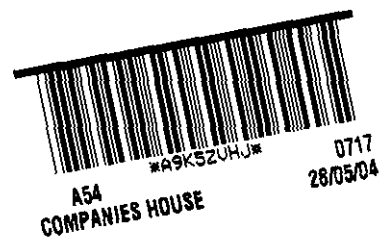


Morganite Special Carbons Limited

**Directors' report and financial
statements**

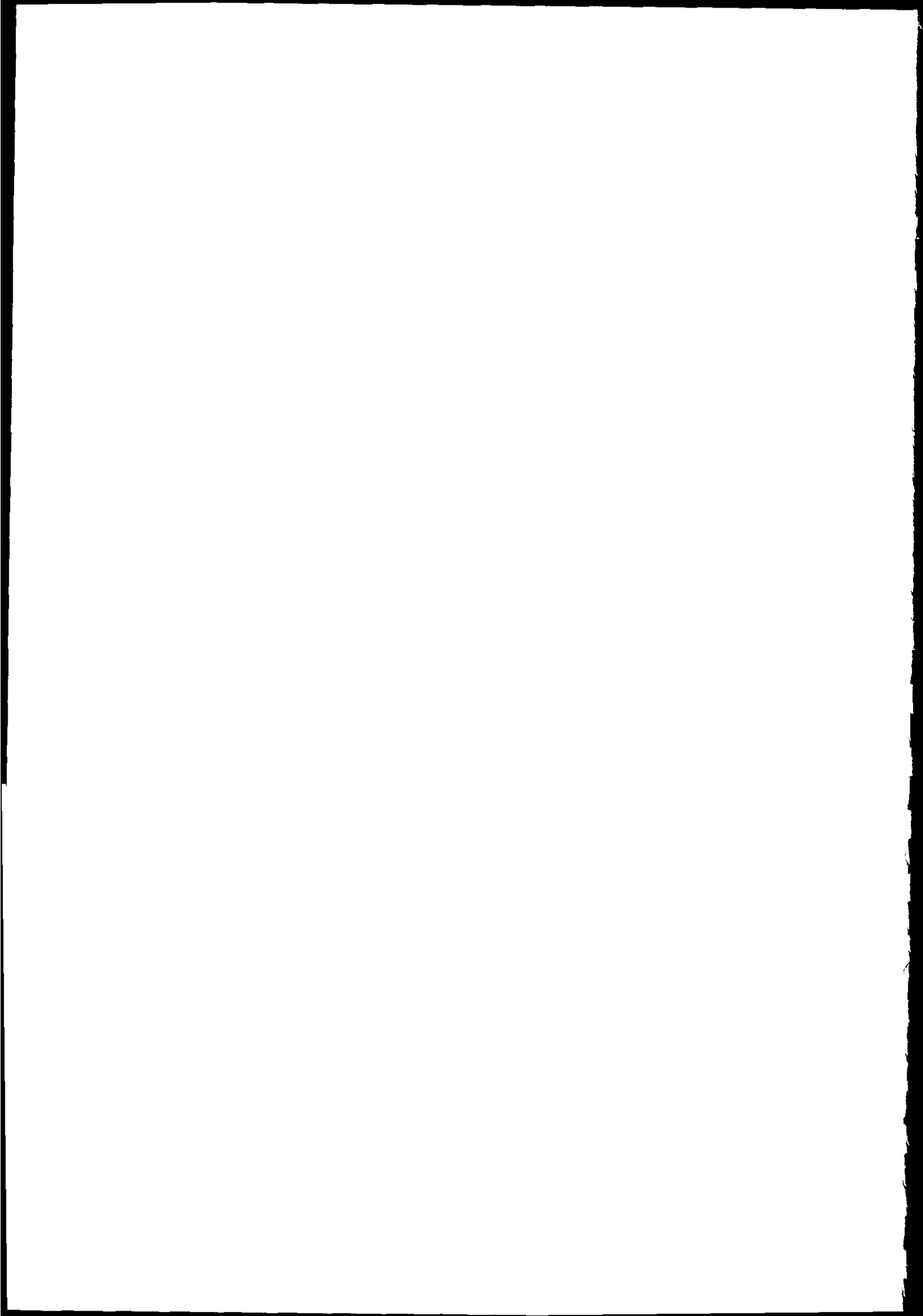
Registered number 1034654

4 January 2003



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 4 January 2003.

