

Morganite Electrical Carbon Limited

**Directors' report and financial
statements**

Registered number 1034653

4 January 2002



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COMPANIES HOUSE 27/09/02

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 4 January 2002.

Principal activities and review of the business

The company manufactures and sells a wide range of carbon sub-components for the electrical and mechanical engineering industries including carbon brushes, current collectors and contacts and will continue to do so for the foreseeable future.

During the year the company purchased the operating assets and liabilities of Morganite-Electro Carbon Limited in Birmingham, a wholly owned subsidiary of the Morgan Crucible Group.

The company continues to show improvement in operating performance resulting from restructuring, and the directors firmly believe that the company is well set to be competitive and to meet the needs of a global market.

Results and dividends

The loss for the year after taxation was £17,000 (2001: £934,000).

The directors do not recommend the payment of a dividend (2001: £Nil).

Research and development

Projects to improve product performance, quality, manufacturing methods and cost reduction were continued throughout the year.

Employee involvement

During the year The Morgan Crucible Company plc European Employee Forum continued with the objective of improving communications with its European workforce. One of the company's employees is a member of that forum.

Regular meetings took place with employees to provide information about the progress of the business through the year.

Employees are encouraged to participate in the Morgan Crucible Share Schemes in order to benefit directly in the success of the Morgan Crucible Group.

Disabled persons

In common with its practise towards all applicants for employment, the company considers applications from disabled people in the light of its requirements, and the qualifications, aptitudes and abilities of each individual.

Where people become disabled during the course of their employment, all practical efforts are made to retain their services and to provide retraining and career development opportunities and disabled people are not treated any differently in this respect

Policy and practice on the payment of creditors

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

The number of days' purchases outstanding for payment by the company at the year-end was 72 days (2001: 69 days).

Directors' report *(continued)*

Directors

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

G Cowie	
R Himatsinka	
SG Jones	
W Macfarlane	
RA Marno	
DWC Morgan	
M Perkins	
J Harvey	- appointed 1 July 2001
M Cox	- appointed 28 March 2001
GA Adesso	- resigned 13 May 2002
E Marriner	- resigned 1 July 2001
G Nicolai	- resigned 28 March 2001
E Thein	- resigned 28 March 2001

Directors' interests

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

	4 January 2002	4 January 2001/date of appointment
Ordinary shares of 25p each		
RA Marno	348	255
G Cowie	3,206	3,131
WE Macfarlane	23,436	2,000
M Cox	16,364	3,809

Since the end of the period under review, RA Marno has acquired 12 shares

	4 January 2002	4 January 2001/date of appointment
Ordinary shares held under the Morgan Share Participation Scheme		
RA Marno	-	75
WE Macfarlane	-	75
G Cowie	-	75
Ordinary shares held under the Long Term Incentive Plan		
RA Marno	-	40,600
WE Macfarlane	-	48,100
M Cox	-	22,796

During the period under review, awards of 5,000 shares in Mr Marno's and Mr Cox's name and an award of 12,500 in Mr Macfarlane's name lapsed. The remaining award of 35,600 shares in Mr Marno's name was released to him and the share sold, the remaining award of 17,796 in Mr Cox's name was released to him and 5,241 shares sold and the remaining award of 35,600 in Mr Macfarlane's name was released to him and 14,240 shares sold.

Directors' report *(continued)*

	4 January 2002	4 January 2001/date of appointment
Ordinary shares held under option		
RA Marno	925	3,111
WE Macfarlane	31,866	31,866
G Cowie	10,071	11,711
M Perkins	15,000	15,000

The options above are held under The Morgan Share Save Scheme 1995, The Morgan Executive Share Option Scheme 1995 and The Morgan Overseas Executive Share Option Scheme 1987. The options are exercisable between 25 October 1996 and 16 October 2006 at prices between 211.68p and 478.00p per share.

During the period under review, an option held by Mr Marno over 2,186 shares at an option price of 315.52p lapsed and an option held by Mr Cowie over 1,640 shares at an option price of 315.52p lapsed.

Directors' and officers' liability insurance

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

Auditors

Our auditors, Ernst & Young LLP resigned during the year and the directors appointed KPMG Audit Plc to fill the vacancy arising. 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. Special notice has been received for this resolution pursuant to Section 388 of the Companies Act 1985.

By order of the board



J. Harvey
Company Secretary

Upper Fforest Way
Morrison
Swansea
SA6 8PP

4th September 2002

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG Audit Plc

Marlborough House
Fitzalan Court
Fitzalan Road
Cardiff
CF24 0TE
United Kingdom

Report of the independent auditors to the members of Morganite Electrical Carbon Limited

We have audited the financial statements on pages 6 to 16.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 4 January 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

*Chartered Accountants
Registered Auditors*

13th September 2002

Profit and loss account
for the year ended 4 January 2002

	<i>Note</i>	2002 £000	2001 £000
Turnover	2	20,005	19,996
Change in stocks of finished goods and work in progress		(70)	712
Own work capitalised		51	-
Raw materials and consumables		(4,228)	(4,515)
Other external charges		(2,632)	(2,576)
Staff costs	4,5	(8,486)	(7,994)
Depreciation and other amounts written off tangible and intangible fixed assets		(1,646)	(1,705)
Other operating charges		(3,096)	(3,637)
Operating (loss)/profit	3	(102)	281
Income from shares in group undertaking	6	308	173
Other interest receivable and similar income	7	10	-
Interest payable and similar charges	7	(315)	(1,353)
Loss on ordinary activities before taxation	3	(99)	(899)
Tax on loss on ordinary activities	8	82	(35)
Loss on ordinary activities before taxation being the retained loss for the year	16	(17)	(934)

The company had no recognised gains and losses other than those included in the results above.

