

REPORT AND ACCOUNTS

MORGANITE ELECTRICAL CARBON LIMITED

4 JANUARY 2001



Morganite Electrical Carbon Limited

Registered No. 1034653

DIRECTORS

M Cox - Chairman (appointed 28.03.01)
G A Adesso
G Cowie
J Harvey (appointed 01.07.01)
R Himatsingka
S G Jones (appointed 06.09.00)
J J A Kroef (appointed 10.02.00, resigned 31.12.00)
W Macfarlane
R A Marno
D W C Morgan
G Nicolai (resigned 28.03.01)
M Perkins
B R G Swinnerton (resigned 30.11.00)
E Thein (resigned 28.03.01)

SECRETARY

J Harvey (appointed 01.07.01)
E Marriner (resigned 01.07.01)

AUDITORS

Ernst & Young LLP
One Bridewell Street
Bristol
BS1 2AA

BANKERS

National Westminster Bank
9 Bellue Vue Way
Swansea
SA1 5BX

REGISTERED OFFICE

Upper Fforest Way
Morriston
Swansea
SA6 8PP

DIRECTOR'S REPORT

The directors present their report and accounts for the year ended 4 January 2001.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

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

The redundancy /reorganisation programme that started in 1999 was completed at a cost in 2000 of £673k.

Turnover was adversely impaired in the industrial and rail traction market where the disruption to the UK rail network at the end of the year contributed to a deferral of orders for replacement traction brushes.

During the year the company purchased the operating assets and liabilities of Electrical Carbon Limited in Sheffield, a wholly owned subsidiary of the Morgan Crucible Group.

The company is now showing improvement in operating performance resulting from the restructuring, and the directors firmly believe that the company is well set to be competitive and to meet the needs of a global market.

RESULTS AND DIVIDENDS

The loss for the year after taxation was £934k (2000: £3,077k).

The directors do not recommend the payment of a dividend.(2000:Nil)

RESEARCH AND DEVELOPMENT

Projects to improve product performance, quality, manufacturing methods and cost reduction 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 took place with employees to provide information about the progress of the business through the year.

Employees are encouraged to participate in the Morgan Crucible Share Schemes in order to benefit directly in the success of the Morgan Crucible Group.

STATEMENT OF CASH FLOWS

No cashflow statement is given as the company is a wholly owned subsidiary of The Morgan Crucible Company plc who have provided a consolidated statement of cashflows under FRS1.

DISABLED PERSONS

In common with its practise 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.

FUTURE DEVELOPMENTS

Since the year end the company has acquired the operating assets and liabilities of a company that was previously a subsidiary of the Morgan Crucible Group, Electro Carbon (Midlands) Ltd.

POLICY ON THE PAYMENT OF CREDITORS

Creditor days at 4th January 2001 were 69 days. (2000: 81days)

DIRECTOR'S REPORT

DIRECTORS AND THEIR INTERESTS

The directors of the Company at the date of this report are listed on page 2 of this report. The directors had no interest in the shares of the Company. The directors' interests in the Company's parent company, The Morgan Crucible Company plc are as follows:

	4 January 2001	4 January 2000/ Date of Appointment
(i) Ordinary shares of 25p each		
R A Marno	255	236
E Thein	7,159	6,917
W E Macfarlane	2,000	2,000
G Nicolai	6,216	6,216
G Cowie	3,131	3,056
Since the end of the period under review, Mr Marno has acquired 35,693 shares and disposed of 35,600 shares Mr Thein has acquired 376 shares and Mr Cowie has acquired 75 shares.		
(ii) Ordinary shares held under the Morgan Share Participation Scheme		
R A Marno	75	75
W E Macfarlane	75	75
G Cowie	75	150
Since the end of the period under review, the remaining 75 shares have been released into each director's name.		
(iii) Ordinary shares held under the Long Term Incentive Plan		
R A Marno	40,600	40,600
W E Macfarlane	48,100	48,100
Since the end of the period under review, 12,500 shares in the above plan in Mr Macfarlane's name have lapsed and the remaining 35,600 shares were released into his name and sold immediately on release and 5,000 shares in the above plan in Mr Marno's name have lapsed and 35,600 shares were released into his name and sold.		
(iv) Ordinary shares held under option		
R A Marno	3,111	3,111
W E Macfarlane	31,866	31,866
G Cowie	11,711	11,711
M Perkins	15,000	15,000
E Thein	5,000	5,000