Principal activities and business review

During the year, the Company manufactured and sold from three separate locations within the UK: namely Gosport, Redditch and Morriston.

The principal activities of these sites were 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.

During the year, an exceptional charge of £3.6 million in relation to relocation and restructuring of the business was incurred.

As part of this restructuring, on 28 September 2003 the Company transferred the majority of its business and assets to Morganite Electrical Carbon Limited, a fellow subsidiary company, and other fellow group companies for net book value. The remaining parts of the business were sold to Hoerbiger Rings and Packings Limited.

The Company ceased trading on 28 September 2003.

Results for the year

The loss for the year after taxation is £5,107,000 (2001: loss £1,832,000), which will be transferred to reserves.

The Directors do not recommend the payment of a dividend (2001: £nil).

Directors and directors' interests

The directors who held office during the year were as follows:

Mr J J Bourne	(Resigned 7 August 2003)
Mr S Hussey	(Resigned 7 August 2003)
Mr W Mancini	(Resigned 7 August 2003)
Mrs L H Cook	(Appointed 3 December 2002, resigned 7 August 2003)
Mr J Harvey	(Appointed 7 August 2003)
Mr S G Jones	(Appointed 7 August 2003)
Mr G Cowie	(Appointed 7 August 2003)

Directors' report (continued)

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:

	4 January 2003	4 January 2002
<u>Ordinary shares of 25p each</u>		
Mr W Mancini	3,068	3,068
Mr J J Bourne	2	2
Mrs L H Cook	984	-
Mr S Hussey	2,000	-

	4 January 2003	4 January 2002
<u>Morgan Share Participation Scheme</u>		
Mr S Hussey	6,112	-
Mrs L H Cook	6,112	-

	4 January 2003	4 January 2002
<u>Ordinary shares held under option</u>		
Mr S Hussey	15,000	15,000
Mr W Mancini	20,000	25,000

The above options are held under The Morgan Share Save Scheme 2002, The Morgan Executive Share Option Scheme 1995 and The Morgan Overseas Share Option Scheme 1987. The options are exercisable between 25 October 1998 and 16 October 2006 at prices between 320.90p and 477.50p per share.

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.

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.

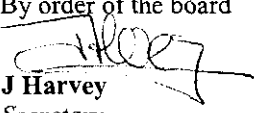
At 4 January 2003, the Company had an average of 91 days (2001: 93 days) purchases outstanding in trade creditors.

