

Morganite Electrical Carbon Limited

Report and Accounts

4 JANUARY 2000

Registered No. 1034653



Morganite Electrical Carbon Limited

Registered No 1034653

DIRECTORS

W Macfarlane (Chairman)
R A Marno
B R G Swinnerton
D W C Morgan
G Nicolai
R Himatsingka
G A Addesso
G Cowie
M Perkins

SECRETARY

Elaine Marriner

AUDITORS

Ernst & Young
One Bridewell Street
Bristol
BS1 2AA

BANKERS

National Westminster Bank
9 Belle Vue Way
Swansea

REGISTERED OFFICE

Upper Forest Way
Morrison
Swansea
SA6 8PP

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 4 January 2000.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The company manufactures and sells a wide range of carbon sub-components for the electrical and mechanical engineering industries including carbon brushes and many forms of current collectors and contacts and will continue to do this for the foreseeable future.

RESULTS FOR THE YEAR

The loss for the year after taxation was £3,077k (1999 profit: £1,335k). The Directors do not recommend a dividend payment (1999: £1,335k).

DIRECTORS AND THEIR INTERESTS

The names of the Directors who served during the year are as follows:

W Macfarlane
R A Marno
B R G Swinnerton
D W C Morgan
G Nicolai
R Himatsingka
G A Adesso
G Cowie
M Perkins
D B Muller (resigned 15 July 1999)

Morganite Electrical Carbon Limited

DIRECTORS' REPORT

None of the Directors had any interests in shares of the company. Directors' interests in the company's ultimate parent undertaking, The Morgan Crucible Company plc, are as follows:

	4 January 1999	4 January (or date of 2000 appointment)
(i) Ordinary shares of 25p each		
R A Marno	236	114
B R G Swinnerton	741	666
W E Macfarlane	2,000	2,000
G Nicolai	6,216	6,216
G Cowie	3,056	2,981

(ii) 7.5p (net) Cumulative Convertible Redeemable Third Preference Shares of £1 each

	4 January 2000	4 January 1999
B R G Swinnerton	25	25

(iii) Ordinary shares held under The Morgan Share Participation Scheme

	4 January 2000	4 January 1999
R A Marno	75	150
G Cowie	150	225
B R G Swinnerton	-	75
W E Macfarlane	75	75

(iv) Ordinary shares held under the Long Term Incentive Plan

	4 January 2000	4 January 1999
R A Marno	22,800	22,800
W E Macfarlane	30,300	30,300

(v) The options listed below are held under the Morgan Executive Share Option Scheme (1984), The Morgan Overseas Executive Share Option Scheme 1987, The Morgan Executive Share Option Scheme 1995, and the Morgan Sharesave Scheme 1995. The options are exercisable between 24 October 1996 and 16 October 2006 at prices of between 245.76p and 478.00p.

	4 January 2000	4 January 1999
Ordinary shares held under option:		
R A Marno	3,111	3,111
B R G Swinnerton	-	9,373
W E Macfarlane	31,866	31,866
G Cowie	13,309	9,798
M Perkins	15,000	8,717

Morganite Electrical Carbon Limited

DIRECTORS' REPORT

RESEARCH AND DEVELOPMENT

Projects to improve product performance, improve quality, reduce product cost and to improve manufacturing methods were continued throughout the year.

EMPLOYEE INVOLVEMENT

During the year The Morgan Crucible Company plc European Employee Forum continued with the objective of improving communications with its European workforce. One of the company's employees is a member of that Forum.

Regular meetings with employees took place to provide information about progress of the business through the year. The company's in-house journal, CONTACT was replaced by LINK which is intended to be published on a more regular basis, informing employees of significant company activities. Employees are encouraged to participate in the Morgan Crucible Share Schemes in order to benefit directly in the success of the Morgan Crucible Group.

DISABLED PERSONS

In common with its practice towards all applicants for employment, the company considers applications from disabled people in the light of its requirements, and the qualifications, aptitudes and abilities of each individual.

