MORGANITE SPECIAL CARBONS LIMITED

REGISTRATION NUMBER 1034654

REPORT AND ACCOUNTS

FOR THE YEAR ENDED

4TH JANUARY 2001



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14/03/01

MORGANITE SPECIAL CARBONS LIMITED

DIRECTORS

MR J.J. BOURNE	
DR L.M. BRYCE	Resigned 15th May 2000
MR J.N.STUBBS	Resigned 8th February 2000
MR W.E.MACFARLANE	Resigned 8th February 2000
MR E. THEIN	
MR J.D.QUINN	
MR F.S.BROWN	
MR G.A.ADDESSO	
MR S.HUSSEY	Appointed 8th February 2000
MR W.MANCINI	Appointed 8th February 2000

SECRETARY AND REGISTERED OFFICE

L.H. Cook
Quay Lane
Gosport
Hants
PO12 4LJ

1. The Directors submit their Report and the Accounts for the year ended 4th January 2001.

2. PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company currently manufactures and sells from three separate locations within the UK, namely Gosport, Redditch and Morriston.

The principal activities of these sites continues to be the production of carbon, carbon composite, silicon carbide, filled PTFE, graphite and metal components for electrical, mechanical, aerospace, metallurgical and nuclear engineering applications. These products include bearings, sealing rings, piston rings, pump vanes, valve seats, gland rings, billet and strip dies, degassing rotors, furnace trays and heating elements.

The Company is part of a globally managed team, Morgan Advanced Materials and Technology, incorporating other subsidiaries of the Morgan Crucible Company Plc from Europe, Asia Pacific and the Americas.

During the year the Company continued to offer a diversified range of products throughout the World to other Morgan Crucible Company Plc subsidiaries and third party customers alike.

3. RESULTS FOR THE YEAR

The profit for the year after taxation is £161,000, which will be transferred to reserves.

The Directors do not recommend the payment of a dividend.

4. DIRECTORS AND DIRECTORS INTERESTS

a. The names of the Directors as at the date of the Report are shown on page 1, together with details of appointments and resignations made during the financial year under review.

b. None of the Directors had any interests in shares of the Company. Directors' interests in the Company's ultimate holding company, The Morgan Crucible Company Plc, are as follows:

	04.01.01	**04.01.00**
Ordinary shares of 25p each		
Mr E Thein	7,159	12,926
Mr W Mancini	3,068	2,996
Mr J J Bourne	2	2

4. DIRECTORS AND DIRECTORS INTERSTS (CONTINUED)

	04.01.01	04.01.00
Morgan Share Participation Scheme		
Mr J J Bourne	75	75

	04.01.01	04.01.00
Ordinary Shares held under option		
Mr J J Bourne	1,093	1,093
Mr S Hussey	15,000	-
Mr E Thein	5,000	5,000
Mr W Mancini	25,000	5,000

	04.01.01	04.01.00
Ordinary Shares held under the Long Term Incentive Plan		
Mr J J Bourne	3,500	3,500
Mr F S Brown	16,398	16,398

The above options were held under and The Morgan Sharesave Scheme (1995) and The Morgan Executive Share Option Scheme (1995) and may be exercised between 17th October 1999 and 18th June 2010 at prices between 219.00p and 478.00p.

During the period under review Messrs Mancini and Thein have purchased a further 72, and 555 Ordinary shares respectively.

During the period under review Mr Thein sold 6,322 Ordinary shares.

During the period under review Messrs Hussey and Mancini were granted 15,000 and 20,000 shares under the Morgan Executive Share Option Scheme respectively.

5. RESEARCH AND DEVELOPMENT

The Company continues its investment in research and development to retain its position as a market leader in materials technology.

6. EMPLOYEE INVOLVEMENT

Communication with employees through both formal and informal channels has been maintained during the year and their involvement in the Company's performance encouraged by means of incentive and other schemes.

7. PAYMENTS TO SUPPLIERS

The Company agrees the terms and conditions under which business transactions with its suppliers are conducted when it enters into binding purchase contracts. It is Company policy to abide by the payment terms agreed with suppliers, provided that the supplier has performed its obligations under the contract. Given the nature and diversity of the Company's purchasing arrangements, it is not Company policy to follow any code or standard which deals with the payment of suppliers.

