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MORGANITE AUSTRALIA PTY. LIMITED

A.C.N. 000 037 776

**FINANCIAL REPORT
1999**

FC 16594



MORGANITE AUSTRALIA PTY. LIMITED

DIRECTORS' REPORT

The directors present their report on the results of Morganite Australia Pty. Limited and of the economic entity (being Morganite Australia Pty. Limited and its controlled entities) for the year ended 4 January 2000.

DIRECTORS

The names of the directors of the company during the financial year and until the date of this report are Messrs. R.C. Blayney, N.G. Howard (appointed 25 August 1999) P.J. Leckie and G.P. Roche.

Mr. V.J. Maundrell was a director from the beginning of the financial year until his resignation on 25 August 1999.

PRINCIPAL ACTIVITIES

The principal activities of the economic entity during the year were:

- manufacture and distribution of specialised materials and components for use in electrical, mechanical and heat applications;
- manufacture and distribution of refractory products;
- manufacture and distribution of industrial ceramic products and metal line fittings.

There was no significant change in the nature of these activities during the year.

RESULTS AND DIVIDENDS

The consolidated profit of the economic entity after tax and outside equity interests for the year ended 4 January 2000 was \$6,153,000.

The directors do not recommend the declaration of a final dividend for the current year.

REVIEW OF OPERATIONS

Results

The economic entity's sales for the year were \$172,157,000 compared to \$179,282,000 for the previous year. Consolidated operating profit before income tax decreased from \$8,179,000 in 1998 to \$4,148,000 in 1999.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During the year ended 4 January 2000 the company purchased certain assets and liabilities of Electro Mechanical Carbon Pty. Ltd. on 1 April 1999 and Beacon Engineering Products Pty. Ltd. on 1 July 1999. Also, on 7 April 1999 the company sold its investment in Epirez Australia Pty. Limited which was the holding company for its specialty chemical business in Australia. Following this sale the company no longer has any interests in specialty chemical businesses.

There have been no other significant changes in the state of affairs of the companies in the economic entity during the year ended 4 January 2000.

MORGANITE AUSTRALIA PTY. LIMITED

DIRECTORS' REPORT (continued)

SIGNIFICANT EVENTS AFTER BALANCE DATE

On 28 March 2000 the company sold its investment in Morlynn Ceramics Pty. Ltd. which was the holding company for its power industry businesses in Australia. Following this sale the company no longer has any interests in power industry businesses.

No other matter or circumstance has arisen since the end of the financial year that has significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity, in subsequent financial years.

LIKELY DEVELOPMENTS AND RESULTS

Other than as noted in this report no other likely developments in the operations of the economic entity can be reasonably determined at this time.

ENVIRONMENTAL REGULATION

The economic entity holds environmental licences for its various manufacturing sites throughout Australia. These licences require discharges to air and water to be below specified levels of contaminants and solid wastes to be removed to an appropriate disposal facility.

There have been no known breaches of the economic entity's licence conditions.

INSURANCE OF DIRECTORS AND OFFICERS

During the financial year the economic entity paid a premium of \$17,305 to insure the directors and officers of the economic entity.

The liabilities insured are costs and expenses that may be incurred in defending civil and criminal proceedings that may be brought against the directors and officers in their capacity as directors and officers of the economic entity.

ROUNDING

The amounts contained in this report and in the financial statements have been rounded off under the option available to the company under ASIC Class Order 98/100. The company is an entity to which the Class Order applies.

This report is made in accordance with a resolution of the directors.



G.P. Roche
Director

Sydney
1 May 2000

INDEPENDENT AUDIT REPORT

To the members of Morganite Australia Pty. Limited

Scope

We have audited the financial report of Morganite Australia Pty. Limited for the financial year ended 4th January 2000, as set out on pages 4 to 31, including the Directors' Declaration. The financial report includes the financial statements of Morganite Australia Pty. Limited, and the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at year's end or from time to time during the financial year. The company's directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company.

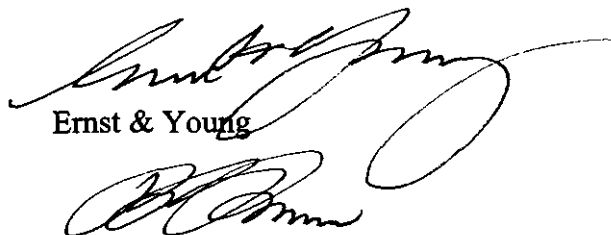
Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and statutory requirements in Australia, so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of Morganite Australia Pty. Limited is in accordance with:

- (a) the Corporations Law including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 4 January 2000 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations; and
- (b) other mandatory professional reporting requirements.



Ernst & Young

B.E. Friere
Partner
Sydney

Date: 1 MAY 2000



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MORGANITE AUSTRALIA PTY. LIMITED

DIRECTORS' DECLARATION

In the opinion of the directors of Morganite Australia Pty. Limited:

- (a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Law, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 4 January 2000 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



G.P. Roche
Director

Sydney
1 May 2000

MORGANITE AUSTRALIA PTY. LIMITED

PROFIT AND LOSS STATEMENTS FOR THE YEAR ENDED 4 JANUARY 2000

| | Note | Consolidated | | Morganite Australia Pty. Limited | |
|---|------|----------------|----------------|----------------------------------|----------------|
| | | 1999 \$000 | 1998 \$000 | 1999 \$000 | 1998 \$000 |
| Operating revenue | 2 | <u>182,199</u> | <u>185,513</u> | <u>26,899</u> | <u>29,723</u> |
| Operating profit (loss) before income tax | 3 | 4,148 | 8,179 | 6,390 | (1,970) |
| Income tax attributable to operating profit (loss) | 4 | <u>2,822</u> | <u>5,289</u> | <u>22</u> | <u>174</u> |
| Operating profit (loss) after income tax | | <u>1,326</u> | <u>2,890</u> | <u>6,368</u> | <u>(2,144)</u> |
| Profit on extraordinary item | 5 | 5,454 | - | 2,530 | - |
| Income tax attributable to profit on extraordinary item | 4,5 | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Profit on extraordinary item after income tax | 5 | <u>5,454</u> | <u>-</u> | <u>2,530</u> | <u>-</u> |
| Operating profit (loss) and extraordinary item after income tax | | 6,780 | 2,890 | 8,898 | (2,144) |
| Outside equity interests in operating profit and extraordinary item after income tax | | <u>627</u> | <u>2,365</u> | <u>-</u> | <u>-</u> |
| Operating profit (loss) and extraordinary item after income tax attributable to members of Morganite Australia Pty. Limited | | 6,153 | 525 | 8,898 | (2,144) |
| Retained profits at the beginning of the financial year | | 41,802 | 41,277 | 14,462 | 9,982 |
| Aggregate of amounts transferred from reserves | 20 | <u>1,425</u> | <u>-</u> | <u>-</u> | <u>6,624</u> |
| Retained profits at the end of the financial year | | <u>49,380</u> | <u>41,802</u> | <u>23,360</u> | <u>14,462</u> |

The profit and loss statements should be read in conjunction with the accompanying notes.

