hand		495,559	396,678
		<u>1,506,756</u>	<u>2,044,573</u>
Creditors: Amounts Falling Due Within One Year	11	<u>519,974</u>	<u>1,114,651</u>
Net Current Assets		<u>986,782</u>	<u>929,922</u>
Total Assets Less Current Liabilities		<u>997,233</u>	<u>929,923</u>
Capital and Reserves			
Share capital - equity	12	455,000	455,000
Profit and loss account	13	542,233	474,923
Shareholders' Funds	14	<u>997,233</u>	<u>929,923</u>

These accounts were approved by the board on 10th ^{July} June 1997 and signed on its behalf.



B D Green
Director

ARMCO LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST OCTOBER 1996

	Notes	1996	1995
		£	£
Net Cash Inflow from Operating Activities	15	217,455	156,683
Returns on Investments and Servicing of Finance			
Interest received		12,490	11,908
Interest paid		(413)	(186)
Dividends paid		(50,000)	-
Net Cash Outflow/Inflow from Returns on Investments and Servicing of Finance		(37,923)	11,722
Taxation			
Corporation tax paid		(65,975)	(4,794)
Tax Paid		(65,975)	(4,794)
Investing Activities			
Purchase of tangible fixed assets		(15,676)	-
Proceeds from the sale of fixed assets		1,000	-
Net Cash Outflow from Investing Activities		(14,676)	-
Increase in Cash and Cash Equivalents	16	98,881	163,611

The notes on pages 7 to 12 form part of these accounts.

ARMCO LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST OCTOBER 1996

1 Accounting Policies

Basis of Accounting

The Accounts have been prepared in accordance with applicable Accounting Standards under the historical cost convention.

Turnover

Turnover is the total amount receivable by the company for goods supplied and services provided, excluding VAT and trade discounts.

Depreciation

Depreciation is calculated to write down the cost or valuation less estimated residual value of all tangible fixed assets by equal annual instalments over their expected useful lives. The rates generally applicable are:

Plant and machinery	33%
Furniture and equipment	33%

Stocks

Stocks are stated at the lower of cost and net realisable value.

Deferred Taxation

Deferred tax is provided for under the liability method using the tax rates estimated to arise when the timing differences reverse and is accounted for to the extent that it is probable that a liability or asset will crystallise. Unprovided deferred tax is disclosed as a contingent liability.

Debit balances arising in respect of advanced corporation tax on dividends payable or proposed are carried forward to the extent that they are expected to be recoverable.

Foreign Currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Where exchange differences result from the translation of foreign currency borrowings raised to acquire foreign assets they are taken to reserves and offset against the differences arising from the translation of those assets. All other exchange differences are dealt with through the profit and loss account.

Contribution to Pension Funds

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

Leased Assets

Payments made under operating leases are charged to the Profit and Loss Account on a straight line basis over the lease term.

ARMCO LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST OCTOBER 1996

2 Turnover

The geographical analysis of turnover is as follows:

	1996 £	1995 £
Europe	206,901	152,933
United Kingdom	2,224,909	3,360,946
	<u>2,431,810</u>	<u>3,513,879</u>

3 Operating Profit

The operating profit is stated after charging:

	1996 £	1995 £
Depreciation of owned assets	5,226	1,048
Hire of vehicles and equipment	20,518	9,696
Auditors' remuneration	6,150	8,400
	<u>31,894</u>	<u>19,144</u>

4 Interest Payable and Similar Charges

	1996 £	1995 £
Other interest	413	186
	<u>413</u>	<u>186</u>

5 Directors and Employees

Staff costs, including directors' remuneration, were as follows:

	1996 £	1995 £
Wages and salaries	113,839	108,210
Social security costs	10,898	8,296
Other pension costs	6,118	-
Other costs	23,846	25,891
	<u>154,701</u>	<u>142,397</u>

The average monthly number of employees, including directors, during the year was as follows:

	1996 Number	1995 Number
Administration	1	1
Selling and Distribution	3	3
	<u>4</u>	<u>4</u>

Directors' emoluments

	1996 £	1995 £
Emoluments (including pension contributions)	67,770	64,196
	<u>67,770</u>	<u>64,196</u>

ARMCO LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST OCTOBER 1996

Included in directors emoluments are emoluments, excluding pension contributions, paid to:

	1996 £	1995 £
Highest paid director	<u>64,347</u>	<u>64,196</u>

None of the other directors received any emoluments in the year (1995 £Nil).

