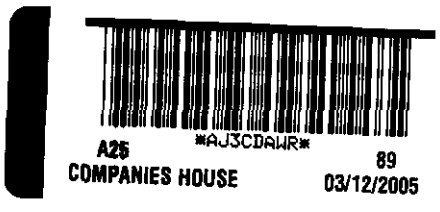
Morganite Electrical Carbon Limited

Directors' report and financial statements

Registered number 1034653

4 January 2005



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 4 January 2005.

Principal activities 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, seals and bearings and will continue to do so for the foreseeable future.

In January 2004, the company entered into a sale and leaseback agreement with the Standard Life Assurance Company for the land and buildings at Morriston Site, Swansea. The sale proceeds amounted to £7,500,000 before costs and retention and a lease of 20 years was signed.

The company is part of a globally managed team within the Morgan Crucible group of companies. During the year, the group's Auto and Consumer Business was disposed of to Energy Conversion Systems Holdings LLC in June 2004, part of which was based at the Morriston site, incurring a loss to the company of £3,889,000.

The group's profit improvement plan, as announced by Morgan Crucible Company Plc in February 2004 remains on track with key projects in 2004 including site rationalisation in the Carbon business. Rationalisation project costs during the year in the company amounted to £2.2 million.

As a result of this restructuring, the company is well positioned to continue to service the needs of the global market and the directors are confident that the company's operating performance will strengthen in future years.

Results and dividends

The loss for the year after taxation was £12,343,000 *(2004: £2,868,000)*

The directors do not recommend the payment of a dividend *(2004: £Nil)*.

Post balance sheet event

At a meeting of the Board of Directors held on 14 November 2005, approval was given to increase the share capital of the company from 9,537,000 ordinary £1 shares to 24,537,000 ordinary £1 shares. As a result of this transaction, the company recapitalised £15,000,000 of the loan due to The Morgan Crucible Company Plc (see note 20).

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.

Directors' report *(continued)*

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.

Policy and practice on the payment of creditors

The company's policy, in relation to all of its suppliers, is to settle the terms of payment when agreeing the terms of the transaction and to abide by those terms provided that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The company does not follow any one code or standard on payment practice due to the diverse nature of the global markets in which it operates.

The number of days' purchases outstanding for payment by the company at the year-end was 61 days *(2004: 81 days)*.

Directors

The directors of the company at the date of this report, together with the changes during the period under review, were as follows:

G Cowie
SG Jones
RA Marno
J Harvey
CJ Spacie
RF New (appointed 19 October 2004)
D Parr (appointed 19 October 2004)

Directors' interests

The directors had no interest in the shares of the company. The directors' interests in the parent company, The Morgan Crucible Company plc are as follows:

	4 January 2005	4 January 2004 or date of appointment
Ordinary shares of 25p each		
RA Marno	**360**	360
G Cowie	**11,186**	11,186
SG Jones	**-**	-
CJ Spacie	**556**	445
RF New	**947**	-

Directors' report *(continued)*

Directors' interests *(continued)*

	4 January 2005	4 January 2004 or date of appointment
Ordinary shares held under option		
RA Marno	**53,899**	-
G Cowie	**41,075**	20,281
SG Jones	**78,295**	6,112
CJ Spacie	**10,319**	9,810
RF New	**25,000**	-
D Parr	**41,075**	15,281

The options above are held under The Morgan Share Save Scheme 2002 and 2003, The Morgan Executive Share Option Scheme 1995 and 2004 and The Morgan Long Term Incentive Plan 2004. The options are exercisable between 30 November 2005 and 22 June 2014 at prices between 58.77p and 129.05p per share.

Directors' and officers' liability insurance

During the year the company purchased and maintained liability insurance for its directors and officers as permitted by section 310(3) of the Companies Act 1985.

Auditors

The auditors, KPMG Audit Plc, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the board

J Harvey
Company Secretary

Upper Fforest Way
Morriston
Swansea
SA6 8PP

17th December 2005

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.