MORGANITE AUSTRALIA PTY. LIMITED

BALANCE SHEET

AT 4 JANUARY 2000

| | | Consolidated | | Morganite Australia Pty. Limited | |
|--|------|---------------------|----------------|---|---------------|
| | Note | 1999 \$000 | 1998 \$000 | 1999 \$000 | 1998 \$000 |
| CURRENT ASSETS | | | | | |
| Cash | | 13,570 | 13,028 | 125 | 118 |
| Receivables | 7 | 27,310 | 35,229 | 5,525 | 4,565 |
| Inventories | 8 | 41,151 | 51,637 | 6,069 | 6,445 |
| TOTAL CURRENT ASSETS | | 82,031 | 99,894 | 11,719 | 11,128 |
| NON-CURRENT ASSETS | | | | | |
| Receivables | 9 | 10,100 | - | 12,422 | 8,822 |
| Investments | 10 | 2 | 2 | 49,492 | 55,373 |
| Property, plant and equipment | 11 | 70,162 | 86,471 | 14,258 | 14,252 |
| Intangibles | 12 | 19,918 | 24,466 | 1,395 | 999 |
| Future income tax benefit | | 3,916 | 5,472 | 1,073 | 1,002 |
| TOTAL NON-CURRENT ASSETS | | 104,098 | 116,411 | 78,640 | 80,448 |
| TOTAL ASSETS | | 186,129 | 216,305 | 90,359 | 91,576 |
| CURRENT LIABILITIES | | | | | |
| Accounts payable | 13 | 28,906 | 42,001 | 4,932 | 4,331 |
| Borrowings | 14 | 1 | 116 | 5,400 | 512 |
| Provisions | 15 | 5,575 | 9,026 | 1,268 | 1,232 |
| TOTAL CURRENT LIABILITIES | | 34,482 | 51,143 | 11,600 | 6,075 |
| NON-CURRENT LIABILITIES | | | | | |
| Accounts payable | 16 | 450 | - | 450 | - |
| Borrowings | 17 | 47,000 | 67,205 | 15,133 | 31,198 |
| Provisions | 18 | 4,803 | 4,813 | 1,145 | 1,170 |
| TOTAL NON-CURRENT LIABILITIES | | 52,253 | 72,018 | 16,728 | 32,368 |
| TOTAL LIABILITIES | | 86,735 | 123,161 | 28,328 | 38,443 |
| NET ASSETS | | 99,394 | 93,144 | 62,031 | 53,133 |
| SHAREHOLDERS' EQUITY | | | | | |
| Issued capital | 19 | 31,476 | 31,476 | 31,460 | 31,460 |
| Reserves | 20 | 7,509 | 9,291 | 7,211 | 7,211 |
| Retained profits | | 49,380 | 41,802 | 23,360 | 14,462 |
| Shareholders' equity attributable to members of the parent entity | | 88,365 | 82,569 | 62,031 | 53,133 |
| Outside equity interests in controlled entities | 21 | 11,029 | 10,575 | - | - |
| TOTAL SHAREHOLDERS' EQUITY | | 99,394 | 93,144 | 62,031 | 53,133 |

The balance sheets should be read in conjunction with the accompanying notes.

MORGANITE AUSTRALIA PTY. LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 4 JANUARY 2000

| | | Consolidated | | Morganite Australia Pty. Limited | |
|--|-------|---------------------|-----------------|---|----------------|
| | Note | 1999 \$000 | 1998 \$000 | 1999 \$000 | 1998 \$000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Receipts from customers | | 175,585 | 161,649 | 19,990 | 23,484 |
| Payments to suppliers and employees | | (162,156) | (140,972) | (18,836) | (20,720) |
| Dividends received | | 3 | 15 | 5,721 | 100 |
| Service fees received | | 9,950 | 5,950 | - | - |
| Interest received | | 61 | 137 | 315 | 606 |
| Borrowing costs | | (2,797) | (2,598) | (50) | (1,180) |
| Income taxes paid | | (4,180) | (2,159) | (100) | (698) |
| Future tax benefit paid | | - | - | (68) | (18) |
| Net cash flows from operating activities | 22(b) | <u>16,466</u> | <u>22,022</u> | <u>6,972</u> | <u>1,574</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Payment for purchase of businesses | 22(c) | (9,224) | (63,554) | (539) | - |
| Payment for minority interest in controlled entity | | - | (2,145) | - | - |
| Acquisition of property, plant and equipment | | (2,581) | (7,942) | (292) | (383) |
| Investment in related companies | | - | - | (18,481) | (17,545) |
| Proceeds from sale of property, plant and equipment | | 28 | 121 | 13 | 7,131 |
| Proceeds from sale of investments | 22(d) | 27,111 | 8 | 27,111 | - |
| Repayment of loans - related parties | | - | - | - | 2,192 |
| Loans to related parties | | (10,100) | - | (3,600) | - |
| Net cash flows from/(used in) investing activities | | <u>5,234</u> | <u>(73,512)</u> | <u>4,212</u> | <u>(8,605)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Proceeds from issue of shares | | - | 6,600 | - | - |
| Advances - related parties | | - | 15,665 | - | 22,685 |
| Repayment of borrowings - related parties | | (17,205) | - | (16,065) | - |
| Borrowings - other | | (3,116) | 38,116 | - | (12,000) |
| Net cash flows from/(used in) financing activities | | <u>(20,321)</u> | <u>60,381</u> | <u>(16,065)</u> | <u>10,685</u> |
| Net increase(decrease) in cash held | | 1,379 | 8,891 | (4,881) | 3,654 |
| Cash at the beginning of the financial year | | 13,028 | 2,536 | (394) | (4,048) |
| Effects of exchange rate changes on cash | | (520) | 1,601 | - | - |
| Cash on disposal of controlled entity | | (318) | - | - | - |
| Cash at the end of the financial year | 22(a) | <u>13,569</u> | <u>13,028</u> | <u>(5,275)</u> | <u>(394)</u> |

The statements of cash flows should be read in conjunction with the accompanying notes.

MORGANITE AUSTRALIA PTY. LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 4 JANUARY 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

This general purpose financial report has been prepared in accordance Accounting Standards, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) and the Corporations Law.

It is prepared in accordance with the historical cost convention. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous period. Comparative information is reclassified where appropriate to enhance comparability.

Principles of consolidation

The consolidated financial statements are those of the economic entity, comprising Morganite Australia Pty. Limited (the parent entity) and all entities which Morganite Australia Pty. Limited controlled from time to time during the year and at balance date.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control.

Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Income Tax

Tax effect accounting procedures are followed whereby the income tax in the profit and loss statement is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

Foreign currencies

Translation of foreign currency transactions

Transactions in foreign currencies of entities within the economic entity are converted to local currency at the rate of exchange ruling at the date of the transaction.

Amounts payable to and by the entities within the economic entity that are outstanding at the balance date and are denominated in foreign currencies have been converted to local currency using rates of exchange ruling at the end of the financial year.

MORGANITE AUSTRALIA PTY. LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 4 JANUARY 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Specific hedges

Where a purchase or sale is specifically hedged, exchange gains or losses on the hedging transaction arising up to the date of purchase or sale and costs, premiums and discounts relative to the hedging transaction are included with the purchase or sale. Exchange gains and losses arising on the hedge transaction after that date are taken to the profit and loss statement.

Translation of accounts of overseas operations

All overseas operations are deemed self-sustaining as each is financially and operationally independent of Morganite Australia Pty. Limited. The accounts of overseas operations are translated using the current rate method and any exchange differences are taken directly to the foreign currency translation reserve.

Revenue recognition

Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is generally recognised on delivery of products and services.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials - purchase cost on a first-in-first-out basis; and
- Finished goods and work-in-progress - cost of direct material and labour and a proportion of manufacturing overheads based on normal operating capacity.

Recoverable amount

Non-current assets are not carried at an amount above their recoverable amount, and where carrying values exceed this recoverable amount assets are written down. In determining recoverable amount the expected net cash flows have not been discounted to their present value.

Investments

The economic entity's interest in companies which are not controlled are brought to account at cost and dividends and other distributions are recognised in the profit and loss statement when receivable.

MORGANITE AUSTRALIA PTY. LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
4 JANUARY 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Cost and valuation

Property, plant and equipment are carried at cost or at independent valuation. Any surplus on revaluation is credited directly to the asset revaluation reserve and excluded from the profit and loss statement.