At 4th January 2001, the Company had an average of 115 days purchases outstanding in trade creditors.

8. AUDITORS

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

Ernst & Young has stated that it is intending to transfer its business to a limited liability partnership during the year. If this happens, it is the current intention of the Directors to use their statutory powers to treat the appointment of Ernst & Young as extending to Ernst & Young LLP.

BY ORDER OF THE BOARD

L A Cook

5th March 2001

L.H. Cook
Company Secretary
Quay Lane
Gosport
Hants
PO12 4LJ

MORGANITE SPECIAL CARBONS LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 4TH JANUARY 2001

	NOTES	2000 £000's	1999 £000's
Turnover : Ongoing	2	14,366	13,477
Other operating income		132	128
		14,498	13,605
Operating costs	3	14,289	13,313
Operating Profit : Ongoing		209	292
Interest receivable	6	-	(32)
Interest payable	6	53	-
Profit on ordinary activities before taxation		156	324
Taxation on Profit on ordinary activities	7	(5)	273
Profit for the year	16	161	51

There are no gains or losses arising other than those reported in the profit and loss account.

MORGANITE SPECIAL CARBONS LIMITED
BALANCE SHEET
AS AT 4TH JANUARY 2001

	NOTES	2000 £000's	1999 £000's
FIXED ASSETS			
Tangible Assets	8	7,181	5,819
Investments in subsidiary undertakings	9	1,213	1,213
		8,394	7,032
CURRENT ASSETS			
Stocks	11	2,767	2,441
Debtors:			
Amounts due within one year	12	3,871	2,852
Amounts due after more than one year	12	976	993
Cash at bank and in hand		167	140
		7,781	6,426
Creditors - amounts falling due within one year	13	4,323	1,762
NET CURRENT ASSETS / (LIABILITIES)		3,458	4,664
TOTAL ASSETS LESS CURRENT LIABILITIES		11,852	11,696
Creditors - amounts falling due after one year	10	3,492	3,492
Deferred taxation	14	303	308
		8,057	7,896
CAPITAL AND RESERVES			
Called up share capital	15	13,000	13,000
Revaluation reserve	16	1	1
Profit and loss account	16	(4,944)	(5,105)
Shareholders' Funds - Equity Interests		8,057	7,896

S.Hussey
Director

S. Hussey
05/03/01

1. ACCOUNTING POLICIES

Accounting Convention

The accounts have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and in accordance with applicable accounting standards.

Basis of Presentation

The Company is exempt from the requirement to prepare group accounts by virtue of Section 228 of the Companies Act 1985. These accounts therefore present information about the Company as an individual undertaking and not about its group.

Cash Flow Statement

The Company is exempt from the requirement to publish a Cash Flow Statement as it is a wholly owned subsidiary of The Morgan Crucible Company Plc which publishes a Cash Flow Statement which meets the requirements of Financial Reporting Standard No. 1.

Related Party Transactions

The Company has taken advantage of the exemption in Financial Reporting Standard No. 8 from disclosing transactions with related parties that are part of the Morgan Crucible Group or Investees of the Group.

Reorganisation Costs

The cost of rationalising continuing businesses are charged against operating profit.

Depreciation

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

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

Buildings	2%				
Plant and Machinery	10%	or	20%		
Fixtures and Fittings	5%	10%	or	20%	
Motor Vehicles	33 1/3%				

Deferred Taxation

Deferred taxation is provided using the liability method on all timing differences, including those relating to pensions, which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing difference will reverse.

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 provisions for obsolescence.

1. ACCOUNTING POLICIES (CONTINUED)

Long Term Contracts

Profit on long-term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the year end, by recording turnover and related costs (as defined in Stocks above) as contract activity progresses. Turnover is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer. Full provision is made for losses on all contracts in the year in which they are first foreseen.

Foreign Currencies

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

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

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 profit and loss account so as to spread the pension cost over the anticipated period of service of the Pension Scheme members.