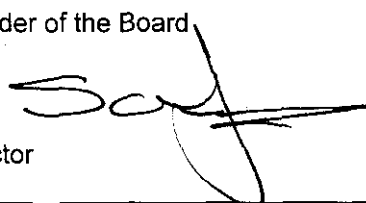
The options above are held under The Morgan Sharesave Scheme 1995, The Morgan Executive Share Option Scheme 1995 and The Morgan Overseas Executive Share Option Scheme 1987. The options are exercisable between 24 October 1996 and 16 October 2006 at exercise prices of between 211.68p and 478.00p per share. Since the end of the period under review an option held by Mr Cowie over 1,640 shares at an option price of 315.52p has lapsed and an option held by Mr Marno over 2,186 shares at an option price of 315.52p has lapsed.

AUDITORS

Ernst & Young, the Company's auditor, transferred its entire business to Ernst & Young LLP a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001

By order of the Board

Director



A 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;
- * prepare the accounts on the ongoing 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.

REPORT OF THE AUDITORS

to the shareholders of Morganite Electrical Carbon Limited

We have audited the accounts on pages 7 to 16, which have been prepared under the historical cost and on the basis of the accounting policies set out on pages 10 and 11

Respective responsibilities of directors and auditors

As described on page 5 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 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 affairs of the company as at 4 January 2001 and its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

AGT & Y LLP

**Ernst & Young LLP
Registered Auditor
Bristol**

12/10/01

PROFIT AND LOSS ACCOUNT
for the year ended 4 January 2001

	Notes	2001 £'000	2000 £'000
TURNOVER	2	19,996	21,494
Operating Costs		<u>19,715</u>	<u>22,514</u>
OPERATING PROFIT / (LOSS)	3	281	(1,020)
Income from investments	6	<u>173</u> 454	<u>0</u> (1,020)
Net finance charges	7	<u>1,353</u>	<u>1,531</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(899)	(2,551)
Taxation on loss on ordinary activities	8	<u>35</u>	<u>526</u>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(934)	(3,077)
Dividends		<u>0</u>	<u>0</u>
RETAINED LOSS FOR THE FINANCIAL YEAR		<u>(934)</u>	<u>(3,077)</u>

A statement of the movement on reserves can be found in note 16.

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

Morganite Electrical Carbon Limited

**NOTES OF HISTORICAL COST PROFITS AND LOSSES
for the year ended 4 January 2001**

	2001 £'000	2000 £'000
Reported loss on ordinary activities before taxation	(899)	(2,551)
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>(871)</u>	<u>(2,523)</u>
Historical cost loss for the year retained after taxation, minority interests and dividends	<u>(962)</u>	<u>(3,105)</u>

Morganite Electrical Carbon Limited**BALANCE SHEET**
At 4 January 2001

	Notes	2001 £'000	2000 £'000
FIXED ASSETS			
Tangible assets	9	20,816	21,488
Investments	10	<u>261</u>	<u>261</u>
		<u>21,077</u>	<u>21,749</u>
CURRENT ASSETS			
Stocks	11	5,267	4,554
Debtors	12	8,345	8,957
Cash at bank and in hand		<u>80</u>	<u>289</u>
		<u>13,692</u>	<u>13,800</u>
CREDITORS: amounts falling due within one year	13	<u>23,356</u>	<u>23,298</u>
NET CURRENT LIABILITIES		<u>(9,664)</u>	<u>(9,498)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		11,413	12,251
Provisions for liabilities and charges	14	<u>1,103</u>	<u>1,007</u>
NET ASSETS		<u><u>10,310</u></u>	<u><u>11,244</u></u>
CAPITAL AND RESERVES			
Called up share capital	15	8,837	8,837
Share premium account	16	37	37
Revaluation reserve	16	1,790	1,818
Profit and loss account	16	<u>(354)</u>	<u>552</u>
		<u><u>10,310</u></u>	<u><u>11,244</u></u>

 Director12 / 10 / 01 Date

NOTES TO THE ACCOUNTS
At 4 January 2001

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	33 1/3% or 20%
Plant and machinery	5% or 10%
Fixtures and fittings	5% or 10%
Motor vehicles	33 1/3%
(commencing in year of purchase)	

Stocks

Stocks and work in progress are stated 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.