Any gain or loss on the disposal of revalued assets is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds from disposal, and is included in the results of the economic entity in the year of disposal.

Where assets have been revalued, the potential effect of the capital gains tax on disposal has not been taken into account in the determination of the revalued carrying amount.

Depreciation

Depreciation is provided on a straight line basis on all property, plant and equipment, other than freehold land.

The expected useful lives are as follows:

| | |
|---------------------|----------------|
| Freehold buildings | 28 to 50 years |
| Plant and equipment | 3 to 20 years |

Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs include interest on bank overdraft and loans and finance lease charges.

Leases

Finance leases, which effectively transfer to the company substantially all of the risks and benefits incidental to ownership of the leased items, are capitalised at the present value of the minimum lease payments, disclosed as leased plant and equipment, and amortised over the period the company is expected to benefit from the use of the leased assets.

Operating lease payments, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased items, are included in the determination of the operating profit in equal instalments over the lease term.

Intangibles

Goodwill represents the excess of the purchase consideration over the fair value of identifiable net assets acquired at the time of acquisition of a business or shares in a controlled entity.

All intangible assets are amortised by the straight line method over the period during which benefits are expected to be received. In the case of goodwill and technology know-how this is taken as being 20 years and 5 years respectively.

Employee entitlements

Contributions made to superannuation funds by entities within the economic entity are charged against profits when due.

MORGANITE AUSTRALIA PTY. LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
4 JANUARY 2000

| | Consolidated | | Morganite Australia Pty. Limited | |
|--|---------------------|----------------|---|---------------|
| | 1999 | 1998 | 1999 | 1998 |
| | \$000 | \$000 | \$000 | \$000 |
| NOTE 2 - OPERATING REVENUE | | | | |
| Sale of goods | <u>172,157</u> | <u>179,282</u> | <u>20,850</u> | <u>21,956</u> |
| Other revenue | | | | |
| Dividends | | | | |
| Related parties | | | | |
| - wholly owned group | - | - | 5,718 | 25 |
| Other persons | 3 | 15 | 3 | 5 |
| Service fees | 9,950 | 5,950 | - | - |
| Interest | | | | |
| Related parties | | | | |
| - wholly owned group | - | - | 315 | 606 |
| Other persons | 61 | 137 | - | - |
| Proceeds on sale of non-current assets | <u>28</u> | <u>129</u> | <u>13</u> | <u>7,131</u> |
| | <u>10,042</u> | <u>6,231</u> | <u>6,049</u> | <u>7,767</u> |
| | <u>182,199</u> | <u>185,513</u> | <u>26,899</u> | <u>29,723</u> |

NOTE 3 - OPERATING PROFIT

Operating profit (loss) before income tax has been determined after:

(i) Charging/(crediting) the following items:

| | | | | |
|--|-------|-------|------|-------|
| Interest expense | | | | |
| - wholly owned group | - | 66 | 45 | 45 |
| - other persons | 2,762 | 2,851 | - | 1,127 |
| Finance charges - lease liability | 6 | 45 | 6 | - |
| Bad and doubtful trade debts | 186 | 148 | 46 | 39 |
| Depreciation and amortisation | | | | |
| Property | 437 | 349 | 68 | 105 |
| Plant and equipment | 6,396 | 5,096 | 598 | 518 |
| Goodwill | 2,168 | 2,312 | 109 | 349 |
| Technology know-how | 50 | 50 | - | - |
| Provision for employee entitlements | 4,155 | 3,551 | 757 | 775 |
| Rental on operating leases | 2,700 | 3,086 | 731 | 713 |
| Net foreign exchange (gain) loss | (53) | 362 | (22) | (33) |
| Loss on sale of investment | - | 100 | - | - |
| Net profit on disposal of property plant and equipment | (6) | (26) | (6) | (90) |

(ii) Charging the following abnormal item:

| | | | | |
|--------------------------|----------|--------------|----------|--------------|
| Amortisation of goodwill | - | 4,265 | - | 3,034 |
| Applicable income tax | - | - | - | - |
| | <u>-</u> | <u>4,265</u> | <u>-</u> | <u>3,034</u> |

MORGANITE AUSTRALIA PTY. LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 4 JANUARY 2000

| | Consolidated | | Morganite Australia Pty. Limited | |
|---|---------------------|-------------|---|-------------|
| | 1999 | 1998 | 1999 | 1998 |
| NOTE 4 - INCOME TAX | | | | |
| The prima facie tax, using tax rates applicable in the country of operation, on operating profit (loss) and extraordinary item differs from the income tax provided in the financial statements and is reconciled as follows: | | | | |
| Prima facie tax on operating profit (loss) | 1,387 | 2,828 | 2,300 | (709) |
| Tax effect of permanent differences - | | | | |
| Rebateable dividends | - | (9) | (2,059) | (9) |
| Depreciation | 98 | 276 | 30 | 46 |
| Amortisation of intangibles | 808 | 2,385 | 39 | 1,217 |
| Non-deductible expenditure | 151 | 250 | 15 | 13 |
| Adjustment of tax rate on future tax benefit | 400 | - | - | - |
| Tax losses not recognised in future tax benefit | 314 | - | - | - |
| Other | 53 | (41) | 51 | (71) |
| Grouping of tax losses | (350) | (374) | (260) | (491) |
| (Under)/over provision of future tax benefit in previous year | 37 | 58 | (94) | 111 |
| Under/(over) provision in previous year | (76) | (84) | - | 67 |
| Income tax attributable to operating profit (loss) | 2,822 | 5,289 | 22 | 174 |
| Income tax attributable to profit on extraordinary item | - | - | - | - |
| Total income tax provided on operating profit (loss) and extraordinary item | 2,822 | 5,289 | 22 | 174 |

NOTE 5 - EXTRAORDINARY ITEM

| | | | | |
|--|--------|---|--------|---|
| Proceeds from sale of Epirez Australia P/L | 27,111 | - | 27,111 | - |
| Carrying value of asset sold | 21,657 | - | 24,581 | - |
| | 5,454 | - | 2,530 | - |
| Applicable income tax | - | - | - | - |
| | 5,454 | - | 2,530 | - |

MORGANITE AUSTRALIA PTY. LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 4 JANUARY 2000

| | Consolidated | | Morganite Australia Pty. Limited | |
|--|----------------------|---------------|---|--------------|
| | 1999 | 1998 | 1999 | 1998 |
| NOTE 6 - DIVIDENDS PROVIDED FOR OR PAID | | | | |
| There were no dividends proposed or paid during the year | | | | |
| The amount of franking credits available for the subsequent financial year are: | | | | |
| - franking account balance as at the end of the financial year | 23,410 | 17,033 | 11,761 | 9,387 |
| - franking credits that will arise from the payment of income tax payable (refundable) as at the end of the financial year | 411 | 5,522 | (343) | (50) |
| - franking credits/(debits) that will arise from the receipt/(payment) of dividends as at the end of the financial year | - | - | - | - |
| - franking credits that the entity may be prevented from distributing in the subsequent financial year | - | - | - | - |
| | <u>23,821</u> | <u>22,555</u> | <u>11,418</u> | <u>9,337</u> |

NOTE 7 - RECEIVABLES (CURRENT)

| | | | | |
|------------------------------------|----------------------|---------------|---------------------|--------------|
| Trade debtors | 23,600 | 31,452 | 4,026 | 3,492 |
| Provision for doubtful debts | (575) | (776) | (111) | (145) |
| | <u>23,025</u> | <u>30,676</u> | <u>3,915</u> | <u>3,347</u> |
| Related parties | | | | |
| - ultimate controlling entity | 510 | 787 | - | 4 |
| - wholly owned group | 1,646 | 1,425 | 670 | 723 |
| - controlled entity (partly owned) | - | - | 208 | 154 |
| - other related parties | 206 | 142 | - | - |
| Other debtors and prepayments | 1,592 | 2,199 | 539 | 244 |
| Tax refund due | 331 | - | 193 | 93 |
| | <u>27,310</u> | <u>35,229</u> | <u>5,525</u> | <u>4,565</u> |

