

IRELAND ALLOYS LIMITED
REPORTS AND FINANCIAL STATEMENTS
YEAR ENDED 31st AUGUST 2001

Hamilton

November 2001

Company Number 40892

SAM



IRELAND ALLOYS LIMITED

DIRECTORS, OFFICERS AND ADVISERS

DIRECTORS

Robert P. Cochrane
Allan C Addie

SECRETARY

Allan C. Addie F.C.C.A.

REGISTERED OFFICE

P O Box 18,
Craighead,
Hamilton ML3 0EL, Scotland

HEAD OFFICE

Craighead,
Hamilton,
Scotland

AUDITORS

KPMG, Chartered Accountants,
24 Blythswood Square,
Glasgow,
G2 4QS
Scotland

SOLICITORS

Dundas & Wilson,
Edinburgh,
Scotland

BANKERS

Bank of Scotland,
Edinburgh,
Scotland

IRELAND ALLOYS LIMITED

REPORT OF THE DIRECTORS

The Directors present their Annual Report together with the Financial Statements and Auditors' Report for the year ended 31st August 2001.

RESULTS AND DIVIDENDS

The loss for the year attributable to Shareholders after all charges, depreciation and taxation amounted to £221,000 (2000, Loss of £159,000).

The Directors do not recommend payment of a dividend (2000, £nil).

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company has been trading in the United Kingdom and internationally from premises in Hamilton and Sheffield in complex alloy scrap containing nickel, tungsten, titanium, chromium, cobalt, molybdenum and vanadium. The activities involve buying, sorting, processing and selling alloy secondary material.

During April the Sheffield premises were vacated. In June the Sheffield premises were sold.

During the year commodity prices were generally weak, creating a difficult trading environment. Since the year-end a world economic recession has partially materialised and is likely to deepen. We envisage that demand for stainless steel should remain reasonable for the short term but is likely to decline thereafter. It is believed that demand from the aerospace sector, on which the Company is partially reliant, will contract. Against this background we anticipate that market demand and commodity prices will be unpredictable for the foreseeable future.

DIRECTORS

The names of the Directors are as follows:-

Robert P. Cochrane
Allan C Addie

The interests of Directors in the share capital of Ireland Alloys (Holdings) Limited, the ultimate holding company, were as follows: -

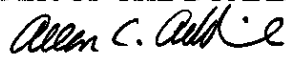
	<u>Ordinary Shares of 10p each</u>	
	<u>2001</u>	<u>2000</u>
Allan C Addie	1,250	1,250
Robert P Cochrane	-	-

In accordance with the Company's Articles of Association, A.C. Addie retires as a director and hereby presents himself for re-election

AUDITORS

KPMG have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment will be submitted at the Annual General Meeting.

BY ORDER OF THE BOARD



ALLAN C. ADDIE F.C.C.A.
Company Secretary

P O Box 18
Craighead
Hamilton

19th November, 2001

IRELAND ALLOYS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 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;
- state whether applicable 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 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 financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

REPORT OF THE AUDITORS TO THE MEMBERS
OF IRELAND ALLOYS LIMITED

We have audited the financial statements on pages 7 to 14.

Respective responsibilities of directors and auditors:

The directors are responsible for preparing the directors' report and, as described on page 5, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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. 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.

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 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.

Contingent liability relating to the sale of the Company's US operations

In forming our opinion, we have considered the adequacy of the disclosures made in note 19 of the financial statements concerning the uncertainty over the level of the Company's financial exposure in respect of warranty claims relating to the sale of its US operations. In view of the significance of this matter we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Opinion:

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31st August 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG 
Chartered Accountants
Registered Auditors

24 Blythswood Square
Glasgow G2 4QS
19th November, 2001

IRELAND ALLOYS LIMITED
PROFIT AND LOSS ACCOUNT
FOR YEAR ENDED 31st AUGUST 2001

	<u>Notes</u>	<u>2001</u> <u>£'000</u>	<u>2000</u> <u>£'000</u>
TURNOVER	2	9,390	14,152
Cost of Sales		<u>8,960</u>	<u>13,406</u>
GROSS PROFIT		430	746
Distribution costs		449	455
Administration expenses		<u>237</u>	<u>225</u>
OPERATING (LOSS)/PROFIT		(256)	66
Profit on Sales of Fixed Assets		168	-
Loss on Sale of Subsidiary	19	-	(201)
Interest Payable	6	<u>(133)</u>	<u>(24)</u>
(LOSS) ON ORDINARY ACTIVITIES BEFORE TAX AND FOR THE FINANCIAL YEAR		<u>(221)</u>	<u>(159)</u>

Historical cost profit/losses are not materially different from those stated above.