Directors' report *(continued)*

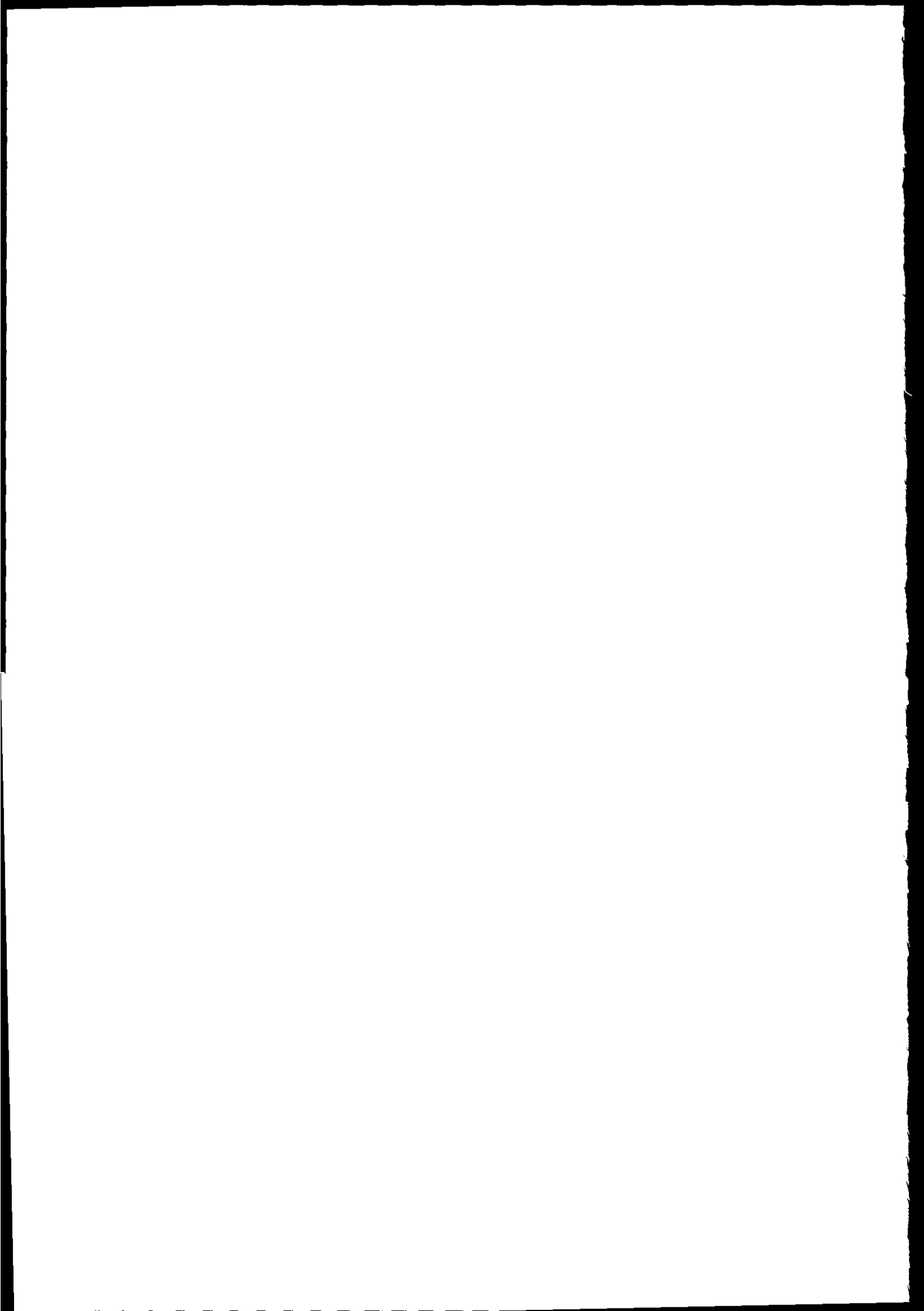
Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board


J Harvey
Secretary

Upper Fforest Way
Morriston
Swansea
SA6 8PP



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

Dukes Keep
Marsh Lane
Southampton
SO14 3EX
United Kingdom

Independent auditors' report to the members of Morganite Special Carbons Limited

We have audited the financial statements on pages 6 to 17.

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 audit 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 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
KPMG Audit Plc
Chartered Accountants
Registered Auditor

27 May 2004

Profit and loss account
for the year ended 4 January 2003

	Note	2002 £000	Restated (note 2) 2001 £000
Turnover	3	10,871	11,931
Change in stocks of finished goods and work in progress		(324)	(32)
Other operating income		166	164
Raw materials and consumables		(3,039)	(4,636)
Other external charges		(1,027)	(942)
Staff costs	6	(3,700)	(4,300)
Depreciation and other amounts written off tangible and intangible fixed assets		(1,147)	(863)
Other operating charges (including exceptional item of £3,580,000 (2001: £nil))	7	(6,860)	(2,869)
Operating loss	4	(5,060)	(1,547)
Interest payable and similar charges	8	(19)	(101)
Loss on ordinary activities before taxation		(5,079)	(1,648)
Tax on loss on ordinary activities	9	(28)	(184)
Loss on ordinary activities after taxation and retained loss for the year		(5,107)	(1,832)

