

Morganite Electrical Carbon Limited

**Directors' report and financial
statements**

Registered number 1034653

4 January 2003

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Directors' report

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

Principal activities and 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.

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 £266,000 (2002 loss as restated: £78,000)

The directors do not recommend the payment of a dividend (2002: £Nil).

Prior year adjustment

An adjustment has been made to the comparative figures to incorporate certain assets and liabilities of the Electro Carbon Limited business, a wholly owned subsidiary of the Morgan Crucible Group, acquired by Morganite Electrical Carbon Limited on 31 August 2001 and the trading account of the business from 1 September 2001 to 4 January 2002.

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 74 days (2002: 72 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	-	(resigned 24 July 2003)
SG Jones		
W Macfarlane	-	(resigned 17 April 2003)
RA Marno		
DWC Morgan	-	(resigned 24 July 2003)
M Perkins		
J Harvey		
M Cox		
GA Adesso	-	(resigned 13 May 2002)
G Cartwright	-	(appointed 11 November 2002) (resigned 24 July 2003)
CJ Spacie	-	(appointed 11 November 2002)

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 2003	4 January 2002/date of appointment
Ordinary shares of 25p each		
RA Marno	360	348
G Cowie	1,096	3,206
WE Macfarlane	12,680	23,436
M Cox	16,364	16,364
M Perkins	5,579	-
S G Jones	154	-

	4 January 2003	4 January 2002/date of appointment
Ordinary shares held under option		
RA Marno	-	925
WE Macfarlane	40,281	31,866
G Cowie	20,281	10,071
M Perkins	6,283	15,000
S G Jones	6,112	-

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

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.

Directors' report *(continued)*

Auditors

The auditors, KPMG Audit Plc, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the board



J Harvey
Company Secretary

Upper Fforest Way
Morriston
Swansea
SA6 8PP

29TH OCTOBER 2003

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

Independent auditors' report to the members of Morganite Electrical Carbon Limited

We have audited the financial statements on pages 6 to 19.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

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

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 4 January 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

SC O'Shea

2003

Profit and loss account
for the year ended 4 January 2003

	Note	2003 £000	As restated (note 2) 2002 £000
Turnover	3	19,787	20,082
Change in stocks of finished goods and work in progress		(642)	(70)
Own work capitalised		-	51
Raw materials and consumables		(3,516)	(4,228)
Other external charges		(1,406)	(2,632)
Staff costs	5,6	(9,204)	(8,486)
Depreciation and other amounts written off tangible and intangible fixed assets		(1,611)	(1,632)
Other operating charges		(3,767)	(3,078)
Operating (loss)/profit	4	(359)	7
Income from shares in group undertaking	7	105	308
Other interest receivable and similar income	8	1	10
Interest payable and similar charges	8	-	(315)
(Loss)/profit on ordinary activities before taxation	4	(253)	10
Tax on (loss)/profit on ordinary activities	9	(13)	(88)
(Loss) on ordinary activities before taxation being the retained loss for the year	17	(266)	(78)

Notes of historical cost profits and losses
for the year ended 4 January 2003

	2003	As restated (note 2)
	£000	2002
		£000
Reported (loss)/profit on ordinary activities before taxation	(253)	10
Difference between historical cost depreciation charge and the actual charge		
Of the year calculated on the revalued amount	29	28
Historical cost (loss)/profit on ordinary activities before taxation	(224)	38
Historical cost (loss)/profit for the year retained after taxation and dividends	(237)	(50)

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

	2003	2002
	£000	£000
Loss for the financial year	(266)	(78)
Prior year adjustment relating to accounting policy for deferred tax (note 2)	(1,105)	-
Prior year adjustment relating to assets acquired (note 2)	109	-
Total gains and losses recognised since last annual report	(1,262)	(78)

Balance sheet
at 4 January 2003

	Note	2003 £000	2002 £000	As Restated (note 2) 2002 £000	£000
Fixed assets					
Tangible assets	10		18,574		19,693
Investments	11		261		261
			<u>18,835</u>		<u>19,954</u>
Current assets					
Stocks	12	5,368		5,196	
Debtors	13	9,278		8,930	
Cash at bank and in hand		2,407		1,792	
		<u>17,053</u>		<u>15,918</u>	
Creditors: amounts falling due within one year	14	(24,625)		(24,367)	
Net current liabilities					
Due within one year		(11,103)		(11,998)	
Debtors due after more than one year		3,531		3,549	
		<u>(7,572)</u>		<u>(8,449)</u>	
Total assets less current liabilities			11,263		11,505
Provisions for liabilities and charges	15		(2,232)		(2,208)
Net assets			<u>9,031</u>		<u>9,297</u>
Capital and reserves					
Called up share capital	16		8,837		8,837
Share premium account	17		37		37
Revaluation reserve	17		1,733		1,762
Profit and loss account	17		(1,576)		(1,339)
Shareholders' funds – equity	17		<u>9,031</u>		<u>9,297</u>

These financial statements were approved by the board of directors on 27th October 2003 and were signed on its behalf by:

Director



RA MARNO

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 has applied the transitional rules contained in FRS 15 'Tangible Fixed Assets' to retain previous valuations as the basis on which these assets are held.