Where people become disabled during the course of their employment, all practical efforts are made to retain their services and to provide retraining and career development opportunities and disabled people are not treated any differently in this respect.

POLICY ON THE PAYMENT OF CREDITORS

Creditor days at 4 January 2000 were 81 days (1999: 101 days).

CASHFLOW STATEMENT

As the company is a wholly owned subsidiary undertaking of The Morgan Crucible Company plc, a company registered in England and Wales, which prepares a consolidated cashflow statement. The directors have taken advantage of the exemption provided under paragraph 5 of FRS1 (revised) not to prepare a cashflow statement.

YEAR 2000

Prior to 31 December 1999, steps were taken to review computer and date dependent systems critical to the Company's ongoing operations and preparation of financial information to establish the impact, if any, which the Year 2000 might have on the accuracy of calculations, processing and reporting. A new computer system was introduced which covered all manufacturing capabilities plus the companies financial systems. The Company now believes that its internal systems are Year 2000 compliant.

The Company continues to address the business risk from third parties with whom it deals on business or financial matters, including key customers and suppliers. Contingency plans have been developed to minimise the risk of disruption. No significant disruptions have occurred to date.

Although the millennium date change has passed and no significant problems have been encountered, the directors recognise that there is still a risk of Year 2000 impacting the business but do not expect this to be significant

Morganite Electrical Carbon Limited

DIRECTORS' REPORT

AUDITORS

Ernst & Young have expressed their willingness to continue in office as auditors and a resolution proposing their reappointment will be submitted at the forthcoming Annual General Meeting.

By order of the board


Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES

in respect of the accounts

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 and of the profit or loss of the Company for that period. In preparing those accounts, 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 accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that the accounts comply with the above requirements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group 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.

REPORT OF THE AUDITORS
to the members of Morganite Electrical Carbon Limited

We have audited the accounts on pages 9 to 19, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 12 and 13

Respective responsibilities of directors and auditors

As described on page 7 the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

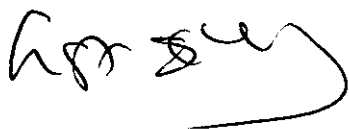
Basis of opinion

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 4 January 2000 and its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Registered Auditor
Bristol

Date 23/1/00

Morganite Electrical Carbon Limited

PROFIT AND LOSS ACCOUNT

for the year ended 4 January 2000

	Notes	2000 £'000	1999 £'000
TURNOVER	2	21,494	21,979
Operating costs		22,514	20,157
Operating (loss)/profit	3	(1,020)	1,822
Income from investments	6	-	146
		(1,020)	1,968
Net finance charges	7	1,531	456
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(2,551)	1,512
Taxation	8	526	177
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		(3,077)	1,335
Dividends	9	-	1,335
(LOSS)/PROFIT RETAINED FOR THE YEAR		(3,077)	£Nil

A statement of the movement on reserves can be found in note 17.

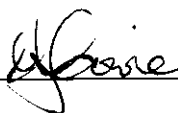
There are no recognised gains and losses other than those shown above.

Morganite Electrical Carbon Limited

BALANCE SHEET

at 4 January 2000

	Notes	2000 £'000	1999 £'000
FIXED ASSETS			
Tangible assets	10	21,488	20,995
Investments	11	261	261
		<u>21,749</u>	<u>21,256</u>
CURRENT ASSETS			
Stocks	12	4,554	3,994
Debtors (including debtors due after more than one year of £3,356) (1999: £3,317)	13	8,957	8,705
Cash at bank and in hand		289	760
		<u>13,800</u>	<u>13,459</u>
CREDITORS: amounts falling due within one year	14	23,298	19,399
NET CURRENT LIABILITIES		<u>(9,498)</u>	<u>(5,940)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>12,251</u>	<u>15,316</u>
Provisions for liabilities and charges	15	1,007	995
TOTAL ASSETS LESS LIABILITIES		<u>11,244</u>	<u>14,321</u>
CAPITAL AND RESERVES			
Called up share capital	16	8,837	8,837
Share premium account	17	37	37
Revaluation reserve	17	1,818	1,846
Profit and loss account	17	552	3,601
		<u>11,244</u>	<u>14,321</u>