KPMG Audit Plc
Marlborough House
Fitzalan Court
Fitzalan Road
Cardiff
CF24 0TE
United Kingdom

Independent auditors' report to the members of Morganite Electrical Carbon Limited

We have audited the financial statements on pages 6 to 18.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, 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 1985. 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 4 January 2005 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

Chartered Accountants
Registered Auditor

23 November 2005

Profit and loss account

for the year ended 4 January 2005

	Note	**Continuing operations 2005 £000**	**Discontinued operations 2005 £000**	**Total 2005 £000**	Continuing operations 2004 £000	Discontinued operations 2004 £000	Total 2004 £000
Turnover	2	**26,581**	**1,406**	**27,987**	18,737	3,738	22,475
Change in stocks of finished goods and work in progress		**(167)**	**63**	**(104)**	(802)	1	(801)
Raw materials and consumables		**(7,349)**	**(464)**	**(7,813)**	(3,155)	(893)	(4,048)
Other external charges		**(1,985)**	**(344)**	**(2,329)**	(1,573)	(493)	(2,066)
Staff costs	5	**(11,890)**	**(1,004)**	**(12,894)**	(8,597)	(2,282)	(10,879)
Depreciation and other amounts written off tangible and intangible fixed assets		**(1,112)**	**(112)**	**(1,224)**	(1,224)	(349)	(1,573)
Other operating charges		**(5,992)**	**(257)**	**(6,249)**	(3,615)	(473)	(4,088)
restructuring costs		**(2,225)**	-	**(2,225)**	(947)	(1,284)	(2,231)
Operating Loss		**(4,139)**	**(712)**	**(4,851)**	(1,176)	(2,035)	(3,211)
Exceptional items:							
Loss on sale of business		-	**(3,889)**	**(3,889)**	-	-	-
Loss on disposal of land and buildings		**(3,524)**	-	**(3,524)**	-	-	-
Loss on disposal of investment		**(64)**	-	**(64)**	-	-	-
Loss on ordinary activities before interest and taxation		**(7,727)**	**(4,601)**	**(12,328)**	(1,176)	(2,035)	(3,211)
Interest payable and similar charges	6	**(985)**	-	**(985)**	-	-	-
Loss on ordinary activities before taxation	3	**(8,712)**	**(4,601)**	**(13,313)**	(1,176)	(2,035)	(3,211)
Tax on loss on ordinary activities	7	**970**	-	**970**	343	-	343
Loss on ordinary activities after taxation being the retained loss for the year	16	**(7,742)**	**(4,601)**	**(12,343)**	(833)	(2,035)	(2,868)

The result for each year represents the total recognised gains and losses for both financial years.

Notes of historical cost profits and losses

for the year ended 4 January 2005

	2005	2004
	£000	£000
Reported loss on ordinary activities before taxation	**(13,313)**	(3,211)
Difference between historical cost depreciation charge and the actual charge for the year calculated on the revalued amount	**-**	29
Realisation of property revaluation gains of previous years	**1,874**	-
Historical cost loss on ordinary activities before taxation	**(11,439)**	(3,182)
Historical cost loss for the year retained after taxation and dividends	**(10,469)**	(2,839)

Balance sheet

at 4 January 2005

	Note	2005		2004	
		£000	**£000**	£000	£000
Fixed assets					
Tangible assets	*8*		**7,136**		20,619
Investments	*9*		**-**		261
			7,136		20,880
Current assets					
Stocks	*10*	**6,017**		7,197	
Debtors	*11*	**12,834**		12,448	
		18,851		19,645	
Creditors: amounts falling due within one year	*12*	**(12,707)**		(30,382)	
Net current assets/(liabilities)					
Due within one year		**2,397**		(14,941)	
Debtors due after more than one year	*11*	**3,747**		4,204	
			6,144		(10,737)
Total assets less current liabilities			**13,280**		10,143
Creditors: amounts falling due after more than one year	*13*		**(16,772)**		-
Provisions for liabilities and charges	*14*		**(2,688)**		(3,980)
Net (liabilities)/assets			**(6,180)**		6,163
Capital and reserves					
Called up share capital	*15*		**8,837**		8,837
Share premium account	*16*		**37**		37
Revaluation reserve	*16*		**-**		1,704
Profit and loss account	*16*		**(15,054)**		(4,415)
Shareholders' funds – equity			**(6,180)**		6,163