The basis is consistent with the financial statements for the year ended 4 January 2002, except that FRS 19: Deferred Tax has been adopted. The standard requires that full provision is made for deferred tax. The comparative figures have been restated to reflect the adoption of the standard.

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 21.

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.

Notes (continued)

1 Accounting policies (continued)

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. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

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.

Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

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

2 Prior year adjustments

Comparative figures have been adjusted to reflect the following prior year adjustments:

Changes in accounting policies

The company has adopted FRS 19 'Deferred tax' in the preparation of the financial statements. The adoption of this new standard represents a change in accounting policy and the comparative figures have been restated accordingly. The effect of the change in accounting policy to adopt FRS 19 was to increase tax on profit on ordinary activities by £24,000 (2002:£170,000) and to decrease profit for the financial year by similar amounts. The accumulated adjustment to net assets at 4 January 2002 was £1,105,000 as set out in note 15.

Restatement of value of assets acquired

The value of assets acquired from a fellow subsidiary were overstated in the financial statements to 4 January 2002 and consequently the depreciation was overstated. The adjustment required to the results to 4 January 2002 was £109,000.

Notes (continued)

3 Analysis of turnover between markets

Turnover attributable to the geographical markets of the company were:

	2003	As restated
	2002	
	£000	£000
Europe	14,789	15,317
The Americas	1,875	2,047
Australasia	377	302
Africa and Middle East	441	714
The Far East	2,305	1,702
	19,787	20,082

4 (Loss)/profit on ordinary activities before taxation

	As restated
	2002
	£000
<i>This is stated after charging:</i>	
Depreciation	1,611
Rentals under operating leases:	
Hire of plant and machinery	68
Other operating leases	182
Research and development costs	742
Auditors remuneration – audit services	18
– non-audit services	20

Notes (continued)

5 Remuneration of directors

	2003	2002
	£000	£000
Aggregate emoluments	561	451

	Number of directors	
	2003	2002
Retirement benefits are accruing to the following number of directors under a defined benefit scheme	7	5

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

Highest paid director	2003	2002
	£000	£000
Aggregate emoluments	118	125
Accrued pension at the end of the year	42	41

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

	4 January	4 January
	2003	2002/date of
		appointment
Ordinary shares of 25p each	360	348
Ordinary shares held under option	-	925

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.

Notes (continued)

6 Staff numbers and costs

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

	2003 No	2002 No
Management and administration	101	121
Production staff	219	193
	<u>320</u>	<u>314</u>

The aggregate payroll costs of these persons were as follows:

	2003 £000	2002 £000
Wages and salaries	7,868	7,098
Social security costs	608	753
Other pension costs	728	635
	<u>9,204</u>	<u>8,486</u>

7 Income from investments

	2003 £000	2002 £000
Income from investments in subsidiary undertakings	105	308

8 Net finance charges

	2003 £000	2002 £000
On loan from parent undertaking	-	315
Interest receivable on deposits	(1)	(10)
	<u>(1)</u>	<u>305</u>

Notes (continued)

9 Taxation

	2003 £000	As restated 2002 £000
UK corporation tax		
Adjustment in respect of previous periods	(31)	(109)
Foreign tax		
Current tax on income for the period	20	27
Total current tax charge	(11)	(82)
Deferred tax		
Origination and reversal of timing differences	30	164
Pension cost relief in excess of pension charge	(6)	6
Total deferred tax charge	24	170
Tax on (loss)/profit on ordinary activities	13	88

Factors affecting the tax charge for the period

The current tax credit for the period is lower (2002: *higher*) than the standard rate of corporation tax in the UK (2003:30%, 2002: 30%). The differences are explained below:

	2003 £000	2002 £000
Current tax reconciliation		
(Loss)/profit on ordinary activities before tax	(253)	10
Current tax at 30% (2002: 30%)	(76)	3
Effects of:		
Expenses not deductible for tax purposes	37	34
Capital allowances for period in excess of depreciation	(24)	(119)
Utilisation of tax losses	63	82
Adjustments to tax charge in respect of previous period	(31)	(109)
Withholding tax paid	20	27
Total current tax charge (see above)	(11)	(82)