No gains or losses have been recognised in the year other than the retained loss for the year.

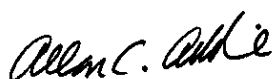
The notes on pages 9 to 14 form part of these financial statements.

IRELAND ALLOYS LIMITED

BALANCE SHEET AT 31ST AUGUST, 2001

	Notes	<u>2001</u> <u>£'000</u>	<u>2000</u> <u>£'000</u>
<u>FIXED ASSETS</u>			
Tangible assets	8	<u>917</u>	<u>1,170</u>
<u>CURRENT ASSETS</u>			
Stock	9	<u>1,298</u>	<u>888</u>
Debtors	10	<u>3,877</u>	<u>3,859</u>
Cash at bank and on hand – Escrow	19	<u>1,440</u>	<u>2,340</u>
		<u>6,615</u>	<u>7,087</u>
<u>CURRENT LIABILITIES</u>			
Creditors - Falling due within one year	11	<u>(6,710)</u>	<u>(6,876)</u>
Provision for warranty claims	14, 19	<u>-</u>	<u>(103)</u>
<u>NET CURRENT (LIABILITIES)/ASSETS</u>		<u>(95)</u>	<u>108</u>
<u>TOTAL ASSETS LESS CURRENT LIABILITIES</u>		<u>822</u>	<u>1,278</u>
<u>CREDITORS</u> - Falling due after more than one year	13	<u>(5)</u>	<u>(240)</u>
<u>NET ASSETS</u>		<u>817</u>	<u>1,038</u>
<u>CAPITAL AND RESERVES</u>			
Called up share capital	15	<u>61</u>	<u>61</u>
Profit & Loss Account	16	<u>756</u>	<u>977</u>
<u>EQUITY SHAREHOLDERS' FUNDS</u>	17	<u>817</u>	<u>1,038</u>

Approved by the Board on 19th November, 2001



ALLAN C. ADDIE
DIRECTOR



ROBERT P. COCHRANE
DIRECTOR

The notes on pages 9 to 14 form part of these financial statements

IRELAND ALLOYS LIMITED

NOTES ON THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES

a) Accounting Convention

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost convention, modified to include the revaluation of certain properties.

b) Depreciation

Depreciation is provided on fixed assets at the following rates in order to reduce the net cost of the assets to estimated net residual value over the anticipated useful life of the assets.

Freehold Buildings	- 4% straight line
Leasehold property	- in equal annual instalments over the lease period (max. 50 years)
Plant and machinery	- 20% reducing balance
Office equipment	- 20% straight line

Freehold land is not depreciated.

On adoption of FRS15 "Accounting for Tangible Assets", the Group has followed the transitional provisions to retain the book value of Land and Buildings which were revalued in 1998 and has decided not to adopt a policy of revaluation in the future.

c) Stock

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

d) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the Balance Sheet date and the gains or losses on translation are included in the Profit and Loss Account.

e) Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and for accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

f) Finance and Operating Leases

Assets under finance leases are capitalised and the commitment shown under the appropriate Payables. Costs in respect of operating leases are charged through the Profit and Loss Account.

g) Pensions

The company participates in a defined benefit pension scheme. Contributions to the scheme are charged to the profit and loss account over the employees' working lives.

- h) Cash Flow
Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

2. TURNOVER

Turnover represents the invoiced amount of goods sold net of value added tax.

The Directors do not feel it is in the Company's interest to reveal the geographical analysis of the turnover in the body of these financial statements.

3. OPERATING (LOSS)/PROFIT

	<u>2001</u> <u>£'000</u>	<u>2000</u> <u>£'000</u>
Operating (loss)/profit is stated after charging:		
Depreciation	74	83
Auditors' remuneration	12	12
Leasing	91	56
Exchange losses/(gains)	<u>38</u>	<u>(212)</u>

4. DIRECTORS' EMOLUMENTS

Directors emoluments	<u>67</u>	<u>64</u>
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Both Directors are members of the Company's Defined Benefits Pension Plan.