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 continuing activity the manufacture and sale of carbon and graphite components.

An analysis of turnover by geographical market is as follows:-

	2000	**1999**
	£000's	**£000's**
United Kingdom	6,661	6,389
Rest of Europe	5,511	5,018
The Americas	1,084	1,326
The Far East and Australasia	791	514
The Middle East and Africa	319	230
	14,366	13,477

3. OPERATING COSTS

	Ongoing 2000 £000's	Ongoing 1999 £000's
Operating Costs included:-		
Labour Costs:-		
(i) wages and salaries	4,133	3,926
(ii) social security costs	335	311
(iii) other pension costs	309	176
Depreciation		
Owned assets	794	792
Rentals under operating leases		
Hire of plant and machinery	101	106
Auditors' remuneration: Audit services	22	20
Research and Development	34	137

4. DIRECTORS' REMUNERATION

	2000 £000's	1999 £000's
Emoluments (excluding pension contributions)	183	331
Pension contributions	32	42
	215	373

Two of the Directors are members of the Morgan Group Pension scheme.

The emoluments and pension contributions of the highest paid Director are as follows :-

	2000 £000's	1999 £000's
Emoluments (excluding pension contributions)	85	137
Pension Contributions	23	1
	108	138

Amount of Company contribution paid to Money Purchase schemes during the year was £332.

5. STAFF NUMBERS

The average weekly number of persons employed by the company, including Directors, during the year was as follows:-

	2000	1999
Manufacturing	124	132
Management and Administration	48	61
	172	193

6. INTEREST PAYABLE AND RECEIVABLE

	2000 £000's	1999 £000's
Interest payable on bank overdrafts	53	-
Interest receivable on bank deposits	-	(32)

7. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2000 £000's	1999 £000's
Based on profit for the year		
Corporation Tax at 30%(1999 – 30%)	-	278
Deferred Tax	(5)	(5)
	(5)	273

8. TANGIBLE FIXED ASSETS

	Freehold Land and Buildings £000's	Fixtures Fittings Plant and Machinery £000's	Total £000's
Cost or valuation			
At 4th January 2000	2,433	11,547	13,980
Additions	480	1,676	2,156
	2,913	13,223	16,136
Disposals	-	(13)	(13)
At 4th January 2001	2,913	13,210	16,123
Aggregate depreciation:			
At 4th January 2000	624	7,537	8,161
Amount provided for year	18	776	794
	642	8,313	8,955
Disposals	-	(13)	(13)
At 4th January 2001	642	8,300	8,942
Net book amounts:			
At 4th January 2001	2,271	4,910	7,181
At 4th January 2000	1,809	4,010	5,819

Historical cost to the Group	
Historical cost at 4th January 2001	2,387
Accumulated historical depreciation	618
Net Book Value at 4th January 2001	1,769

Land and Buildings were transferred from the ultimate Parent Undertaking Company at a written Down value of £408,000. The land and buildings had previously been revalued in 1989.

The Company has chosen to take advantage of the transitional arrangements in FRS 15 Tangible Fixed Assets and as a result has retained the book amounts of certain tangible foxed assets which were previously revalued. This valuation has not been updated.

9. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	SHARES £000's
Cost:	
At 4th January 2000	1,213
At 4th January 2001	1,213
Net Book Value:	
At 4th January 2000	1,213
At 4th January 2001	1,213

	Issued Shares and Proportion held by the Company	
Subsidiary Company	*Shares*	*%*
Southern Graphite Services Limited	19,100 Ordinary Shares £1 each Fully paid	100

The company is registered in England and Wales. In the opinion of the Directors the aggregate value of the investment in the subsidiary undertaking is not less than the amount at which they are stated in the Accounts.

Group accounts have not been prepared as the Company is itself a wholly owned subsidiary of a company incorporated in the UK.

10. CREDITORS - AMOUNTS FALLING DUE AFTER ONE YEAR

Inter Company Loans arose as a result of the acquisition of the trade and net assets of Southern Graphite Services Limited and of Pure Industries Limited on 30th August 1996, and 4th January 1997 respectively.