6 Taxation

	1996 £	1995 £
Based on the profit for the year:		
UK corporation tax at 33%	28,293	43,177
Underprovision in prior periods	<u>10,297</u>	<u>-</u>
	<u>38,590</u>	<u>43,177</u>

7 Dividends

	1996 £	1995 £
Ordinary dividends - proposed	<u>-</u>	<u>50,000</u>

8 Tangible Fixed Assets

	Plant and Machinery £	Furniture and Equipment £	Total £
Cost			
At 1st November 1995	2,580	19,100	21,680
Additions	15,676	-	15,676
Disposals	-	(4,998)	(4,998)
At 31st October 1996	<u>18,256</u>	<u>14,102</u>	<u>32,358</u>
Depreciation			
At 1st November 1995	2,580	19,099	21,679
Charge for the year	5,226	-	5,226
Disposals	-	(4,998)	(4,998)
At 31st October 1996	<u>7,806</u>	<u>14,101</u>	<u>21,907</u>
Net Book Value			
At 31st October 1996	<u>10,450</u>	<u>1</u>	<u>10,451</u>
<i>At 31st October 1995</i>	<u>-</u>	<u>1</u>	<u>1</u>

9 Stocks

	1996 £	1995 £
Goods for resale	<u>508,894</u>	<u>381,349</u>

ARMCO LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST OCTOBER 1996

10	Debtors	1996	1995
		£	£
	Trade debtors	463,206	1,200,018
	Amounts owed by group undertakings	11,801	14,936
	Other debtors	8,191	20,155
	Prepayments and accrued income	19,105	31,437
		<u>502,303</u>	<u>1,266,546</u>
11	Creditors: Amounts Falling Due Within One Year	1996	1995
		£	£
	Trade creditors	263,427	684,851
	Amounts owed to group undertakings	156,594	274,151
	Corporation tax	15,792	55,677
	Other taxes and social security	48,841	16,831
	Proposed dividends	-	50,000
	Accruals and deferred income	35,320	33,141
		<u>519,974</u>	<u>1,114,651</u>
12	Share Capital	1996	1995
		£	£
	Authorised Equity Shares		
	Ordinary shares of £1.00 each	<u>500,000</u>	<u>500,000</u>
	Allotted Equity Shares		
	Allotted, called up and fully paid ordinary shares of £1.00 each	<u>455,000</u>	<u>455,000</u>
13	Reserves		Profit and Loss Account
			£
	At 1st November 1994		444,612
	Profit for the year		30,311
	At 1st November 1995		474,923
	Profit for the year		67,310
	At 31st October 1996		<u>542,233</u>

ARMCO LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST OCTOBER 1996

14 Reconciliation of Shareholders' Funds

	1996	1995
	£	£
Profit for the financial year	67,310	80,311
Dividends	-	(50,000)
Increase in the shareholders' funds	67,310	30,311
Opening shareholders' funds	929,923	899,612
Closing shareholders' funds	997,233	929,923

15 Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	1996	1995
	£	£
Operating profit	93,823	111,766
Depreciation charges	5,226	1,048
Profit on sale of fixed assets	(1,000)	-
Increase in stocks	(127,545)	(177,450)
Decrease/Increase in debtors	751,743	(124,490)
Decrease/Increase in other creditors	(504,792)	345,809
	217,455	156,683

16 Analysis of Changes in Cash and Cash Equivalents During the Year

	1996	1995
	£	£
Balance at 1st November 1995	396,678	233,067
Net cash outflow	98,881	163,611
Balance at 31st October 1996	495,559	396,678

17 Analysis of Changes in Cash or Cash Equivalents as Shown in the Balance Sheet

	1996	Change in year	1995	Change in year	1994
	£	£	£	£	£
Cash at Bank and in Hand	495,559	98,881	396,678	163,611	233,067

18 Pension Scheme

The company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company, being invested with Legal & General Assurance (Pensions Management) Limited. Contributions to the scheme are determined by a qualified actuary on the basis of triennial valuations using the Attained Age method. The most recent valuation was at 5th April 1996 but the directors are still awaiting the results. The previous valuation was at 6th April 1993 and those results are reported in this note.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment returns would be 9% per annum compound, that salary increases would average 7.5% per annum for general salary increases plus 0.5% per annum for promotional increases and future pensions would increase at the rate of 3% per annum.

The valuation showed that the market value of the schemes assets was £712,545 and that the actuarial value of those assets represented 121% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

The method and assumptions used in calculating contribution rates to the scheme are identical to those used for calculating the accounting cost. Consequently, no prepayment or provision in the balance sheet on account of pensions is required.

The total contributions paid in the year amounted to £6,118 (1995 £Nil).

19 Operating Lease Commitments

At 31 October 1996 the company had annual commitments under non-cancellable operating leases as set out below:

	<i>Other Than Land and Buildings</i>	
	1996	1995
	£	£
Operating leases which expire:		
Within one year	6,593	-
Between two and five years	7,743	10,642
	<u>14,336</u>	<u>10,642</u>

20 Contingent Liabilities

There is a Deferment Guarantee in favour of Customs and Excise to the extent of £55,000.

21 Transactions with Directors

B D H Cooper is also a director of B D H Cooper Limited to which Armco Limited paid £19,492 in the year for professional services at normal commercial rates.

22 Related Parties

The company's immediate parent undertaking is Armco Inc, a company incorporated in the United States of America. It has included the company in its group accounts, copies of which are available from its principal office at One Oxford Centre, 301 Grant Street, Pittsburgh PA 15219 1415, United States of America.