Statement of total recognised gains and losses
for the year ended 4 January 2003

		2002 £000	2001 £000
Retained loss for the year and total recognised gains and losses relating to the year		(5,107)	(1,832)
Prior year adjustment	2	(431)	-
Total gains and losses recognised since last annual report		(5,538)	(1,832)

Balance sheet
at 4 January 2003

	Note	2002 £000	Restated (note 2) 2001 £000
Fixed assets			
Tangible assets	10	7,460	8,082
Investments	11	1,213	1,213
		<u>8,673</u>	<u>9,295</u>
Current assets			
Stocks	12	2,356	2,714
Debtors			
Amounts due within one year		2,719	2,307
Amounts due after more than one year		976	981
Total debtors	13	3,695	3,288
Cash at bank and in hand		103	81
		<u>6,154</u>	<u>6,083</u>
Creditors: amounts falling due within one year	14	(6,312)	(5,215)
Net current (liabilities)/assets		<u>(158)</u>	<u>868</u>
Total assets less current liabilities		<u>8,515</u>	<u>10,163</u>
Creditors: amounts falling due after more than one year	15	(3,492)	(3,492)
Provisions for liabilities and charges	16	(4,193)	(734)
Net assets		<u>830</u>	<u>5,937</u>
Capital and reserves			
Called up share capital	17	13,000	13,000
Revaluation reserve	18	1	1
Profit and loss account	18	(12,171)	(7,064)
Equity shareholders' funds	19	<u>830</u>	<u>5,937</u>

These financial statements were approved by the board of directors on 20 May 2003 and were signed on its behalf by:



J Harvey
Director

Notes

(forming part of the financial statements)

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 financial statements therefore present information about the Company as an individual undertaking and not about its group.

The balance sheets for the current year and the comparative period have been drawn up as at 4 January 2003 and 4 January 2002 respectively. The profit and loss accounts and the statement of total recognised gains and losses are for the years ended 4 January 2003 and 4 January 2002. For convenience, these periods and balance sheet dates are referred to in the body of the financial statements as '2002' and '2001' respectively.

Cash Flow Statement

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.

Related Party Transactions

As the Company is a wholly owned subsidiary of The 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 22.

Depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated economic lives at the following annual rates.

Buildings	2%
Plant and machinery	10%-20%
Fixtures and fittings	5%-20%
Motor vehicles	33.3%

No depreciation is provided on freehold land.

Taxation

The charge for taxation is based on the loss 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 FRS19.

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.

Notes (continued)

1 Accounting policies (continued)

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 gains or losses on translation are included in 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 to the profit and loss account 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 cost of pensions over employees' working lives with the Company.

2 Prior year adjustment

The Company has adopted Financial Reporting Standard 19 – Deferred Tax and the results for the year ended 4 January 2002 have been restated accordingly. As a consequence of this change of policy, the tax charge for the year ended 4 January 2002 has been increased by £143,000. The profit and loss account has been restated to reflect this change.

The adjustment required to the opening reserves at 5 January 2001 to reflect the change in policy is a reduction of £288,000. The effect of the change in policy on the current year is to increase the deferred tax charge by £28,000.

Summary of prior year adjustment	£000
Increase in loss for the year ended 4 January 2002	(143)
Increase in opening retained deficit at 5 January 2001	(288)
Increase in retained deficit at 4 January 2002	431

3 Turnover

Analysis of turnover by geographical market is as follows:-

	2002	2001
	£000	£000
United Kingdom	4,566	4,831
Rest of Europe	5,075	5,597
The Americas	332	541
The Far East and Australasia	705	662
The Middle East and Africa	193	300
	10,871	11,931

All turnover and loss before taxation originates in the UK.