These financial statements were approved by the board of directors on 17th November 2005 and were signed on its behalf by:

Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules, modified to include the revaluation of land and buildings. The company has applied the transitional rules contained in FRS 15 'Tangible Fixed Assets' to retain previous valuations as the basis on which these assets are held.

The basis is consistent with the financial statements for the year ended 4 January 2004.

The financial statements have been prepared on a going concern basis as the parent company has indicated that it will provide such financial assistance as is necessary for the foreseeable future.

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

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.

As the company is a wholly owned subsidiary of Morgan Crucible Company plc, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group or investees of the group qualifying as related parties. The consolidated financial statements of the Morgan Crucible Company plc, within which this company is included, can be obtained from the address given in note 21.

Fixed assets and depreciation

Depreciation is provided to write off the cost or valuation less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	50 years
Plant and machinery	-	10 or 20 years
Computer and office equipment	-	3 to 10 years
Fixtures and fittings	-	10 or 20 years
Motor vehicles	-	3 years

No depreciation is provided on freehold land.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. 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.

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Notes *(continued)*

1 Accounting policies *(continued)*

Post-retirement benefits

The company participates in a group wide pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. The company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement benefits', accounts for the scheme in these financial statements, as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Research and development expenditure

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Taxation

The charge for taxation is based on the results for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Government grants

Capital based government grants are included within accruals in the balance sheet and credited to the profit and loss account over the useful economic lives of the asset to which they relate.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods to customers.

2 Analysis of turnover between markets

Turnover attributable to the geographical markets of the company were:

	2005	2004
	£000	£000
Europe	**22,945**	17,005
The Americas	**1,853**	1,943
Australasia	**391**	332
Africa and Middle East	**712**	1,068
The Far East	**2,086**	2,127
	27,987	22,475

Notes *(continued)*

3 Loss on ordinary activities before interest and taxation

	2005 £000	2004 £000
This is stated after charging/(crediting):		
Depreciation	**1,224**	1,588
Rentals under operating leases:		
Hire of plant and machinery	**71**	71
Other operating leases	**219**	175
Research and development costs	**1,124**	623
Auditors remuneration – audit services	**36**	21
– non-audit services	**1**	1
Exchange gains	**(73)**	(43)
Restructuring costs	**2,225**	2,231

4 Remuneration of directors

	2005 £000	2004 £000
Aggregate emoluments	**618**	532

	Number of directors 2005	2004
Retirement benefits are accruing to the following number of directors under a defined benefit scheme	**7**	5

Details of share options are shown under directors' interests within the Directors' report on page 2.

Highest paid director	2005 £000	2004 £000
Aggregate emoluments	**162**	131
Accrued pension at the end of the year	**19**	47

The highest paid director's interest in the parent company, The Morgan Crucible Company Plc is as follows:

	4 January 2005	4 January 2004
Ordinary shares of 25p each	**-**	-
Ordinary shares held under option	**78,295**	6,112

The options above are held under The Morgan Share Save Scheme 2002 and 2003, The Morgan Executive Share Option Scheme 1995 and The Morgan Long Term Incentive Plan 2005. The options are exercisable between 30 November 2005 and 25 June 2014 at prices between 58.77p and 129.05p per share.