5. EMPLOYEE INFORMATION

- a) The average number of persons employed during the year, inclusive of Directors, is analysed below:-

	<u>2001</u> Number	<u>2000</u> Number
Office and management	16	17
Production	<u>33</u>	<u>37</u>
	<u>49</u>	<u>54</u>

- b) Staff costs during the year amounted to:-

	<u>£'000</u>	<u>£'000</u>
Wages and salaries	824	893
Social Security costs	60	47
Other Pension Costs	<u>46</u>	<u>38</u>
	<u>930</u>	<u>978</u>

6. INTEREST PAYABLE

	<u>2001</u> <u>£'000</u>	<u>2000</u> <u>£'000</u>
Bank loans and overdrafts.	132	18
Finance charges payable under finance leases and hire purchase contracts	<u>1</u>	<u>6</u>
	<u>133</u>	<u>24</u>

7. PENSION

The Company operates a defined benefit pension scheme. The assets are held in separate trustee administered funds. Contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Company. The scheme is subject to triennial valuation by independent actuaries, the last valuation being carried out as at 1st October 1999 using the Projected Unit funding method.

The assumptions which have the most significant effect on the results of the valuation are as follows:-

Investment returns	9% per annum
Salary increases	7% per annum
Dividend increases	5% per annum

At the valuation date, the actuarial value of the assets represented 103% of the value of the accrued liabilities, after allowing for future salary increases.

As at 31st August 2001 the Scheme Assets were valued at £4,458,000. The net present value of scheme liabilities were valued at £4,385,000. Therefore, a notional funding surplus of £73,000 existed within the Scheme as at 31st August 2001.

The two existing Directors are members of the Company's defined benefit pension scheme.

8. TANGIBLE FIXED ASSETS

	Freehold Land and Buildings £'000	Leasehold Land and Buildings £'000	Plant and Equipment £'000	Total £'000
<u>Cost or Valuation</u>				
Cost or valuation 1st September 2000	731	357	2,216	3,304
Additions	4	-	43	47
Disposals	-	(357)	(83)	(440)
	<u>735</u>	<u>-</u>	<u>2,176</u>	<u>2,911</u>
<u>Depreciation</u>				
At 1st September 2000	23	135	1,976	2,134
Charge for year	11	6	57	74
Disposals	-	(141)	(73)	(214)
	<u>34</u>	<u>-</u>	<u>1,960</u>	<u>1,994</u>
<u>Net Book Values</u>				
At 31st August 2001	<u>701</u>	<u>-</u>	<u>216</u>	<u>917</u>
At 31st August 2000	<u>708</u>	<u>222</u>	<u>240</u>	<u>1,170</u>

During 1998 the Freehold Land & Buildings at Hamilton were valued by Lambert Smith Hampton, Chartered Surveyors. The valuation was carried out on an "existing use" basis and conducted in accordance with the RICS Statements of Asset Valuation Practice and Guidance Notes.

The figures stated above include Plant and Equipment under finance leases and similar hire purchase contracts with a net value of £19,000 (2000, £25,000). Depreciation charged in the year on such assets amounted to £4,000 (2000, £10,000)

Particulars relating to revalued assets are given below:-

	<u>2001</u> <u>£'000</u>	<u>2000</u> <u>£'000</u>
<u>Freehold Land and Buildings</u>		
At open market valuation	731	731
Aggregate depreciation thereon	<u>(34)</u>	<u>(23)</u>
Net Book Value	697	708
Historical cost of revalued assets	912	912
Aggregate depreciation thereon	<u>(49)</u>	<u>(38)</u>
Historical cost net book value	<u>863</u>	<u>874</u>

9. STOCKS

The amounts attributable to the various categories are as follows:-

	<u>2001</u> <u>£'000</u>	<u>2000</u> <u>£'000</u>
Raw materials	1,280	870
Consumables	<u>18</u>	<u>18</u>
	<u>1,298</u>	<u>888</u>

10. DEBTORS

	<u>2001</u> <u>£'000</u>	<u>2000</u> <u>£'000</u>
All amounts falling within one year:-		
Trade debtors	2,361	3,222
Other debtors	133	117
Group companies	1,287	423
Prepayments	<u>96</u>	<u>97</u>
	<u>3,877</u>	<u>3,859</u>