Australian dollar equivalents of
amounts receivable in foreign currencies
not effectively hedged
United States dollars

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MORGANITE AUSTRALIA PTY. LIMITED

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
4 JANUARY 2000**

| | Consolidated | | Morganite Australia Pty. Limited | |
|---------------------------------------|---------------------|---------------|---|--------------|
| | 1999 | 1998 | 1999 | 1998 |
| | \$000 | \$000 | \$000 | \$000 |
| NOTE 8 - INVENTORIES (CURRENT) | | | | |
| Raw materials and stores | | | | |
| At cost | 19,768 | 23,454 | 2,801 | 2,998 |
| Provision for diminution in value | (186) | (439) | (102) | (33) |
| | <u>19,582</u> | <u>23,015</u> | <u>2,699</u> | <u>2,965</u> |
| Work-in-progress | | | | |
| At cost | 2,275 | 4,515 | 243 | 328 |
| Provision for diminution in value | (121) | (36) | - | - |
| | <u>2,154</u> | <u>4,479</u> | <u>243</u> | <u>328</u> |
| Finished goods | | | | |
| At cost | 21,682 | 26,500 | 3,219 | 3,209 |
| Provision for diminution in value | (2,267) | (2,357) | (92) | (57) |
| | <u>19,415</u> | <u>24,143</u> | <u>3,127</u> | <u>3,152</u> |
| Total inventories | <u>41,151</u> | <u>51,637</u> | <u>6,069</u> | <u>6,445</u> |

NOTE 9 - RECEIVABLES (NON-CURRENT)

| | | | | |
|----------------------|---------------|----------|---------------|--------------|
| Related parties | | | | |
| - wholly owned group | <u>10,100</u> | <u>-</u> | <u>12,422</u> | <u>8,822</u> |

NOTE 10 - INVESTMENTS (NON-CURRENT)

| | | | | |
|---|----------|----------|---------------|---------------|
| (a) Quoted on a prescribed stock exchange, at cost | | | | |
| Shares in other corporations (quoted market value \$2, 1998 \$2) | 2 | 2 | 2 | 2 |
| (b) Not quoted on a prescribed stock exchange, at cost | | | | |
| Shares in controlled entities (Note 27) | <u>-</u> | <u>-</u> | <u>49,490</u> | <u>55,371</u> |
| Total investments | <u>2</u> | <u>2</u> | <u>49,492</u> | <u>55,373</u> |

MORGANITE AUSTRALIA PTY. LIMITED

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
4 JANUARY 2000**

| | Consolidated | | Morganite Australia Pty. Limited | |
|--|---------------------|---------------|---|---------------|
| | 1999 | 1998 | 1999 | 1998 |
| | \$000 | \$000 | \$000 | \$000 |
| NOTE 11 - PROPERTY, PLANT AND EQUIPMENT | | | | |
| Freehold land | | | | |
| Independent valuation 1981 | 380 | 380 | - | - |
| Independent valuation 1989 | 2,010 | 2,010 | 1,230 | 1,230 |
| Directors' valuation 1990 | 5,000 | 5,000 | 5,000 | 5,000 |
| Cost | 5,491 | 6,829 | 1,935 | 1,935 |
| | <u>12,881</u> | <u>14,219</u> | <u>8,165</u> | <u>8,165</u> |
| Buildings | | | | |
| Independent valuation 1981 | 1,336 | 1,336 | - | - |
| Independent valuation 1989 | 1,990 | 1,990 | 1,195 | 1,195 |
| Cost | 12,411 | 19,201 | 2,036 | 2,036 |
| | <u>15,737</u> | <u>22,527</u> | <u>3,231</u> | <u>3,231</u> |
| Accumulated depreciation | (3,023) | (2,636) | (530) | (462) |
| | <u>12,714</u> | <u>19,891</u> | <u>2,701</u> | <u>2,769</u> |
| Total freehold land and buildings | <u>25,595</u> | <u>34,110</u> | <u>10,866</u> | <u>10,934</u> |
| Plant and equipment | | | | |
| Directors' valuation 1985 | 1,947 | 1,947 | - | - |
| Independent valuation 1985 | 1,389 | 1,389 | 1,389 | 1,389 |
| Cost | 81,677 | 85,466 | 8,220 | 7,551 |
| | <u>85,013</u> | <u>88,802</u> | <u>9,609</u> | <u>8,940</u> |
| Accumulated depreciation | (40,446) | (36,525) | (6,217) | (5,622) |
| | <u>44,567</u> | <u>52,277</u> | <u>3,392</u> | <u>3,318</u> |
| Plant and equipment under lease | | | | |
| At cost | - | 106 | - | - |
| Accumulated amortisation | - | (22) | - | - |
| | <u>-</u> | <u>84</u> | <u>-</u> | <u>-</u> |
| Total plant and equipment | <u>44,567</u> | <u>52,361</u> | <u>3,392</u> | <u>3,318</u> |
| Total property, plant and equipment | <u>70,162</u> | <u>86,471</u> | <u>14,258</u> | <u>14,252</u> |

MORGANITE AUSTRALIA PTY. LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 4 JANUARY 2000

| | Note | Consolidated | | Morganite Australia Pty. Limited | |
|---|------|-----------------|-----------------|----------------------------------|----------------|
| | | 1999 | 1998 | 1999 | 1998 |
| | | \$000 | \$000 | \$000 | \$000 |
| NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (continued) | | | | | |
| Recent valuations | | | | | |
| At 4 January 2000 the directors have valued interests in land and buildings on an existing use basis which have not been recognised in the financial report as follows: | | | | | |
| Freehold land and buildings | | <u>26,386</u> | <u>35,040</u> | <u>-</u> | <u>-</u> |
| NOTE 12 - INTANGIBLES | | | | | |
| Goodwill on consolidation | | 23,819 | 28,038 | - | - |
| Accumulated amortisation | | <u>(14,267)</u> | <u>(14,248)</u> | <u>-</u> | <u>-</u> |
| | | <u>9,552</u> | <u>13,790</u> | <u>-</u> | <u>-</u> |
| Goodwill purchased | | 19,202 | 19,328 | 7,172 | 6,948 |
| Accumulated amortisation | | <u>(8,911)</u> | <u>(8,777)</u> | <u>(5,777)</u> | <u>(5,949)</u> |
| | | <u>10,291</u> | <u>10,551</u> | <u>1,395</u> | <u>999</u> |
| Technology know how | | 250 | 250 | - | - |
| Accumulated amortisation | | <u>(175)</u> | <u>(125)</u> | <u>-</u> | <u>-</u> |
| | | <u>75</u> | <u>125</u> | <u>-</u> | <u>-</u> |
| Total intangibles | | <u>19,918</u> | <u>24,466</u> | <u>1,395</u> | <u>999</u> |
| NOTE 13 - ACCOUNTS PAYABLE (CURRENT) | | | | | |
| Trade creditors | | 20,794 | 26,357 | 2,485 | 3,009 |
| Other creditors and accruals | | 3,659 | 116,977 | 838 | 788 |
| Related parties | | | | | |
| - ultimate parent entity | | 2,962 | 1,741 | 1,026 | 54 |
| - wholly owned group | | 1,317 | 1,566 | 570 | 480 |
| - controlled entity (partly owned) | | - | - | 13 | - |
| - other related parties | | 174 | 635 | - | - |
| Lease liability | 23 | <u>-</u> | <u>5</u> | <u>-</u> | <u>-</u> |
| | | <u>28,906</u> | <u>42,001</u> | <u>4,932</u> | <u>4,331</u> |
| Australian dollar equivalents of amounts payable in foreign currencies not effectively hedged | | | | | |
| United States dollars | | 2,046 | 3,268 | 10 | 6 |
| UK pounds | | 2,864 | 1,911 | 1,027 | 63 |

