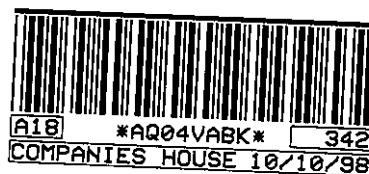


MORGAN HOLDINGS INTERNATIONAL LIMITED

REPORT AND ACCOUNTS

YEAR ENDED 4TH JANUARY 1998

COMPANY NO. 1352995



MORGAN HOLDINGS INTERNATIONAL LIMITED

DIRECTORS

Mr. D.J. Coker
Mr. G.D. Swetman
Mr. I.P. Norris - Appointed 12.01.98
Dr. E.B. Farmer - Resigned 12.01.98

SECRETARY AND REGISTERED OFFICE

Mrs. E Marriner
Morgan House
Madeira Walk
Windsor
Berkshire
SL4 1EP

MORGAN HOLDINGS INTERNATIONAL LIMITED

REPORT OF THE DIRECTORS

1. The Directors submit their Report and the Accounts for the year ended 4th January 1998.

2. **Principal Activities and Review**

The Company was an intermediate holding and investment company during the period under review and it is intended that the Company will continue in this role for the foreseeable future.

During the period under review the Company acquired from its immediate holding company, Morgan Holdings Limited, the entire issued share capital of a number of fellow subsidiaries. The Company satisfied the consideration for this transaction by issuing a further 37,847,109 Ordinary shares. Further, the Company transferred its interest in the said fellow subsidiaries to Morgan Holding Netherlands BV in return for that company issuing two shares of NGL1,000 at a premium to the Company.

3. **Results For The Year and Dividend**

The profit after tax for the year was £17,598,000. The Directors recommend the payment of a final dividend in £11,601,000 and that the surplus of £5,997,000 be transferred to reserves.

4. **Directorate**

- (a) The names of the Directors as at the date of this Report are shown on page 1 of this Report.
- (b) None of the Directors had any interests in the shares of the Company. Directors interests in the Company's ultimate holding company, The Morgan Crucible Company plc are as follows:

<u>Ordinary Shares of 25p each</u>	<u>04.01.98</u>	<u>04.01.97</u>
D.J. Coker	1,582	1,048
<u>7.5p (net) Cumulative Convertible Redeemable Third Preference Shares of £1 each</u>		
D.J. Coker	10	Nil
<u>Ordinary Shares held under the Long Term Incentive Plan</u>		
D.J. Coker	26,178	26,178

<u>Ordinary Shares held under The Morgan Share Participation Scheme</u>	<u>04.01.98</u>	<u>04.01.97</u>
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D.J. Coker	150	75
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Ordinary Shares held under Option

D.J. Coker	30,366	30,463
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The above Options were held under The Morgan Executive Share Option Scheme (1984) and the Morgan Sharesave Scheme (1995) and may be exercised between 25th October 1996 and 24th October 2003 at prices between 315.52p and 389.20p. During the period under review Mr D.J. Coker cancelled one contract under the Morgan Sharesave Scheme (1995) whereupon 2,313 options lapsed and he was granted an option under the same Scheme over 2,216 Ordinary shares with an option price of 389.20p.

Dr. E.B. Farmer and Mr. G.D. Swetman are Directors of The Morgan Crucible Company plc and their interests are disclosed in the financial statements of that company.

5. Auditors

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

BY ORDER OF THE BOARD



E Marriner
SECRETARY

Date: -7 OCT 1998

Morgan House
Madeira Walk
Windsor
Berkshire
SL4 1EP

C/8550

REPORT OF THE AUDITORS
TO THE MEMBERS OF
MORGAN HOLDINGS INTERNATIONAL LIMITED

We have audited the accounts on pages 6 to 13 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 8.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 4 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.

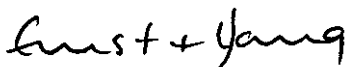
BASIS OF OPINION

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 affairs of the Company as at 4 January 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young
Chartered Accountants
Registered Auditor
London

-7 OCT 1998

MORGAN HOLDINGS INTERNATIONAL LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 4TH JANUARY 1998

	<u>Note:</u>	<u>1997</u> £000s	<u>1996</u> £000s
Operating Costs	2	(5)	(8)
Profit on sale of investment		<u>6,002</u>	<u>-</u>
Operating Profit/(Loss)		5,997	(8)
Investment Income	3	11,601	7
Interest Receivable	4	<u>-</u>	<u>140</u>
Profit on Ordinary Activities before taxation		17,598	139
Taxation	6	<u>-</u>	<u>499</u>
Profit/(Loss) on Ordinary Activities After Taxation		17,598	(360)
Dividend	7	<u>11,601</u>	<u>-</u>
Retained Profit/(Loss) for the year		<u><u>5,997</u></u>	<u><u>(360)</u></u>