Pure Industries Limited were placed in voluntary liquidation on 13th July 2000 and as a result the liability outstanding was reassigned to the Morgan Crucible Company Plc.

	2000 £000's	**1999 £000's**
Southern Graphite Services Limited	2,587	2,587
Pure Industries Limited	-	905
The Morgan Crucible Company Plc	905	-
	3,492	3,492

11. STOCKS

	2000 £000's	1999 £000's
Raw materials and consumables	917	463
Work in progress	1,036	1,094
Finished goods and goods for resale	814	884
	2,767	2,441

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

12. DEBTORS

		2000 £000's	1999 £000's
Trade debtors		2,765	2,117
Amounts owed by fellow subsidiary undertakings		711	545
Other debtors		295	110
Prepayments and accrued income		100	80
		3,871	2,852
Amounts due after more than one year			
Prepaid pension contributions	(Note 19)	976	993

13. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	2000 £000's	1999 £000's
Amounts owed to fellow subsidiary undertakings	402	213
Trade creditors	1,764	989
Bank overdraft	1,433	-
Corporation Tax	(69)	(69)
Other taxes and social security costs	180	140
Other creditors	192	97
Accruals	421	392
	4,323	1,762

14. DEFERRED TAXATION

An analysis of deferred tax provided and unprovided is as follows:-

	2000		1999	
	Provided	**Unprovided**	**Provided**	**Unprovided**
	£000's	**£000's**	**£000's**	**£000's**
Accelerated capital Allowances	-	288	-	324
Other timing differences	303	-	308	-
	303	288	308	324

15. CALLED UP SHARE CAPITAL

	2000	**1999**
	£000's	**£000's**
Authorised:		
Ordinary Shares of £1 each	14,000	14,000
Allotted, called up and fully paid Ordinary Shares of £1 each	13,000	13,000

16. STATEMENT OF MOVEMENT ON RESERVES AND SHAREHOLDERS' FUNDS

	Share Capital	**Revaluation Reserve**	**Profit and Loss**	**Total**
	£000's	**£000's**	**£000's**	**£000's**
At 4th January 1999	13,000	1	(5,156)	7,845
Profit for the year	-	-	51	51
At 4th January 2000	13,000	1	(5,105)	7,896
Profit for the year	-	-	161	161
At 4th January 2001	13,000	1	(4,944)	8,057

17. COMMITMENTS FOR CAPITAL EXPENDITURE

Commitments for capital expenditure for which no provision has been made in these accounts amount to Nil (1999 Nil).

18. LEASING COMMITMENTS

At 4th January 2001 the Company had annual commitments in relation to plant, machinery and land and buildings under non - cancellable operating leases as set out below:-

	Plant and Machinery 2000 £000's	Land and Buildings 2000 £000's	Plant and Machinery 1999 £000's	Land and Buildings 1999 £000's
Operating leases which expire within one year	13	-	53	35
Within two to five years	59	-	86	-
	72		139	35

19. 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 6th April 1999 and 1st April 1997 respectively.

The pension cost charged to the profit and loss account was £17,656 (1999 £20,581).

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

20. ULTIMATE PARENT UNDERTAKING

The Parent Company of the Group of undertakings for which Group Accounts are drawn up and of which the Company is a member is The Morgan Crucible Company Plc, registered in England and Wales. Copies of the Accounts can be obtained from Morgan House, Madeira Walk, Windsor, Berks. SL4 1EP.

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 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 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.

By Order Of the Board

L.H. Cook

L.H. Cook
Company Secretary

5th March 2001

MORGANITE SPECIAL CARBONS LIMITED
REPORT OF THE AUDITORS
TO THE MEMBERS OF MORGANITE SPECIAL CARBONS LIMITED

We have audited the accounts on Pages 5 – 15 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and on the basis of the accounting policies set out on Pages 7 and 8.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on Page 16 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 and 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 misstatements, 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 affairs of the Company as at 4th January 2001 and of the profit of the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young

ERNST & YOUNG
Registered Auditor
Southampton

5 March 2001