MORGANITE AUSTRALIA PTY. LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 4 JANUARY 2000

| | Note | Consolidated | | Morganite Australia Pty. Limited | |
|--|------|---------------|---------------|----------------------------------|---------------|
| | | 1999 | 1998 | 1999 | 1998 |
| | | \$000 | \$000 | \$000 | \$000 |
| NOTE 14 - BORROWINGS (CURRENT) | | | | | |
| Unsecured | | | | | |
| - bank overdrafts | | 1 | - | 5,400 | 512 |
| - bills of exchange | | - | 116 | - | - |
| | | <u>1</u> | <u>116</u> | <u>5,400</u> | <u>512</u> |
| NOTE 15 - PROVISIONS (CURRENT) | | | | | |
| Taxation | | 1,108 | 3,830 | - | - |
| Employee entitlements | 24 | 4,267 | 4,963 | 1,111 | 1,075 |
| Major maintenance | | - | 89 | - | - |
| Warranty | | 200 | 144 | - | - |
| Loss on liquidation of controlled entities | | - | - | 157 | 157 |
| | | <u>5,575</u> | <u>9,026</u> | <u>1,268</u> | <u>1,232</u> |
| NOTE 16 - ACCOUNT PAYABLE (NON CURRENT) | | | | | |
| Other creditors and accruals | | <u>450</u> | <u>-</u> | <u>450</u> | <u>-</u> |
| NOTE 17 - BORROWINGS (NON-CURRENT) | | | | | |
| Related party | | | | | |
| - wholly owned group | | - | 17,205 | 15,133 | 31,198 |
| Bank loan | | 47,000 | 50,000 | - | - |
| | | <u>47,000</u> | <u>67,205</u> | <u>15,133</u> | <u>31,198</u> |
| Australian dollar equivalents of amounts payable in foreign currencies not effectively hedged: | | | | | |
| Hong Kong dollars | | - | 1,535 | - | - |

MORGANITE AUSTRALIA PTY. LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 4 JANUARY 2000

| | Note | Consolidated | | Morganite Australia Pty. Limited | |
|---|------|--------------|--------------|----------------------------------|--------------|
| | | 1999 | 1998 | 1999 | 1998 |
| | | \$000 | \$000 | \$000 | \$000 |
| NOTE 18 - PROVISIONS (NON-CURRENT) | | | | | |
| Employee entitlements | 24 | 4,603 | 4,514 | 1,145 | 1,170 |
| Deferred income tax liability | | - | 19 | - | - |
| Lease liability | 23 | - | 55 | - | - |
| Other | | 200 | 225 | - | - |
| | | <u>4,803</u> | <u>4,813</u> | <u>1,145</u> | <u>1,170</u> |

NOTE 19 - SHARE CAPITAL

Issued and paid up capital

| | | | | |
|--|---------------|---------------|---------------|---------------|
| 3,479,850 ordinary shares each fully paid | 6,960 | 6,960 | 6,960 | 6,960 |
| 24,500 non-cumulative non-participating redeemable preference shares each fully paid | 24,516 | 24,516 | 24,500 | 24,500 |
| | <u>31,476</u> | <u>31,476</u> | <u>31,460</u> | <u>31,460</u> |

Movement in preference shares:

| | | | | |
|--|---------------|---------------|---------------|---------------|
| Balance 4 January 1999 | 24,516 | 49 | 24,500 | 49 |
| Transfer from share premium account | - | 24,451 | - | 24,451 |
| Transfer from capital redemption reserve | - | 16 | - | - |
| | <u>24,516</u> | <u>24,516</u> | <u>24,500</u> | <u>24,500</u> |

Preference shares:

The non-cumulative non-participating redeemable preference shares are redeemable at the issue price at any time by the Company.

The rate of dividend shall be determined by the directors. At the end of the financial year there were no dividends in arrears.

MORGANITE AUSTRALIA PTY. LIMITED

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
4 JANUARY 2000**

| | Consolidated | | Morganite Australia Pty. Limited | |
|--|---------------------|--------------|---|--------------|
| | 1999 | 1998 | 1999 | 1998 |
| | \$000 | \$000 | \$000 | \$000 |
| NOTE 20 - RESERVES | | | | |
| Share premium | - | - | - | - |
| Capital redemption | - | - | - | - |
| Asset revaluation | 8,117 | 9,542 | 7,211 | 7,211 |
| Foreign currency translation | (608) | (251) | - | - |
| | <u>7,509</u> | <u>9,291</u> | <u>7,211</u> | <u>7,211</u> |
| Movements in reserves | | | | |
| Share premium | | | | |
| Balance 4 January 1999 | - | 24,451 | - | 24,451 |
| Transfer to share capital | - | (24,451) | - | (24,451) |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Capital redemption | | | | |
| Balance 4 January 1999 | - | 16 | - | - |
| Transfer to share capital | - | (16) | - | - |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Asset revaluation | | | | |
| Balance 4 January 1999 | 9,542 | 9,542 | 7,211 | 13,835 |
| Transfer to retained profits on disposal of property, plant and equipment | (1,425) | - | - | (6,624) |
| | <u>8,117</u> | <u>9,542</u> | <u>7,211</u> | <u>7,211</u> |
| Foreign currency translation | | | | |
| Balance 4 January 1999 | (251) | (1,273) | - | - |
| Net gain/(loss) on translation of overseas controlled entities | (357) | 1,022 | - | - |
| | <u>(608)</u> | <u>(251)</u> | <u>-</u> | <u>-</u> |

NOTE 21 - OUTSIDE EQUITY INTERESTS

Outside equity interests in controlled
entities comprise:

| | | |
|------------------|---------------|---------------|
| Share capital | 6,626 | 6,626 |
| Reserves | (314) | (141) |
| Retained profits | 4,717 | 4,090 |
| | <u>11,029</u> | <u>10,575</u> |

MORGANITE AUSTRALIA PTY. LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
4 JANUARY 2000

| | Consolidated | | Morganite Australia Pty. Limited | |
|--|---------------------|---------------|---|--------------|
| | 1999 | 1998 | 1999 | 1998 |
| | \$000 | \$000 | \$000 | \$000 |
| NOTE 22 - STATEMENT OF CASH FLOWS | | | | |
| (a) Reconciliation of cash | | | | |
| For the purposes of the statement of cash flows, cash includes cash on hand and in banks net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows: | | | | |
| Cash | 13,570 | 13,028 | 125 | 118 |
| Bank overdraft | (1) | - | (5,400) | (512) |
| | <u>13,569</u> | <u>13,028</u> | <u>(5,275)</u> | <u>(394)</u> |
| (b) Reconciliation of operating profit (loss) after income tax to the net cash flows from operating activities | | | | |
| Operating profit (loss) after income tax | 1,326 | 2,890 | 6,368 | (2,144) |
| Depreciation | 6,833 | 5,445 | 666 | 623 |
| Amortisation | 2,218 | 6,627 | 109 | 3,383 |
| Provision for doubtful debts | (36) | (53) | (34) | 26 |
| Net profit on disposal of property, plant and equipment | (6) | (26) | (6) | (90) |
| Loss on sale of investments | - | 100 | - | - |
| Increase/(decrease) in income taxes payable | (2,758) | 1,510 | (100) | (631) |
| (Increase)/decrease in future tax benefit | 1,400 | 1,429 | (46) | 89 |
| Changes in assets and liabilities net of effects from acquisitions/disposals of controlled entities: | | | | |
| (Increase)/decrease in receivables | 3,464 | (8,707) | (826) | 1,502 |
| (Increase)/decrease in inventories | 8,084 | 1,838 | 642 | 524 |
| Increase/(decrease) in accounts payable | (3,585) | 12,469 | 257 | (1,701) |
| Increase/(decrease) in provisions | (474) | (1,500) | (58) | (7) |
| Net cash flows from operating activities | <u>16,466</u> | <u>22,022</u> | <u>6,972</u> | <u>1,574</u> |