Notes *(continued)*

5 Staff numbers and costs

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

	2005 No	2004 No
Management and administration	**118**	116
Production staff	**298**	245
	416	361

The aggregate payroll costs of these persons were as follows:

	2005 £000	2004 £000
Wages and salaries	**10,351**	8,896
Social security costs	**905**	726
Other pension costs	**1,638**	1,257
	12,894	10,879

6 Interest payable and similar charges

	2005 £000	2004 £000
Interest payable to parent undertaking	**985**	-

Notes *(continued)*

7 Taxation

	2005 £000	2004 £000
UK corporation tax		
Adjustment in respect of previous periods	-	48
Total current tax charge	-	48
Deferred tax		
Origination and reversal of timing differences	**(833)**	(386)
Pension cost relief in excess of pension charge	**(137)**	(101)
Adjustment in respect of previous periods	-	96
Total deferred tax charge	**(970)**	(391)
Tax on loss on ordinary activities	**(970)**	(343)

Factors affecting the tax charge for the period

The current tax credit for the period is lower *(2004: lower)* than the standard rate of corporation tax in the UK of 30% *(2004: 30%)*. The differences are explained below:

	2005 £000	2004 £000
Current tax reconciliation		
Loss on ordinary activities before tax	**(13,313)**	(3,211)
Current tax at 30% *(2004: 30%)*	**(3,994)**	(963)
Effects of:		
Expenses not deductible for tax purposes	**90**	35
Difference between capital allowances and depreciation	**(88)**	141
Tax losses surrendered	**1,752**	678
Adjustments to tax charge in respect of previous period	-	48
Other timing differences	**(3)**	109
Unrelieved losses	**2,243**	-
Total current tax charge (see above)	-	48

Notes *(continued)*

8 Tangible fixed assets

	Freehold land and buildings £000	Plant and machinery £000	Fixtures, fittings and equipment £000	Total £000
Cost or valuation				
At beginning of year	16,070	20,097	207	36,374
Additions	-	396	-	396
Disposals	(13,955)	(8,426)	-	(22,381)
At end of year	2,115	12,067	207	14,389
Depreciation				
At beginning of year	3,624	11,929	202	15,755
Charge for year	17	1,207	-	1,224
Disposals	(3,323)	(6,403)	-	(9,726)
At end of year	318	6,733	202	7,253
Net book value				
At 4 January 2005	**1,797**	**5,334**	**5**	**7,136**
At 4 January 2004	12,446	8,168	5	20,619

	2005 £000	2004 £000
The cost/revaluation of the land included in freehold land and buildings is:	**110**	921

9 Investment in subsidiary undertakings

	2005 £000	2004 £000
Shares at cost	-	261

The investment in subsidiary undertaking of Morganite Taiwan Limited was transferred to Morganite Carbon of Singapore Pte Ltd, a fellow group company during the year.

Notes *(continued)*

10 Stocks

	2005 £000	2004 £000
Raw materials and consumables	**1,080**	1,548
Finished goods and goods for resale	**1,942**	2,220
Work in progress	**2,995**	3,429
	6,017	7,197

The replacement cost of stock is not considered materially different from the balance sheet amount.

11 Debtors

	2005 £000	2004 £000
Due within one year		
Trade debtors	**5,160**	4,528
Amounts owed by fellow subsidiary undertaking	**2,836**	2,841
Other debtors	**455**	145
Prepayments and accrued income	**636**	730
	9,087	8,244
Due after more than one year		
Pension prepayment	**3,747**	4,204
Total debtors	**12,834**	12,448

12 Creditors: amounts falling due within one year

	2005 £000	2004 £000
Bank overdraft	**1,879**	2,863
Amounts owed to parent undertaking	**2,757**	19,544
Amounts owed to fellow subsidiary undertakings	**4,577**	4,364
Trade creditors	**2,006**	2,351
Other taxation and social security	**1,074**	904
Accruals	**414**	356
	12,707	30,382

Notes *(continued)*

13 Creditors: amounts falling due after more than one year

	2005 £000	2004 £000
Loan due to parent undertaking	**16,772**	-

The parent undertaking has confirmed that the loan is not repayable within the next twelve months and since the year end £15,000,000 has been capitalised as share capital (see note 20).