 _____ Director
 23-7-2000
 _____ Date

Morganite Electrical Carbon Limited

HISTORICAL PROFIT AND LOSS ACCOUNT

as at 4 January 2000

	<i>2000</i> <i>£'000</i>	<i>1999</i> <i>£'000</i>
Reported profit on ordinary activities before taxation	(2,551)	1,512
Difference between historical cost depreciation charge and the actual charge of the year calculated on the revalued amount	28	28
Historical cost loss on ordinary activities before taxation	<u>(2,523)</u>	<u>1,540</u>
Historical cost loss for the year retained after taxation, minority interests and dividends	<u>(3,105)</u>	<u>(28)</u>

Morganite Electrical Carbon Limited

NOTES TO THE ACCOUNTS at 4 January 2000

1 ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention in accordance with applicable accounting standards.

Depreciation

Depreciation and amortisation is based on gross values and is provided in equal annual instalments over the expected life of fixed assets in use at the beginning of the year.

The rates of depreciation provided during the year are as follows:

Buildings	-	2%
Computer and office equipment	-	20%
Plant and machinery	-	5% or 10%
Furniture, fixtures & fittings	-	5% or 10%
Motor vehicles		
(commencing in the year of purchase)	-	33 1/3%

Deferred taxation

Provision is made for deferred taxation which in the opinion of the Directors is likely to arise in the foreseeable future.

Stocks

Stocks and work in progress have been valued at the lower of cost and net realisable value. For this purpose "cost" means direct cost and direct expenses including applicable overheads, less provision for obsolescence.

Government grants

Government grants on capital expenditure are credited to a deferred income account and are released to revenue over the expected useful life of the relevant asset by equal annual instalments.

Grants of a revenue nature are credited to income in the period to which they relate.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

Leased assets

Assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the leases. The excess of lease payments over the recorded lease obligations are treated as finance charges which are amortised over each lease term.

Rentals under operating leases are charged to the profit and loss account as incurred.

Morganite Electrical Carbon Limited

NOTES TO THE ACCOUNTS

at 4 January 2000

1 ACCOUNTING POLICIES (continued)

Research and development

Expenditure on research and development is written off in the year in which it is incurred.

Pensions

Contributions are made to the pension schemes in accordance with actuarial advice and are charged to the profit and loss account so as to spread the pension cost over the anticipated period of service of the pension scheme members.

Investment in subsidiaries

Investment in subsidiaries are stated at cost of acquisition or costs incurred in originally establishing the company concerned.

2 TURNOVER

Turnover, which is stated net of value added tax, represents the invoiced value of sales to third parties and fellow subsidiaries less returns and allowances given in the normal course of trade.

The turnover and operating profit is attributable to one activity, the sale of electrical carbon, carbon brushes and current collectors.

Although a part of the company's turnover is in export markets, no analysis is disclosed as the directors consider it would be seriously prejudicial to do so.

3 OPERATING (LOSS)/PROFIT

This is stated after charging:

	2000 £'000	1999 £'000
Depreciation	1,697	1,177
Rentals under operating leases:		
hire of plant and machinery	130	113
other operating leases	26	26
Research and development expenditure	789	1,350
Auditors remuneration	26	21
	<u> </u>	<u> </u>

4 DIRECTORS REMUNERATION

	2000 £'000	1999 £'000
Emoluments	276	271
Pension contributions	49	141
	<u> </u>	<u> </u>
	325	412
	<u> </u>	<u> </u>

Retirement benefits are accruing to three Directors under defined benefit schemes at 4 January 2000 (1999: 3).

During the year ended 4 January 2000 two Directors exercised share options (1999: 1) and two Directors were granted share options (1999: 2).