**Statement of Total Recognised Gains and Losses
for the Year Ended 4th January 1998**

	<u>1997</u> £000s	<u>1996</u> £000s
Profit/(Loss) on Ordinary Activities After Taxation	17,598	(360)
Exchange Movement	<u>-</u>	<u>(9)</u>
Total Recognised Gains and Losses for the Year	<u><u>17,598</u></u>	<u><u>(369)</u></u>

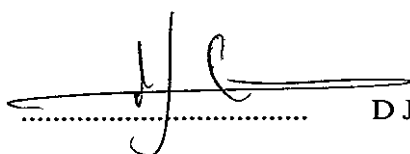
The movement in reserves for the year are shown in note 14.

MORGAN HOLDINGS INTERNATIONAL LIMITED

BALANCE SHEET

AS AT 4TH JANUARY 1998

	<u>Note</u>	<u>1997</u> £000s	<u>1996</u> £000s
FIXED ASSETS			
Investments in Subsidiary Undertakings	8	102,794	58,104
CURRENT ASSETS			
Debtors	9	70,654	59,944
Cash at Bank		<u>-</u>	<u>2</u>
		70,654	59,946
CREDITORS : Amounts falling due within one year	10	<u>11,611</u>	<u>57</u>
NET CURRENT ASSETS		<u>59,043</u>	<u>59,889</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		161,837	117,993
Provisions for Liabilities and Charges	11	<u>11</u> <u>161,826</u>	<u>11</u> <u>117,982</u>
CAPITAL AND RESERVES			
Equity Shareholders' Funds			
Called-up Share Capital	12	152,490	114,643
Profit and Loss Account	13	<u>8,336</u>	<u>2,339</u>
		160,826	116,982
Non-equity Shareholders' Funds			
Called-up Share Capital	12	1,000	1,000
		<u>161,826</u>	<u>117,982</u>



..... D J COKER - Director

7 OCT 1998

MORGAN HOLDINGS INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 4 JANUARY 1998

1. ACCOUNTING POLICIES

Basis of accounting

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

Foreign currency transactions

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. Exchange differences are taken directly to the Profit and Loss Account.

Deferred taxation

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

Related Party Transactions

The Company has taken advantage of the exemption under FRS 8 from disclosing transactions with related parties that are part of the Morgan Crucible Group.

2. OPERATING COSTS

	<u>1997</u>	<u>1996</u>
	<u>£000s</u>	<u>£000s</u>
Net exchange losses	<u>5</u>	<u>8</u>

3. INVESTMENT INCOME

Dividends receivable from Group Undertakings	<u>11,601</u>	<u>7</u>
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4. INTEREST RECEIVABLE

Interest receivable from Group Undertakings	<u>-</u>	<u>140</u>
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MORGAN HOLDINGS INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 4 JANUARY 1998

5. DIRECTORS EMOLUMENTS

The Directors' emoluments for the period under review are nil (1996-nil).

6. TAXATION

	<u>1997</u> £000s	<u>1996</u> £000s
United Kingdom Corporation Tax at 31.5% (1996 - 33%)		
- Underprovision in prior year	-	450
- Current year charge	<u>5,379</u>	<u>47</u>
	-	497
Deferred Taxation	-	2
Less : double taxation relief	<u>(5,379)</u>	<u>—</u>
	<u>—</u>	<u>499</u>

7. DIVIDEND

	<u>1997</u> £000s	<u>1996</u> £000s
Dividends declared on:		
"A" Ordinary Shares - Final	11,601	-
"B" Redeemable Preference Shares - Final	<u>—</u>	<u>—</u>
	<u>11,601</u>	<u>—</u>

8. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	£000s
Balance at 4th January 1997	58,104
Additions	93,666
Disposals	<u>(48,976)</u>
Balance at 4th January 1998	<u>102,794</u>

MORGAN HOLDINGS INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 4 JANUARY 1998

The shares are held in the following subsidiaries:

<u>Company Name</u>	<u>Country of Incorporation & Principal Country of Operation</u>	<u>Nature of Business</u>	<u>% Ownership</u>
Morganite Isolantes			
Termicas Ltda	Brazil	Thermal Ceramics	100%
Dulmison Manufacturing Ltd	Hong Kong	Technical Ceramics	100%
Costruzione Impianti - Rappresentanze Industriali			
- Appatti srl	Italy	Thermal Ceramics	5%
Morgan Holding Nederland bv	Netherlands	Holding Company	100%

All of the subsidiaries are involved in the manufacture of industrial materials for the product groups stated above.