MORGANITE AUSTRALIA PTY. LIMITED

NOTES TO AND FORMING PARTY OF THE FINANCIAL STATEMENTS
4 JANUARY 2000

| | Consolidated | | Morganite Australia Pty. Limited | |
|---|---------------------|----------------|---|--------------|
| | 1999 | 1998 | 1999 | 1998 |
| | \$000 | \$000 | \$000 | \$000 |
| NOTE 22 - STATEMENT OF CASH FLOWS | | | | |
| (Continued) | | | | |
| (c) Acquisition of certain assets and liabilities of BHP Refractories Pty. Ltd. on 31 May 1998 | | | | |
| Details of the acquisition are as follows: | | | | |
| Fair value of net assets acquired | | | | |
| Land and buildings | - | 2,754 | - | - |
| Plant and equipment | (609) | 35,261 | - | - |
| Inventories | - | 22,393 | - | - |
| Deferred tax asset | - | 4,033 | - | - |
| Future income tax benefit | 216 | 920 | - | - |
| Provisions | - | (2,556) | - | - |
| | <u>(393)</u> | <u>62,805</u> | <u>-</u> | <u>-</u> |
| Goodwill | <u>1,083</u> | <u>7,363</u> | <u>-</u> | <u>-</u> |
| | <u>690</u> | <u>70,168</u> | <u>-</u> | <u>-</u> |
| Outflow of cash to acquire business | | | | |
| Total consideration | 690 | 70,168 | - | - |
| Deferred consideration payable | <u>6,614</u> | <u>(6,614)</u> | <u>-</u> | <u>-</u> |
| | <u>7,304</u> | <u>63,554</u> | <u>-</u> | <u>-</u> |
| Acquisition of certain assets and liabilities of Electro Mechanical Carbon Pty. Ltd. on 1 April 1999. | | | | |
| Details of the acquisition are as follows: | | | | |
| Fair value of net assets acquired | | | | |
| Plant and equipment | 387 | - | 387 | - |
| Inventories | 266 | - | 266 | - |
| Future income tax benefit | 25 | - | 25 | - |
| Accounts payable | (194) | - | (194) | - |
| Provisions | (69) | - | (69) | - |
| | <u>415</u> | <u>-</u> | <u>415</u> | <u>-</u> |
| Goodwill | <u>724</u> | <u>-</u> | <u>724</u> | <u>-</u> |
| | <u>1,139</u> | <u>-</u> | <u>1,139</u> | <u>-</u> |
| Outflow of cash to acquire business | | | | |
| Total consideration | 1,139 | - | 1,139 | - |
| Deferred consideration payable | <u>(600)</u> | <u>-</u> | <u>(600)</u> | <u>-</u> |
| | <u>539</u> | <u>-</u> | <u>539</u> | <u>-</u> |

MORGANITE AUSTRALIA PTY. LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
4 JANUARY 2000

| | Consolidated | | Morganite Australia Pty. Limited | |
|---|---------------------|-----------------|---|-----------------|
| | 1999 | 1998 | 1999 | 1998 |
| | \$000 | \$000 | \$000 | \$000 |
| NOTE 22 - STATEMENT OF CASH FLOW | | | | |
| (Continued) | | | | |
| (c) Acquisition of certain assets and liabilities of Beacon Engineering Products Pty. Ltd. on 1 July 1999 | | | | |
| Details of the acquisition are as follows: | | | | |
| Fair value of net assets acquired | | | | |
| Plant and equipment | 109 | - | - | - |
| Inventories | 710 | - | - | - |
| Future income tax benefit | 14 | - | - | - |
| Provisions | (79) | - | - | - |
| | <u>754</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Goodwill | 627 | - | - | - |
| | <u>1,381</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total payment for purchase of businesses | <u>9,224</u> | <u>-</u> | <u>539</u> | <u>-</u> |
| (d) Proceeds from sale of Epirez Australia Pty. Ltd. on 7 April 1999 | | | | |
| Details of the disposal are as follows: | | | | |
| Proceeds | 27,111 | - | 27,111 | - |
| Fair net value of net assets disposed | | | | |
| Cash | 318 | - | - | - |
| Property, plant and quipment | 11,861 | - | - | - |
| Inventories | 3,378 | - | - | - |
| Receivables | 4,656 | - | - | - |
| Future income tax benefit | 392 | - | - | - |
| Goodwill | 4,764 | - | - | - |
| Accounts payable | (3,240) | - | - | - |
| Provisions | (472) | - | - | - |
| Investment | - | - | 24,581 | - |
| | <u>21,657</u> | <u>-</u> | <u>24,581</u> | <u>-</u> |
| Profit on disposal | 5,454 | - | 2,530 | - |
| | <u>27,111</u> | <u>-</u> | <u>27,111</u> | <u>-</u> |

MORGANITE AUSTRALIA PTY. LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 4 JANUARY 2000

| | Consolidated | | Morganite Australia Pty. Limited | |
|--|---------------|---------------|----------------------------------|--------------|
| | 1999 | 1998 | 1999 | 1998 |
| | \$000 | \$000 | \$000 | \$000 |
| NOTE 22 - STATEMENT OF CASH FLOWS | | | | |
| (Continued) | | | | |
| (e) Financing Facilities | | | | |
| The following lines of credit were available to the company and its controlled entities at balance date: | | | | |
| Total facilities | | | | |
| Bank overdraft | 5,000 | 6,000 | 2,000 | 3,000 |
| Bank loan facility | 56,000 | 61,000 | - | - |
| | <u>61,000</u> | <u>67,000</u> | <u>2,000</u> | <u>3,000</u> |
| Used at balance date | | | | |
| Bank overdraft | - | - | 5,400 | 512 |
| Bank loan | 47,000 | 50,000 | - | - |
| | <u>47,000</u> | <u>50,000</u> | <u>5,400</u> | <u>512</u> |
| Unused at balance date | | | | |
| Bank overdraft | 5,000 | 6,000 | 2,000 | 3,000 |
| Bank loan | 9,000 | 11,000 | - | - |
| | <u>14,000</u> | <u>17,000</u> | <u>2,000</u> | <u>3,000</u> |

The company and its wholly owned group are parties to a Group Limit Overdraft Facility of \$2 million. A partly owned controlled entity also has an overdraft facility of \$3 million. These overdraft facilities may be drawn at any time and are subject to annual review. They may be terminated or reduced by written notice from the bank at any time.

A partly owned controlled entity has a bank loan facility of \$56 million which expires on 11 June 2001. This facility will reduce to \$51 million on 4 January 2001.

The current interest rates on the bank loan and overdraft are 5.75% and 7.95% respectively.