Research and development

Research and development expenditure is written off as incurred.

Deferred taxation

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

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Assets and liabilities expressed in foreign currencies are converted to sterling at the monetary rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Leased assets

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

Cashflow statement

A consolidated cashflow statement appears in the accounts of the ultimate parent undertaking.

Investment in subsidiaries

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

NOTES TO THE ACCOUNTS
At 4 January 2001

1 ACCOUNTING POLICIES (continued)

Government grants

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

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

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.

Turnover 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 prejudicial to do so.

3 OPERATING PROFIT / (LOSS)

This is stated after charging:

	2001 £'000	2000 £'000
Depreciation	20,816	1,697
Rentals under operating leases:		
hire of plant and machinery	122	130
other operating leases	58	26
Research and development costs	914	789
Auditors remuneration	26	26

4 DIRECTORS REMUNERATION

	2001 £'000	2000 £'000
Emoluments	306	276
Pension contributions	89	49
	395	325

Retirement benefits are accruing to 3 directors under defined benefit schemes at 4 January 2001 (2000: 3)

During the year ended 4 January 2001 2 Directors exercised share options (2000: 2) and 2 Directors were granted share options (2000: 2)

NOTES TO THE ACCOUNTS
At 4 January 2001

4 DIRECTORS REMUNERATION (continued)

	2001 £'000	2000 £'000
Highest paid director		
Emoluments	92	114
Pension contributions	<u>28</u>	<u>31</u>
	<u>120</u>	<u>145</u>

5 STAFF NUMBERS

The average weekly number of employees during the year was as follows:

	2001 No.	2000 No.
Management and administration	110	132
Carbon manufacture	<u>189</u>	<u>206</u>
	<u>299</u>	<u>338</u>

	2001 £'000	2000 £'000
Wages and salaries	6,871	7,485
Social security costs	555	612
Other pension costs	<u>568</u>	<u>471</u>
	<u>7,994</u>	<u>8,568</u>

6 INCOME FROM INVESTMENTS

	2001 £'000	2000 £'000
Income from investments in subsidiary undertakings	<u>173</u>	<u>0</u>

7 NET FINANCE CHARGES

	2001 £'000	2000 £'000
On loan from parent undertaking	1,331	1,536
Interest payable on overdrafts	22	9
Interest receivable on deposits	<u>0</u>	<u>(14)</u>
	<u>1,353</u>	<u>1,531</u>

NOTES TO THE ACCOUNTS
At 4 January 2001

8 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2001 £'000	2000 £'000
Corporation tax - current year	0	0
- under provision for previous year	0	514
Deferred taxation - current year	0	12
Overseas taxation	35	0
	<u>35</u>	<u>526</u>

9 TANGIBLE FIXED ASSETS

	Freehold Land and Buildings £'000	Plant and Machinery £'000	Fixtures, Fittings & Equipment £'000	Total £'000
Cost or Valuation:				
At 4 January 2000	15,423	23,846	207	39,476
Additions	70	972	0	1,042
Disposals	0	4,168	0	4,168
At 4 January 2001	<u>15,493</u>	<u>20,650</u>	<u>207</u>	<u>36,350</u>
Depreciation:				
At 4 January 2000	2,463	15,330	195	17,988
Charge for year	287	1,412	7	1,706
Disposals	0	4,160	0	4,160
At 4 January 2001	<u>2,750</u>	<u>12,582</u>	<u>202</u>	<u>15,534</u>
Net Book Value:				
At 4 January 2001	<u>12,743</u>	<u>8,068</u>	<u>5</u>	<u>20,816</u>
At 4 January 2000	<u>12,960</u>	<u>8,516</u>	<u>12</u>	<u>21,488</u>

10 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	2001 £'000	2000 £'000
Shares at cost	<u>261</u>	<u>261</u>

In the opinion of the directors the aggregate value of the investment in the subsidiary undertaking is not less than the amount at which it is stated in the accounts.