Notes of historical cost profits and losses
for the year ended 4 January 2002

	2002 £000	2001 £000
Reported loss on ordinary activities before taxation	(99)	(899)
Difference between historical cost depreciation charge and the actual charge of the year calculated on the revalued amount	28	28
Historical cost loss on ordinary activities before taxation	(71)	(871)
Historical cost profit/(loss) for the year retained after taxation and dividends	11	(906)

Balance sheet
at 4 January 2001

	Note	2002 £000	2001 £000
Fixed assets			
Tangible assets	9	19,804	20,816
Investments	10	261	261
		20,065	21,077
Current assets			
Stocks	11	5,196	5,267
Debtors	12	8,484	8,345
Cash at bank and in hand		1,554	80
		15,234	13,692
Creditors: amounts falling due within one year	13	(23,903)	(23,356)
Net current liabilities			
Due within one year		(12,218)	(13,194)
Debtors due after more than one year		3,549	3,530
		(8,669)	(9,664)
Total assets less current liabilities		11,396	11,413
Provisions for liabilities and charges	14	(1,103)	(1,103)
Net assets		10,293	10,310
Capital and reserves			
Called up share capital	15	8,837	8,837
Share premium account	16	37	37
Revaluation reserve	16	1,762	1,790
Profit and loss account	16	(343)	(354)
Shareholders' funds – equity		10,293	10,310

These financial statements were approved by the board of directors on behalf by:

4th September 2002 and were signed on its

R. Marno
Director



Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules, modified to include the revaluation of land and buildings.

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

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As the company is a wholly owned subsidiary of Morgan Crucible Company plc, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group or investees of the group qualifying as related parties. The consolidated financial statements of the Morgan Crucible Company plc, within which this company is included, can be obtained from the address given in note 20.

Fixed assets and depreciation

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

Freehold buildings	-	50 years
Plant and machinery	-	10 or 20 years
Computer and office equipment	-	3 or 5 years
Fixtures and fittings	-	10 or 20 years
Motor vehicles	-	3 years

No depreciation is provided on freehold land

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

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

Post-retirement benefits

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

Notes (continued)

1 Accounting policies (continued)

Research and development expenditure

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

Stocks

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

Taxation

The charge for taxation is based on the results for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Turnover

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

2 Analysis of turnover between markets

Turnover attributable to the geographical markets of the company were:

	2002 £000	2001 £000
Europe	15,240	14,704
The Americas	2,047	2,363
Australasia	302	461
Africa and Middle East	714	627
The Far East	1,702	1,841
	<u>20,005</u>	<u>19,996</u>

3 Loss on ordinary activities before taxation

	2002 £000	2001 £000
<i>This is stated after charging:</i>		
Depreciation	1,646	1,704
Rentals under operating leases:		
Hire of plant and machinery	61	122
Other operating leases	142	58
Research and development costs	989	914
Auditors remuneration	27	26
	<u>2,865</u>	<u>2,824</u>

Notes (continued)

4 Remuneration of directors

	2002	2001
	£000	£000
Aggregate emoluments	451	306

	Number of directors	
	2002	2001
Retirement benefits are accruing to the following number of directors under a defined benefit scheme	5	5

Details of share options are shown under directors' interests within the Directors' report on pages 2 and 3.

Highest paid director	2002	2001
	£000	£000
Aggregate emoluments	125	101
Accrued pension at the end of the year	41	38

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

	4 January 2002	4 January 2001/date of appointment
Ordinary shares of 25p each	348	255
Ordinary shares held under the Morgan Share Participation Scheme	-	75
Ordinary shares held under the Long Term Incentive Plan	-	40,600
Ordinary shares held under option	925	3,111

Since the end of the period under review, a further 12 ordinary shares have been acquired.

During the period under review, an award of 5,000 shares lapsed. The remaining award of 35,600 shares was released and the share sold.

The options above are held under The Morgan Share Save Scheme 1995, The Morgan Executive Share Option Scheme 1995 and The Morgan Overseas Executive Share Option Scheme 1987. The options are exercisable between 25 October 1996 and 16 October 2006 at prices between 211.68p and 478.00p per share.

During the period under review, an option held over 2,186 shares at an option price of 315.52p lapsed.