14 Provisions for liabilities and charges

	Restructuring	Deferred taxation	Disposal of Business	Total
	£000	£000	£000	£000
5 January 2004	1,169	2,811	-	3,980
Charged/(released) to the profit and loss account	205	(970)	1,797	1,032
Utilised	(1,170)	-	(1,154)	(2,324)
4 January 2005	**204**	**1,841**	**643**	**2,688**

Deferred taxation

The deferred taxation balance represents full provision, without discounting, on all timing differences as follows:

	2005 £000	2004 £000
Accelerated capital allowances	**725**	1,561
Other timing differences	**1,116**	1,250
Total provision for deferred tax	**1,841**	2,811

15 Share capital

	2005 £	2004 £
Authorised - ordinary shares of £1 each	**9,537**	9,537
Allotted, called up and fully paid - ordinary shares of £1 each	**8,837**	8,837

Notes *(continued)*

16 Reconciliation of shareholders' funds and movement on reserves

	Share capital	Share premium	Revaluation reserve	Profit and loss account	Total
	£000	£000	£000	£000	£000
Opening shareholders funds at 5 January 2004	8,837	37	1,704	(4,415)	6,163
Retained loss for the year	-	-	-	(12,343)	(12,343)
Revaluation surplus realised	-	-	(1,704)	1,704	-
At 4 January 2005	**8,837**	**37**	**-**	**(15,054)**	**(6,180)**

17 Capital commitments

Commitments for capital expenditure for which no provision has been made in these accounts amounts to £9,000 *(2004: £44,000)*, all of which has been authorised and contracted for.

18 Leasing commitments

Annual commitments under non-cancellable operating leases are as follows:

	Land & Buildings		Plant & machinery	
	2005	2004	**2005**	2004
	£'000	£000	**£000**	£000
Operating leases which expire within one year	-	-	**74**	120
Within two to five years	**37**	-	**73**	120
After five years	**630**	-	**-**	-
	667	-	**147**	240

19 Pension costs

The company is a member of a pension scheme providing benefits based on final pensionable pay, the assets of which are held in separate trustee administered funds, The Morgan Group Senior Staff Pension and Life Assurance Scheme ('SSS') and The Morgan Pension Scheme ('MPS'). Because the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits' the scheme will be accounted for by the company when the accounting standard is fully adopted by the company, as if the scheme was a defined contribution scheme.

The latest actuarial valuations were carried out at 1 April 2004 ('SSS') and 6 April 2004 ('MPS') and was updated for FRS 17 purposes to 4 January 2005 by a qualified independent actuary. Details of the actuarial valuations are included in the accounts of The Morgan Crucible Company Plc, the ultimate parent company.

The charge for the year was £1,181,000 *(2004: £1,257,000)*. It has been agreed that employer contribution rates of 12.6%, 19% and 27% of pensionable pay will apply in future years.

Notes *(continued)*

20 Post balance sheet event

On 14 November 2005, the company increased the authorised share capital from £9,537,000 to £24,537,000 by the creation of an additional 15,000,000 ordinary shares of £1 each, the shares being entirely allotted to The Morgan Crucible Company Plc. Consideration for the shares was £15,000,000 through recapitalisation of the long term loan. At the balance sheet date the loan balance was £16,772,000 with net liabilities of £6,180,000. If the transaction had occurred at the balance sheet date the loan balance would have been £1,772,000 and the company's balance sheet would reflect a net asset position of £8,820,000.

21 Ultimate parent company

The directors regard The Morgan Crucible Company Plc, incorporated in the United Kingdom as being the company's ultimate parent undertaking.

The annual report and accounts of The Morgan Crucible Company Plc can be obtained from its registered office at Quadrant, 55-57 High Street, Windsor, Berkshire, SL4 1LP.