Notes (continued)

4 Operating loss

	2002 £000	2001 £000
Operating loss is stated after charging (crediting):		
Auditors' remuneration – audit services	4	22
Exchange (gain)/loss	(39)	17
Rentals under operating leases	163	110
	<u> </u>	<u> </u>

5 Remuneration of directors

	2002 £000	2001 £000
Aggregate emoluments	75	118
	<u> </u>	<u> </u>

Two of the Directors (2001: One Director) are members of the Morgan Senior Staff Pension Scheme, a defined benefit scheme.

6 Staff costs

	2002	2001
Wages and salaries	3,172	3,704
Social security costs	249	295
Pension costs (note 21)	279	301
	<u> </u>	<u> </u>
	3,700	4,300
	<u> </u>	<u> </u>

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

	Number of employees	
	2002	2001
Manufacturing	96	116
Management and administration	39	44
	<u> </u>	<u> </u>
	135	160
	<u> </u>	<u> </u>

7 Exceptional item

Included within other operating charges is £3,580,000 (2001: £nil) in connection with the restructuring and subsequent closure of the Company's operations. This restructuring was completed during September 2003.

8 Interest payable

	2002 £000	2001 £000
Interest payable on bank overdrafts	19	101
	<u> </u>	<u> </u>

Notes (continued)

9 Taxation

Analysis of charge in the year:

	2002 £000	2000 £000	Restated (note 2) 2001 £000	£000
<i>UK corporation tax</i>				
Current tax on income for the period	-		-	
Adjustments in respect of prior periods	-		41	
Total current tax		-		41
<i>Deferred tax</i>				
Origination and reversal of timing differences		28		143
Tax on loss on ordinary activities		28		184

The current tax charge for the year is higher (2001: higher) than the standard rate of corporation tax in the UK of 30% (2001: 30%). The differences are explained below:

	2002 £000	2001 £000
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(5,079)	(1,648)
Current tax at 30% (2001: 30%)	(1,524)	(494)
Expenses not deductible for tax purposes (principally restructuring provision)	940	17
Capital allowances for the year in excess of depreciation	(28)	(143)
Losses transferred to other group companies for nil consideration	612	620
Adjustments in respect of prior periods	-	41
Total current tax charge	-	41

Notes (continued)

10 Tangible fixed assets

	Freehold land and buildings £000	Fixtures, fittings, plant and machinery £000	Total £000
Cost			
At 4 January 2002	3,144	14,702	17,846
Additions	-	546	546
Disposals	-	(30)	(30)
At end of year	3,144	15,218	18,362
Depreciation			
At beginning of year	668	9,096	9,764
Charge for year	35	1,112	1,147
On disposals	-	(9)	(9)
At end of year	703	10,199	10,902
Net book value			
At 4 January 2003	2,441	5,019	7,460
At 4 January 2002	2,476	5,606	8,082

Notes (continued)

11 Investments in subsidiary undertakings

	Shares £000				
<i>Cost:</i>					
At 4 January 2002	1,213				
At 4 January 2003	1,213				
<i>Net book value:</i>					
At 4 January 2002	1,213				
At 4 January 2003	1,213				
Issued shares and proportion held by the Company					
	£000				
<i>Subsidiary Company</i>					
Southern Graphite Services Limited	<table> <tr> <th>Shares</th><th>%</th></tr> <tr> <td>19,100 Ordinary Shares £1 each Fully paid</td><td>100</td></tr> </table>	Shares	%	19,100 Ordinary Shares £1 each Fully paid	100
Shares	%				
19,100 Ordinary Shares £1 each Fully paid	100				

The subsidiary undertaking is registered in England and Wales, and is dormant. 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 financial statements.