11. CREDITORS - Falling due within one year

	<u>2001</u> <u>£'000</u>	<u>2000</u> <u>£'000</u>
Current instalments due on loans (Note 13)	240	240
Bank overdrafts (Note 12)	3,036	2,828
Trade creditors	1,281	1,660
Group companies	2,064	2,064
Accruals	72	79
Other Creditors	12	3
Hire Purchase creditors	<u>5</u>	<u>2</u>
	<u>6,710</u>	<u>6,876</u>

12. BANK OVERDRAFTS AND HIRE PURCHASE AGREEMENTS

The bank overdrafts and loans are secured by general floating charges, specific charges over the Company's Freehold Land and Buildings and certain trade assets. Various cross guarantees also exist between parent and subsidiaries and among individual subsidiaries. Liabilities under hire purchase are secured on the appropriate assets.

13. CREDITORS - Falling due after more than one year	<u>2001</u>	<u>2000</u>
	<u>£'000</u>	<u>£'000</u>
Bank Long Term Loan	240	480
Hire Purchase Creditors	10	-
	<u>250</u>	<u>480</u>
Current Portion		
Long term loans (see note 11 above)	(240)	(240)
Hire Purchase Creditors	(5)	-
	<u>(245)</u>	<u>(240)</u>
Due within two years	5	240
Due between two and five years	-	-
	<u>5</u>	<u>240</u>
14. PROVISIONS	<u>2001</u>	<u>2000</u>
	<u>£'000</u>	<u>£'000</u>
Provision of Nil (2000: \$0.15m) for warranty claims relative to sale of U.S. subsidiaries (note 19)	-	103
15. CALLED UP SHARE CAPITAL	<u>2001</u>	<u>2000</u>
	<u>£'000</u>	<u>£'000</u>
Authorised:-		
100,000 Ordinary Shares of £1 each	100	100
Allotted, called up and fully paid:-		
61,000 Ordinary Shares of £1 each	61	61
16. RESERVES		<u>Profit & Loss Account</u>
		<u>£000</u>
Balance at 1st September 2000		977
Loss for year		(221)
Balance at 31st August 2001		<u>756</u>

17. MOVEMENT IN SHAREHOLDERS' FUNDS

	<u>2001</u>	<u>2000</u>
	<u>£'000</u>	<u>£'000</u>
<u>Year Ended 31st August 2001</u>		
Loss for Financial Year	(221)	(159)
Shareholders' Funds as at 31 st August 2000	<u>1,038</u>	<u>1,197</u>
Shareholders' Funds as at 31st August 2001	<u>817</u>	<u>1,038</u>

18. COMMITMENTS

- a) Forward Foreign Currency Contracts
At 31st August 2001 the Company had forward currency contracts in respect of Nil (2000: \$4,499,000) due from overseas debtors.

	<u>2001</u>	<u>2000</u>
	<u>£'000</u>	<u>£'000</u>
b) Capital		
Contracted for	<u>—</u>	<u>—</u>
c) Operating Leases		
Expiring within one year	21	-
Expiring within two to five years	<u>7</u>	<u>—</u>

19. SALE OF US OPERATIONS

With effect from 30th June, 1998 the Company sold its US operations. During the pre-purchase investigations significant environmental problems came to light, for which Ireland Alloys Limited provided the purchaser with relevant environmental warranties in addition to certain general warranties.

In May 2000, a settlement agreement was entered into with ELG under which the original sale and purchase agreement was terminated. Simultaneously, a payment was made from escrow to ELG in settlement of all warranty and other claims under this original agreement, with the exception of two environmentally related issues at Houston for which \$3.40 million was held in escrow at 31st August 2000.

During November approximately \$0.150m (£0.10m) was released from escrow in full settlement of one of the outstanding claims (this sum had already been provided for at 31st August 2000). Simultaneously, a sum of \$1.29 million was returned to the Company from escrow, leaving \$2.0 million, the Company's ultimate maximum liability, in escrow. The one remaining issue, remediation at the Houston site, is the subject of continuing discussion between ELG and the Texas Natural Resources Conservation Commission who will determine how and when this matter will be finally settled. As a result a contingent liability of \$2.00 million (£1.38 million) exists at 31st August 2001 (2000: £1.37 million).

20. ULTIMATE HOLDING COMPANY

The Ultimate Holding Company of Ireland Alloys Ltd is Ireland Alloys (Holdings) Ltd, a company registered in the United Kingdom.