Notes (continued)

5 Staff numbers and costs

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

	2002 No	2001 No
Management and administration	121	110
Production staff	193	189
	<u>314</u>	<u>299</u>

The aggregate payroll costs of these persons were as follows:

	2002 £000	2001 £000
Wages and salaries	7,098	6,871
Social security costs	753	555
Other pension costs	635	568
	<u>8,486</u>	<u>7,994</u>

6 Income from investments

	2002 £000	2001 £000
Income from investments in subsidiary undertakings	<u>308</u>	<u>173</u>

7 Net finance charges

	2002 £000	2001 £000
On loan from parent undertaking	315	1,331
Interest payable on overdrafts	-	22
Interest receivable on deposits	(10)	-
	<u>305</u>	<u>1,353</u>

8 Taxation

	2002 £000	2001 £000
UK corporation tax – current year credit	(82)	-
Overseas taxation	-	35
	<u>(82)</u>	<u>35</u>

Notes (continued)

9 Tangible fixed assets

	Freehold land and buildings	Plant and machinery	Fixtures, fittings and equipment	Total
	£000	£000	£000	£000
Cost or valuation				
At beginning of year	15,493	20,650	207	36,350
Additions	197	514	-	711
Disposals	-	(96)	-	(96)
At end of year	15,690	21,068	207	36,965
Depreciation				
At beginning of year	2,750	12,582	202	15,534
Charge for year	288	1,358	-	1,646
Disposals	-	(19)	-	(19)
At end of year	3,038	13,921	202	17,161
Net book value				
At 4 January 2002	12,652	7,147	5	19,804
At 4 January 2001	12,743	8,068	5	20,816

	2002	2001
	£000	£000
The cost/revaluation of the land included in freehold land and buildings is:	921	921

10 Investment in subsidiary undertakings

	2002	2001
	£000	£000
Shares at cost	261	261

In the opinion of the directors the aggregate value of the investment in the subsidiary undertaking is not less than the amount at which it is stated in the accounts.

The subsidiary undertaking: Morganite Taiwan Limited (incorporated in Taiwan)

Nature of business: Carbon sub-components

Issued shares and proportion held: Ordinary shares – 100%

Notes (continued)

11 Stocks

	2002 £000	2001 £000
Raw materials and consumables	1,675	1,532
Finished goods and goods for resale	1,308	1,278
Work in progress	2,213	2,457
	5,196	5,267

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

12 Debtors

	2002 £000	2001 £000
Due within one year		
Trade debtors	2,325	2,431
Amounts owed by fellow subsidiary undertaking	1,970	1,952
Dividends due	140	-
Prepayments and accrued income	500	432
	4,935	4,815
Due after more than one year		
Pension prepayment	3,549	3,530
Total debtors	8,484	8,345

13 Creditors: amounts falling due within one year

	2002 £000	2001 £000
Bank overdraft	-	65
Amounts owed to parent undertaking	19,659	19,264
Amounts owed to fellow subsidiary undertakings	1,988	1,545
Trade creditors	990	726
Corporation tax	206	467
Other taxation and social security	892	1,024
Other creditors	12	113
Accruals	156	152
	23,903	23,356

The loans from the parent undertaking have no fixed date for repayment.

Notes (continued)

14 Provisions for liabilities and charges

Deferred taxation

£000

At beginning and end of year 1,103

The amounts provided for deferred taxation and the amounts not provided are set out below:

	2002 Provided £000	Unprovided £000	2001 Provided £000	Unprovided £000
Difference between accumulated depreciation and capital allowances	50	1,072	50	1,038
Pension prepayment	1,053	-	1,053	-
Other timing differences	-	12	-	-
	<u>1,103</u>	<u>1,084</u>	<u>1,103</u>	<u>1,038</u>

Any deferred taxation liability that crystallises is group relieved at zero cost from an equivalent asset held at group level.

15 Share capital

	2002 £	2001 £
<i>Authorised</i> - ordinary shares of £1 each	9,537	9,537
<i>Allotted, called up and fully paid</i> - ordinary shares of £1 each	<u>8,837</u>	<u>8,837</u>

16 Reconciliation of shareholders' funds and movement on reserves

	Share capital £000	Share premium £000	Revaluation reserve £000	Profit and loss account £000	Total £000
At 4 January 2001	8,837	37	1,790	(354)	10,310
Retained loss for the year	-	-	-	(17)	(17)
Revaluation surplus realised	-	-	(28)	28	-
At 4 January 2002	<u>8,837</u>	<u>37</u>	<u>1,762</u>	<u>(343)</u>	<u>10,293</u>

Notes (continued)

17 Capital commitments

Commitments for capital expenditure for which no provision has been made in these accounts amounts to £Nil (2001: £30,000), all of which has been authorised and contracted for.

18 Leasing commitments

	2002 £000	2001 £000
Operating leases which expire within one year	43	32
Within two to five years	138	138
	181	170

19 Pension costs

The company is a member of a pension scheme providing benefits based on final pensionable pay. Because the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits' the scheme has been accounted for, in these financial statements as if the scheme was a defined contribution scheme.

20 Ultimate parent company

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

The annual report and accounts of The Morgan Crucible Company plc can be obtained from its registered office at Morgan House, Madiera Walk, Windsor, Berkshire, SL4 1EP.