The Directors are of the opinion that the value of these investments is not less than the value stated above.

9. DEBTORS

	<u>1997</u> £000s	<u>1996</u> £000s
Amounts owed by third parties:		
Other debtors	4	4
Amounts owed by Group Undertakings:		
Dividends	11,626	30
Loans	59,009	59,897
Other debtors	<u>15</u>	<u>13</u>
	<u>70,654</u>	<u>59,944</u>

10. CREDITORS - Amounts falling due within one year

	<u>1997</u> £000s	<u>1996</u> £000s
Amounts owed to Group Undertakings:		
Loans	10	10
Dividends	11,601	-
Taxation	<u> </u>	<u>47</u>
	<u>11,611</u>	<u>57</u>

MORGAN HOLDINGS INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 4 JANUARY 1998

11. PROVISIONS FOR LIABILITIES AND CHARGES

	<u>Deferred Tax</u> £000s
Balance at 4th January 1997	11
Provision for the year	<u>-</u>
Balance at 4th January 1998	<u>11</u>

Full provision for deferred tax has been made in the accounts as a result of short-term timing differences, in respect of interest receivable.

12. CALLED-UP SHARE CAPITAL

	<u>1997</u> £000s	<u>1996</u> £000s
<u>Authorised</u>		
Equity Share Capital		
210,000,000 "A" Ordinary shares of £1 each	210,000	140,000
Non-equity Share Capital		
9,999,998 "B" Redeemable Preference shares of £1 each	10,000	10,000
2 "C" Ordinary Preference shares of £1 each	<u>-</u>	<u>-</u>
	<u>220,000</u>	<u>150,000</u>

MORGAN HOLDINGS INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 4 JANUARY 1998

Allotted, Called-up and Fully Paid

Equity Share Capital		
152,490,222 "A" Ordinary shares of £1 each	152,490	114,643
Non-equity Share Capital		
1,000,000 "B" Redeemable Preference shares of £1 each	1,000	1,000
2 "C" Ordinary Preference shares of £1 each	-	-
	<u>153,490</u>	<u>115,643</u>

The "B" Redeemable Preference shares are redeemable in cash at par on 12 April 1999 or on such later date as may be decided by the holders of the majority of the "A" Ordinary shares.

During the year the authorised share capital was increased by £70,000,000 by the creation of an additional 70,000,000 Ordinary shares of £1 each. During the year, 37,847,109 Ordinary shares of £1 each were issued with an aggregate nominal value of £37,847,109. The shares were issued as Consideration for the purchase of various investments in other Group companies.

13. PROFIT AND LOSS ACCOUNT

	£000s
Balance at 4th January 1997	2,339
Retained Profit for the Year	5,997
Exchange Movement	-
Balance at 4th January 1998	<u>8,336</u>

MORGAN HOLDINGS INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 4 JANUARY 1998

14. RECONCILIATION OF SHAREHOLDERS' FUNDS

	<u>1997</u> £000s	<u>1996</u> £000s
Total Recognised Gains and Losses	17,598	(369)
Dividends	(11,601)	-
New Share Capital	<u>37,847</u>	<u>643</u>
Total Movements for the Year	43,844	274
Opening Shareholders' Funds	<u>117,982</u>	<u>117,708</u>
Closing Shareholders' funds	<u>161,826</u>	<u>117,982</u>

15. ULTIMATE HOLDING COMPANY

The Directors regard The Morgan Crucible Company plc, incorporated in England, as being the Company's ultimate Holding Company.

Copies of their accounts can be obtained from Morgan House, Madeira Walk, Windsor, Berkshire, SL4 1EP.

16. CASHFLOW STATEMENT

As the Company is a wholly owned subsidiary undertaking of the Morgan Crucible Company plc, a Company registered in England and Wales, which prepares a consolidated Cashflow Statement, the Company has taken advantage of the exemption provided under paragraph 5 of FRS 1 (Revised) not to prepare a Cashflow Statement.

17. GROUP ACCOUNTS

Group Accounts dealing with subsidiary and associated undertakings have not been prepared as the Company was, at the end of its financial year, the wholly owned subsidiary of another body corporate incorporated in England.