Morganite Electrical Carbon Limited

NOTES TO THE ACCOUNTS

at 4 January 2000

4 DIRECTORS REMUNERATION (continued)

	2000 £'000	1999 £'000
Highest paid director		
Emoluments	114	116
Pension scheme contributions	31	28
	<u>145</u>	<u>144</u>

5 STAFF COSTS

The average number of persons employed by the company including directors during the year were as follows:

	2000 No	1999 No
Management and administration	132	135
Carbon manufacture	206	316
	<u>338</u>	<u>451</u>

	2000 £'000	1999 £'000
Wages and salaries	7,485	8,718
Social security costs	612	693
Other pension costs	471	293
	<u>8,568</u>	<u>9,704</u>

6 INCOME FROM INVESTMENTS

	2000 £'000	1999 £'000
Income from investments in subsidiary undertakings	-	146

7 NET FINANCE CHARGES

	2000 £'000	1999 £'000
On loan from parent undertaking	1,531	484
Interest receivable on deposits	-	(28)
	<u>1,531</u>	<u>456</u>

Morganite Electrical Carbon Limited

NOTES TO THE ACCOUNTS at 4 January 2000

8 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2000 £'000	1999 £'000
Corporation tax at 31% (1999: 31.0%)	-	119
Deferred taxation	12	29
	<u>12</u>	<u>148</u>
Prior year under provision		
Overseas taxation	514	-
	<u>-</u>	<u>29</u>
	<u>526</u>	<u>177</u>

9 DIVIDENDS

	2000 £'000	1999 £'000
Proposed	-	1,335

10 TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Plant & equipment £'000	Fixtures, fittings, tools & equipment £'000	Total £'000
Cost or valuation				
At 4 January 1999	14,424	22,842	207	37,473
Additions	999	1,203	-	2,202
Disposals	-	(199)	-	(199)
	<u>15,423</u>	<u>23,846</u>	<u>207</u>	<u>39,476</u>
At 4 January 2000	15,423	23,846	207	39,476
Depreciation				
At 4 January 1999	2,195	14,095	188	16,478
Provided during the year	268	1,422	7	1,697
On disposals	-	(187)	-	(187)
	<u>2,463</u>	<u>15,330</u>	<u>195</u>	<u>17,988</u>
At 4 January 2000	2,463	15,330	195	17,988
Net book value				
At 4 January 2000	12,960	8,516	12	21,488
At 4 January 1999	<u>12,229</u>	<u>8,747</u>	<u>19</u>	<u>20,995</u>

Morganite Electrical Carbon Limited

NOTES TO THE ACCOUNTS

at 4 January 2000

11 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	2000 £'000	1999 £'000
Shares at cost	261	261

In the opinion of the directors the aggregate value of its investments in subsidiary undertakings is not less than the amount at which they are stated in the accounts.

<i>The subsidiary undertaking</i>	<i>Nature of business</i>	<i>Issued shares and proportion held by company</i>
Morganite Taiwan Limited (incorporated in Taiwan)	Carbon sub-components	Ordinary shares - 100%

12 STOCKS

	2000 £'000	1999 £'000
Raw materials and consumables	2,064	1,558
Work in progress	1,691	1,960
Finished goods and goods for resale	799	476
	4,554	3,994

The difference between purchase price or production cost of stocks and their replacement cost is not material.

13 DEBTORS

	2000 £'000	1999 £'000
Trade debtors	2,381	2,504
Amounts owed by parent undertaking	122	526
Amounts owed by fellow subsidiary undertakings	2,126	1,867
Amounts owed by associated undertakings	-	8
Other debtors	292	-
Prepayments and accrued income	655	483
Prepaid pension contributions	3,356	3,317
Corporation tax	25	-
	8,957	8,705

Amounts falling due after more than one year included in debtors above are:

	2000 £'000	1999 £'000
Pension prepayment	3,356	3,317

Morganite Electrical Carbon Limited

NOTES TO THE ACCOUNTS

at 4 January 2000

14 CREDITORS: amounts falling due within one year

	2000 £'000	1999 £'000
Amounts owed to parent undertaking	19,118	12,977
Amounts owed to fellow subsidiary undertakings	360	634
Trade creditors	1,500	2,395
Corporation tax	(14)	224
Other taxes and social security costs	518	690
Other creditors	1,162	529
Accruals	654	615
Proposed final dividend	-	1,335
	<u>23,298</u>	<u>19,399</u>

15 PROVISIONS FOR LIABILITIES AND CHARGES

	2000 £'000	1999 £'000
Deferred taxation	<u>1,007</u>	<u>995</u>

The potential amount of UK deferred taxation calculated on the liability method which has not been provided for in the accounts is shown below at 30% (1999: 31%).

	2000 £'000	1999 £'000
Accelerated capital allowances	918	614
Other timing differences	(11)	(23)
	<u>907</u>	<u>591</u>

16 CALLED UP SHARE CAPITAL

	2000 £'000	1999 £'000
Authorised	9,537	9,537
Allotted, called up and fully paid - ordinary shares of £1 each	<u>8,837</u>	<u>8,837</u>

Morganite Electrical Carbon Limited

NOTES TO THE ACCOUNTS

at 4 January 2000

17 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS AND RESERVES

	<i>Share capital £'000</i>	<i>Share premium £'000</i>	<i>Revaluation reserve £'000</i>	<i>Profit & loss £'000</i>	<i>Total £'000</i>
At 4 January 1998	8,837	37	1,874	3,573	14,321
Profit for the year	-	-	-	1,335	1,335
Dividend	-	-	-	(1,335)	(1,335)
Revaluation surplus realised	-	-	(28)	28	-
At 4 January 1999	8,837	37	1,846	3,601	14,321
Loss for the year	-	-	-	(3,077)	(3,077)
Revaluation surplus realised	-	-	(28)	28	-
At 4 January 2000	8,837	37	1,818	552	11,244

18 CAPITAL COMMITMENTS

	<i>2000 £'000</i>	<i>1999 £'000</i>
Tangible fixed assets contracted but not provided for	192	779

19 LEASING COMMITMENTS

At 4 January 2000, the company had annual commitments under non-cancellable operating leases as set out below:

	<i>2000</i>		<i>1999</i>	
	<i>Land and buildings £'000</i>	<i>Other £'000</i>	<i>Land and buildings £'000</i>	<i>Other £'000</i>
Operating leases which expire within one year:	-	60	-	18
Within two to five years	24	55	24	55
In over five years	12	-	12	-
	36	115	36	73

NOTES TO THE ACCOUNTS

at 4 January 2000

20 PENSION COMMITMENTS

The company is a member of The Morgan Pension Scheme and The Morgan Group Senior Staff Pension and Life Assurance Scheme. The contributions paid are based on pension costs across member companies.

Both schemes are of the defined benefit type. The latest actuarial valuations of The Morgan Pension Scheme and The Morgan Group Senior Staff Pension and Life Assurance Scheme were made by an independent qualified actuary on 6 April 1996 and 1 May 1998 respectively.

The pension cost charged to the profit and loss account was £430,616 (1998: £293,366).

Details of the actuarial valuations are included in the accounts of The Morgan Crucible Company plc, the ultimate holding company.

21 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

The accounts relate solely to the company, as details relating to subsidiary undertakings have been included in the accounts of the ultimate parent undertaking, Morgan Crucible Co Plc which owns 100% of the company's share capital.

22 RELATED PARTY DISCLOSURES

The company has taken advantage of the exemptions in paragraph 3 (c) of FRS 8: Related Party Disclosures, from disclosing transactions with related parties that are part of the Morgan Crucible Group or investees of the group.

23 ULTIMATE PARENT UNDERTAKING

The Directors regard The Morgan Crucible Company plc incorporated in England as being the company's ultimate parent undertaking.

Copies of the accounts can be obtained from The Morgan Crucible Company plc, Morgan House, Madeira Walk, Windsor, Berkshire SL4 1EP.