The subsidiary undertaking: Morganite Taiwan Limited (incorporated in Taiwan)

Nature of business: Carbon sub-components

Issued shares and proportion held: Ordinary shares - 100%

NOTES TO THE ACCOUNTS
At 4 January 2001

11 STOCKS

	2001 £'000	2000 £'000
Raw materials and consumables	1,532	2,064
Finished goods and goods for resale	1,278	1,691
Work in progress	<u>2,457</u>	<u>799</u>
	<u>5,267</u>	<u>4,554</u>

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

12 DEBTORS

	2001 £'000	2000 £'000
Trade debtors	2,431	2,381
Amounts owed by parent undertaking	0	122
Amounts owed by fellow subsidiary undertaking	1,952	2,126
Other debtors	0	292
Prepayments and accrued income	432	655
Pre-paid pension fund contributions (note 19)	3,530	3,356
Corporation tax	<u>0</u>	<u>25</u>
	<u>8,345</u>	<u>8,957</u>

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

	2001 £'000	2000 £'000
Pension prepayment	<u>3,530</u>	<u>3,356</u>

13 CREDITORS: amounts falling due with one year:

	2001 £'000	2000 £'000
Bank overdraft	65	0
Amounts owed to parent undertaking	19,264	19,118
Amounts owed to fellow subsidiary undertakings	1,545	360
Trade creditors	726	1,500
Corporation tax	467	(14)
Other taxation and social security	1,024	518
Other creditors	113	1,162
Accruals	<u>152</u>	<u>654</u>
	<u>23,356</u>	<u>23,298</u>

NOTES TO THE ACCOUNTS
At 4 January 2001

14 PROVISIONS FOR LIABILITIES AND CHARGES

	2001 £'000	2000 £'000
Deferred taxation	<u>1,103</u>	<u>1,007</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% (2000: 30%)

	2001 £'000	2000 £'000
Accelerated capital allowances	1,038	918
Other timing differences	<u>0</u>	<u>(11)</u>
	<u>1,038</u>	<u>907</u>

Any deferred taxation liability that crystallises is group relieved at zero cost from the equivalent asset that is held at group level.

15 SHARE CAPITAL

	2001 £'000	2000 £'000
Authorised	<u>9,537</u>	<u>9,537</u>
Allotted, called up and fully paid - ordinary shares of £1 each	<u>8,837</u>	<u>8,837</u>

16 STATEMENT ON MOVEMENT OF RESERVES

	Share Capital £'000	Share Premium £'000	Revaluation Reserve £'000	Profit and loss account £'000	Total Funds £'000
At 4 January 1999	8,837	37	1,846	3,601	14,321
Retained (loss) for the year	0	0	0	(3,077)	(3,077)
Revaluation surplus realised	0	0	(28)	28	0
At 4 January 2000	8,837	37	1,818	552	11,244
Retained (loss) for the year	0	0	0	(934)	(934)
Revaluation surplus realised	0	0	(28)	28	0
At 4 January 2001	<u>8,837</u>	<u>37</u>	<u>1,790</u>	<u>(354)</u>	<u>10,310</u>

NOTES TO THE ACCOUNTS
At 4 January 2001

17 CAPITAL COMMITMENTS

	2001 £'000	2000 £'000
Tangible fixed assets contracted but not provided for	<u>30</u>	<u>192</u>

18 LEASING COMMITMENTS

At 4 January 2001, the company had annual commitments under non cancellable operating leases as set out below:

	2001		2000	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire within one year	0	32	0	60
Within two to five years	0	138	24	55
In over five years	0	0	12	0
	<u>0</u>	<u>170</u>	<u>36</u>	<u>115</u>

19 PENSION COSTS

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 the member companies.

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

The pension cost charged to the profit and loss account was £568,132 (2000: £430,616).

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

20 RELATED PARTY TRANSACTIONS

The company is taking advantage of the exemption from disclosure of related party transactions available to subsidiary undertakings, 90% or more of whose voting rights are controlled within the group.

21 PARENT UNDERTAKING

The director regards the Morgan Crucible Company plc, incorporated in the United Kingdom as being the company's ultimate parent undertaking.

Group accounts can be obtained from their Registered Office at Morgan House, Madiera Walk, Windsor, Berkshire SL4 1EP.

22 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 plc, which owns 100% of the company's share capital.