MORGANITE AUSTRALIA PTY. LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 4 JANUARY 2000

| | Note | Consolidated | | Morganite Australia Pty. Limited | |
|--|------|--------------|--------------|----------------------------------|--------------|
| | | 1999 | 1998 | 1999 | 1998 |
| | | \$000 | \$000 | \$000 | \$000 |
| NOTE 23 - EXPENDITURE COMMITMENTS | | | | | |
| Lease expenditure commitments | | | | | |
| (i) Operating leases (non-cancellable) payable | | | | | |
| - not later than one year | | 2,924 | 3,174 | 1,383 | 1,622 |
| - later than one year and not later two years | | 1,573 | 2,179 | 959 | 1,098 |
| - later than two years and not later than five years | | 664 | 1,492 | 513 | 964 |
| - later than five years | | - | 59 | - | 59 |
| | | <u>5,161</u> | <u>6,904</u> | <u>2,855</u> | <u>3,743</u> |
| (ii) Finance leases payable | | | | | |
| - not later than one year | | - | 24 | - | - |
| - later than one year but not later than two years | | - | 55 | - | - |
| - later than two years but not later than five years | | - | - | - | - |
| Total minimum lease payments | | - | 79 | - | - |
| Future finance charges | | - | (19) | - | - |
| Lease liability | | - | 60 | - | - |
| Current liability | 13 | - | 5 | - | - |
| Non-current liability | 18 | - | 55 | - | - |
| | | <u>-</u> | <u>60</u> | <u>-</u> | <u>-</u> |
| Capital expenditure commitments | | | | | |
| Capital expenditure contracted for but not otherwise provided for in these accounts payable not later than one year. | | 3 | 3 | 3 | 3 |

MORGANITE AUSTRALIA PTY. LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 4 JANUARY 2000

| | Consolidated | | Morganite Australia Pty. Limited | |
|---|--------------|--------------|----------------------------------|--------------|
| | 1999 | 1998 | 1999 | 1998 |
| | \$000 | \$000 | \$000 | \$000 |
| NOTE 24 - EMPLOYEE ENTITLEMENTS | | | | |
| Aggregate employee entitlement liabilities: | | | | |
| Provisions (current) | 4,267 | 4,963 | 1,111 | 1,075 |
| Provisions (non-current) | 4,603 | 4,514 | 1,145 | 1,170 |
| | <u>8,870</u> | <u>9,477</u> | <u>2,256</u> | <u>2,245</u> |

NOTE 25 - CONTINGENT LIABILITIES

| | | | | |
|-----------------------------|--------------|--------------|----------|----------|
| Bank guarantees - unsecured | <u>2,123</u> | <u>2,578</u> | <u>-</u> | <u>-</u> |
|-----------------------------|--------------|--------------|----------|----------|

NOTE 26 - SUPERANNUATION COMMITMENTS

At the end of the financial year corporations in the economic entity participated in a defined benefit superannuation plan. This plan provides benefits to members on retirement, disability or death. Members and corporations in the economic entity make contributions to the plan based on percentages of the salaries and wages of the members. Corporations in the economic entity make contributions to the plan on the basis of actuarial advice and in amounts designed to adequately fund the retirement benefits provided for in the rules of the plan however, this obligation is not legally enforceable.

An actuarial assessment of the plan was last completed by T. Falzarano FIAA as at 30 June 1996.

Based on calculations prepared as at 30 June 1996 in conjunction with the actuarial assessment, the assets of the fund were sufficient to satisfy all benefits that would have been vested under the plan in the event of termination of the plan, and voluntary or compulsory termination of employment of each member of the plan.

The accrued benefits based on the last actuarial assessment and the plan assets at net market value at 30 June 1996 and vested benefits at 30 June 1999 of the superannuation plan sponsored by the corporations in the economic entity are:

| | Consolidated |
|---|---------------|
| | 1999 |
| | \$000 |
| Net market value of plan assets at 30 June 1996 | 18,573 |
| Accrued benefits at 30 June 1996 | <u>13,265</u> |
| Surplus | <u>5,308</u> |
| Vested benefits at 30 June 1999 | <u>17,345</u> |
| Defined benefit superannuation expense | <u>1,050</u> |

MORGANITE AUSTRALIA PTY. LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
4 JANUARY 2000

NOTE 27 - INVESTMENT IN CONTROLLED ENTITIES AND CONTRIBUTION TO CONSOLIDATED PROFIT

| Name | Country of Incorporation | Contribution to consolidated results | | | Investment and beneficial interest | | |
|---|--------------------------|--------------------------------------|---------------|-----|------------------------------------|-----|---------------|
| | | 1999 \$000 | 1998 \$000 | % | 1999 \$000 | % | 1998 \$000 |
| Morganite Australia Pty. Limited | Australia | 6,368 | (2,144) | | | | |
| CONTROLLED ENTITIES | | | | | | | |
| Churchill Instrument Co. Pty. Limited | Australia | - | - | 100 | # | 100 | # |
| Demtar Pty. Limited | Australia | - | - | 100 | # | 100 | # |
| Epirez Australia Pty. Limited ^ | Australia | 5,400 | - | - | - | 100 | 6,144 |
| Morgan Chemical Products Pty. Limited ^ | Australia | 155 | 57 | - | - | 100 | 15 |
| Epirez Adelaide Pty. Limited ^ | Australia | - | - | - | - | 100 | 16 |
| Epirez Melbourne Pty. Limited ^ | Australia | - | - | - | - | 100 | 27 |
| Epirez Sydney Pty. Limited ^ | Australia | - | - | - | - | 100 | 63 |
| Thermal Ceramics Australia Pty. Limited | Australia | (1,245) | 340 | 100 | 8,197 | 100 | 8,197 |
| Metricpyr Pty. Limited | Australia | - | - | 100 | 33 | 100 | 33 |
| Morganite Aikoh Limited | Australia | - | - | 100 | 561 | 100 | 561 |
| Morganite Insulating Products Pty. Limited | Australia | 65 | (46) | 100 | 4,493 | 100 | 4,493 |
| Shinagawa Thermal Ceramics Pty. Limited + | Australia | 712 | 6,291 | 70 | 15,719 | 70 | 15,456 |
| Carbon Brush Mfg. Co. Pty. Limited | Australia | - | - | 100 | 2,779 | 100 | 2,779 |
| Southern Cross Insulations Pty. Limited | Australia | - | - | 100 | 501 | 100 | 501 |
| Dulmison Australia Pty. Limited | Australia | 1 | (440) | 100 | # | 100 | # |
| Carbon Mechanical Products Pty. Limited | Australia | (103) | (100) | 100 | # | 100 | # |
| Morgan Mechanical Carbon Australasia Pty. Limited | Australia | 260 | (52) | 100 | # | 100 | # |
| Carbon Mechanical Products (Singapore) Pte. Limited + | Singapore | - | - | 100 | 35 | 100 | 35 |

MORGANITE AUSTRALIA PTY. LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
4 JANUARY 2000

NOTE 27 - INVESTMENT IN CONTROLLED ENTITIES AND CONTRIBUTION TO CONSOLIDATED PROFIT (Continued)

| Name | Country of Incorporation | Contribution to consolidated results | | | Investment and beneficial interest | | |
|---------------------------------------|--------------------------|--------------------------------------|----------------|------|------------------------------------|------|-----------------|
| | | 1999 \$000 | 1998 \$000 | % | 1999 \$000 | % | 1998 \$000 |
| Morgan Carbon (M) Sdn. Bhd. + | Malaysia | (97) | (22) | 100 | 42 | 100 | 42 |
| Edwin Properties Pty. Limited | Australia | - | - | 100 | 394 | 100 | 394 |
| Morlynn Ceramics Pty. Limited | Australia | (258) | 98 | 100 | 17,206 | 100 | 17,206 |
| Banool Investments (Vic) Pty. Limited | Australia | (14) | (16) | 100 | 1,099 | 100 | 1,099 |
| Dulmison Pty. Limited | Australia | 1,159 | 1,158 | 100 | 13,657 | 100 | 13,657 |
| Dulmison (Thailand) Co. Limited* | Thailand | 1,238 | 1,426 | 66.7 | # | 66.7 | # |
| Consolidated adjustments | | <u>(12,315)</u> | <u>(3,660)</u> | | <u>(15,226)</u> | | <u>(15,347)</u> |
| | | <u>1,326</u> | <u>2,890</u> | | <u>49,490</u> | | <u>55,371</u> |

- (a) Entities marked (*) have been audited by other member firms of Ernst & Young International.
- (b) Entities marked (+) have been audited by other firms.
- (c) Entities marked (^) were sold during the year.
- (d) All entities incorporated overseas carry on business in their country of incorporation.
- (e) The investments in all entities have been rounded to the nearest \$1,000. This has resulted in the value of the investments in entities marked (#) being reduced to zero.