Notes (continued)

12 Stocks

	2002 £000	2001 £000
Raw materials and consumables	886	920
Work in progress	872	1,124
Finished goods and goods for resale	598	670
	<u>2,356</u>	<u>2,714</u>

13 Debtors

	2002 £000	2001 £000
Trade debtors	1,831	1,620
Amounts owed by fellow subsidiary undertakings	721	441
Other debtors	22	122
Prepayments and accrued income	145	124
Prepaid pension contributions	976	981
	<u>3,695</u>	<u>3,288</u>

Prepaid pension contributions are due after more than one year

14 Creditors: amounts falling due within one year

	2002 £000	2001 £000
Bank loans and overdrafts	2,129	1,110
Trade creditors	790	775
Amounts owed to group undertakings	2,930	2,475
Taxation and social security	158	215
Accruals and deferred income	305	640
	<u>6,312</u>	<u>5,215</u>

Notes (continued)

15 Creditors: amounts falling due after more than one year

	2002 £000	2001 £000
Southern Graphite Services Limited	2,587	2,587
The Morgan Crucible Company Plc	905	905
	<u>3,492</u>	<u>3,492</u>

Intercompany 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 30 August 1996 and 4 January 1997, respectively. Pure Industries Limited was put into voluntary liquidation on 13 July 2000 and, as a result, the outstanding liability was assigned to The Morgan Crucible Company Plc

16 Provisions for liabilities and charges

	Deferred tax £000	Restructuring £000	Total £000
At beginning of year – restated (note 2)	734	-	734
Charged to the profit and loss account	28	3,431	3,459
At end of year	<u>762</u>	<u>3,431</u>	<u>4,193</u>

The components of deferred tax are as follows:

	2002 £000	2001 £000
Accelerated capital allowances	459	431
Pension prepayment	303	303
	<u>762</u>	<u>734</u>

Notes (continued)

17 Called up share capital

	2002 £000	2001 £000
<i>Authorised</i>		
14,000,000 ordinary shares of £1 each	<u>14,000</u>	<u>14,000</u>
<i>Allotted, called up and fully paid</i>		
13,000,000 ordinary shares of £1 each	<u>13,000</u>	<u>13,000</u>

18 Reserves

	Revaluation reserve £000	Profit and loss account £000
At 4 January 2002 as previously reported	1	(6,633)
Prior year adjustment – note 2	-	(431)
At 4 January 2002 as restated	1	(7,064)
Retained loss for the year	-	(5,107)
At 4 January 2003	<u>1</u>	<u>(12,171)</u>

19 Reconciliation of movement in shareholders' funds

	2002 £000	2001 £000
Loss for the year (Restated – note 2)	(5,107)	(1,832)
Opening shareholders' funds (Restated – note 2)	5,937	7,769
	<u>830</u>	<u>5,937</u>

20 Commitments

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

	2002		2001	
	Land and buildings £000	Plant and machinery £000	Land and buildings £000	Plant and machinery £000
Operating leases which expire:				
Within one year	-	22	30	98
In the second to fifth years inclusive	30	86	120	122
	<u>30</u>	<u>108</u>	<u>150</u>	<u>220</u>

Notes *(continued)*

21 Pension scheme

The Company is a member of The Morgan Pension Scheme and The Morgan Group Senior Staff Pension and Life Assurance Scheme.

Both schemes are defined benefit schemes. 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 professionally qualified actuary on 6 April 2002 and 1 April 2001 respectively. Details of the actuarial valuations are included in the financial statements of The Morgan Crucible Company Plc, the Company's ultimate holding company.

The pension cost charged to the profit and loss account was £279,000 (2001: £301,000).

FRS 17

Because the Company is unable to identify its share of the schemes' assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits', the schemes will be accounted for by the Company when the accounting standard is fully adopted by the Company as if the schemes were defined contribution schemes.

Any surplus/deficit within these schemes will be disclosed in the notes to the financial statements of the ultimate parent company, The Morgan Crucible Company Plc.

22 Ultimate parent company

The Company is a subsidiary undertaking of The Morgan Crucible Company Plc incorporated in England and Wales, which is also the ultimate controlling party.

The only group in which the results of the Company are consolidated is that headed by The Morgan Crucible Company Plc. The consolidated accounts of this company are available to the public and may be obtained from Morgan House, Madeira Walk, Windsor, Berks, SL4 1EP.