MORGANITE AUSTRALIA PTY. LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 4 JANUARY 2000

| | Consolidated | | Morganite Australia Pty. Limited | |
|--|--------------|--------------|----------------------------------|------------|
| | 1999 | 1998 | 1999 | 1998 |
| | \$000 | \$000 | \$000 | \$000 |
| NOTE 28 - REMUNERATION OF DIRECTORS | | | | |
| Directors' remuneration | | | | |
| Income paid or payable, or otherwise made available to all directors of each entity in the economic entity, directly or indirectly, by the entities of which they are directors or any related entity: | <u>1,581</u> | <u>1,958</u> | | |
| Income paid or payable, or otherwise made available to all directors of the company, directly or indirectly, by the entity or by any related entity: | | | <u>511</u> | <u>929</u> |
| The number of directors whose total income from the company or related parties falls within the following bands: | | | | |
| \$ 0 - \$ 9,999 | | | 3 | 2 |
| \$190,000 - \$199,999 | | | - | 1 |
| \$230,000 - \$239,999 | | | 1 | - |
| \$270,000 - \$279,999 | | | 1 | - |
| \$340,000 - \$349,999 | | | - | 1 |
| \$380,000 - \$389,999 | | | - | 1 |

NOTE 29 - REMUNERATION OF AUDITORS

Remuneration of the auditors of Morganite Australia Pty. Limited from entities in the economic entity for :

| | | | | |
|---|------------|------------|-----------|-----------|
| Audit of the financial reports | 151 | 166 | 75 | 52 |
| Other services | <u>7</u> | <u>-</u> | <u>2</u> | <u>-</u> |
| | <u>158</u> | <u>166</u> | <u>79</u> | <u>52</u> |
| Remuneration of the auditors other than the auditor of Morganite Australia Pty. Limited for : | | | | |
| Audit of the financial reports of subsidiary entities | <u>101</u> | <u>92</u> | <u>-</u> | <u>-</u> |
| | <u>101</u> | <u>258</u> | <u>-</u> | <u>52</u> |

MORGANITE AUSTRALIA PTY. LIMITED

NOTES TO AND FORMING PART OF THE ACCOUNTS 4 JANUARY 2000

NOTE 30 - RELATED PARTY DISCLOSURES

- (a) The directors of Morganite Australia Pty. Limited during the year were:

R.C. Blayney
N.G. Howard (appointed 25 August 1999)
P.J. Leckie
V.J. Maundrell (resigned 25 August 1999)
G.P. Roche

- (b) The following related party transactions occurred during the year:

Transactions with director-related entity

1. Consultancy services were provided on normal commercial terms and conditions to the company by Darnley Associates Pty. Limited of which Mr. P.J. Leckie was a director.

Transactions with related parties in the wholly owned group

2. Purchases of trading stock under normal commercial terms and conditions aggregating \$5,870,000 (1998 \$7,376,000) were undertaken with related parties.
 3. Management service fees of \$369,000 (1998 \$1,058,000) were charged by related parties.
 4. Technical fees and trademark royalties of \$1,753,000 (1998 \$1,247,000) a management services fee of \$3,552,000 (1998 \$3,360,000) and a guarantee fee of \$553,000 (1998 \$575,000) were charged by the ultimate controlling entity in accordance with the terms of various written agreements.
 5. The bank loan provided to a partly owned controlled entity is secured by a guarantee from the ultimate controlling entity.
 6. The company has loaned \$10,100,000 to Alexandria Investments Pty. Ltd. with no interest payable or set repayment terms.
- (c) Alexandria Investments Pty. Limited is the ultimate Australian parent entity and its ultimate controlling entity is The Morgan Crucible Company plc.

MORGANITE AUSTRALIA PTY. LIMITED

NOTES TO AND FORMING PART OF THE ACCOUNTS 4 JANUARY 2000

NOTE 31 - FINANCIAL INSTRUMENTS

The company's accounting policies, including terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at balance date are as follows:

Trade receivables are carried at the invoiced amount less any provision for doubtful debts - credit sales are on 30 day terms or as contracted. An estimate of doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Amounts due to and from related parties are carried at the nominal amounts due under normal commercial terms.

Trade creditors and accruals are shown by recognising the amounts to be paid in the future for goods and services received, whether or not billed to the company - terms are varied but are normally 30 days.

Details of the company's issued share capital are set out in Note 19.

Assets and liabilities of the company shown in the balance sheet approximate their net fair value.

The company's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the balance sheet.

NOTE 32 - EVENTS OCCURRING AFTER REPORTING DATE

On 28 March 2000 the company sold its investment in Morlynn Ceramics Pty. Limited which was the holding company for its power industry businesses in Australia.

This event had no financial effect on the performance of the economic entity for the year ended 4 January 2000.

MORGANITE AUSTRALIA PTY. LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 4 JANUARY 2000

NOTE 33 - SEGMENT INFORMATION

| (a) Industry Segments | Sales Revenue | | Operating Profit | | Total Assets | |
|-----------------------|----------------|----------------|------------------|---------------|----------------|----------------|
| | 1999 \$000 | 1998 \$000 | 1999 \$000 | 1998 \$000 | 1999 \$000 | 1998 \$000 |
| Ceramics | 45,805 | 44,838 | 2,395 | 1,704 | 44,778 | 38,900 |
| Refractory | 99,612 | 87,231 | 589 | 8,813 | 113,985 | 136,132 |
| Industrial | 26,740 | 47,213 | 897 | (2,243) | 14,660 | 40,087 |
| | <u>172,157</u> | <u>179,282</u> | <u>3,881</u> | <u>8,274</u> | <u>173,423</u> | <u>215,119</u> |
| Unallocated | - | - | 267 | (95) | 12,706 | 1,186 |
| | <u>172,157</u> | <u>179,282</u> | <u>4,148</u> | <u>8,179</u> | <u>186,129</u> | <u>216,305</u> |

(b) Geographical Segments

| | | | | | | |
|-----------------|----------------|----------------|--------------|--------------|----------------|----------------|
| Australia | 161,369 | 168,074 | 2,185 | 6,324 | 175,335 | 206,922 |
| South East Asia | 10,788 | 11,208 | 1,696 | 1,950 | 10,761 | 9,383 |
| | <u>172,157</u> | <u>179,282</u> | <u>3,881</u> | <u>8,274</u> | <u>186,096</u> | <u>216,305</u> |
| Unallocated | - | - | 267 | (95) | - | - |
| | <u>172,157</u> | <u>179,282</u> | <u>4,148</u> | <u>8,179</u> | <u>186,096</u> | <u>216,305</u> |

Notes

- (i) The economic entity operates predominantly in the following industries:
 - manufacture and distribution of ceramic products and metal line fittings.
 - manufacture and distribution of refractory products.
 - manufacture and distribution of industrial consumable products.
- (ii) The above figures are after elimination of inter-company transactions. There are no material inter-segment sales. Inter-segment pricing is on normal commercial terms and conditions.