Notes (continued)

10 Tangible fixed assets

	As restated (note 17) Freehold land and buildings £000	As restated (note 17) Plant and machinery £000	As restated (note 17) Fixtures, fittings and equipment £000	As restated (note 17) Total £000
Cost or valuation				
At beginning of year	15,690	20,962	207	36,859
Additions	66	426	-	492
Disposals	-	(68)	-	(68)
At end of year	15,756	21,320	207	37,283
Depreciation				
At beginning of year	3,038	13,926	202	17,166
Charge for year	292	1,319	-	1,611
Disposals	-	(68)	-	(68)
At end of year	3,330	15,177	202	18,709
Net book value				
At 4 January 2003	12,426	6,143	5	18,574
At 4 January 2002	12,652	7,036	5	19,693
			2003 £000	2002 £000
The cost/revaluation of the land included in freehold land and buildings is:			921	921

11 Investment in subsidiary undertakings

	2003 £000	2002 £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)

12 Stocks

	2003 £000	2002 £000
Raw materials and consumables	1,334	1,675
Finished goods and goods for resale	1,529	1,308
Work in progress	2,505	2,213
	<u>5,368</u>	<u>5,196</u>

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

13 Debtors

	2003 £000	As restated 2002 £000
Due within one year		
Trade debtors	2,945	2,595
Amounts owed by fellow subsidiary undertaking	2,281	2,062
Dividends due	116	140
Other debtors	-	45
Prepayments and accrued income	405	539
	<u>5,747</u>	<u>5,381</u>
Due after more than one year		
Pension prepayment	3,531	3,549
	<u>3,531</u>	<u>3,549</u>
Total debtors	<u>9,278</u>	<u>8,930</u>

14 Creditors: amounts falling due within one year

	2003 £000	As restated 2002 £000
Amounts owed to parent undertaking	18,212	17,659
Amounts owed to fellow subsidiary undertakings	3,978	4,355
Trade creditors	1,052	1,028
Corporation tax	175	219
Other taxation and social security	382	896
Other creditors	8	12
Accruals	818	198
	<u>24,625</u>	<u>24,367</u>

Included in the amounts owed to parent undertaking are loans totalling £17,659,000. The loans from the parent undertaking have no fixed date for repayment.

Notes (continued)

15 Provisions for liabilities and charges

Deferred taxation £'000

5 January 2002 as previously reported	1,103
Prior year adjustment	1,105
5 January 2002 as restated	2,208
Charged to the profit and loss account	24
4 January 2003	<u>2,232</u>

The balance represents full provision, without discounting, on all timing differences as follows:

	2003 £000	As Restated 2002 £000
Accelerated capital allowances	1,177	1,155
Other timing differences	1,055	1,053
Total provision for deferred tax	<u>2,232</u>	<u>2,208</u>

16 Share capital

	2003 £	2002 £
<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>

Notes (continued)

17 Reconciliation of shareholders' funds and movement on reserves

	Share capital	Share premium	Revaluation reserve	As Restated Profit and loss account	As Restated Total
	£000	£000	£000	£000	£000
Opening shareholders funds as previously reported	8,837	37	1,762	(343)	10,293
Prior year adjustment – FRS 19	-	-	-	(1,105)	(1,105)
Prior year adjustment – Electro Carbon Ltd (see note 2)	-	-	-	109	109
Opening shareholders funds as restated	8,837	37	1,762	(1,339)	9,297
Retained loss for the year	-	-	-	(266)	(266)
Revaluation surplus realised	-	-	(29)	29	-
At 4 January 2003	8,837	37	1,733	(1,576)	9,031

A prior year adjustment has been made to incorporate the assets and liabilities of the Electro Carbon Limited business acquired on 31 August 2001 and the trading account of that business from 1 September 2001 to 4 January 2002.

18 Capital commitments

Commitments for capital expenditure for which no provision has been made in these accounts amounts to £6,000 (2002: £Nil), all of which has been authorised and contracted for.

19 Leasing commitments

Annual commitments under non-cancellable operating leases in respect of plant and machinery are as follows:

	2003 £000	2002 £000
Operating leases which expire within one year	27	43
Within two to five years	210	138
	237	181

Notes *(continued)*

20 Pension costs

The company is a member of a pension scheme providing benefits based on final pensionable pay, the assets of which are held in separate trustee administered funds, The Morgan Group Senior Staff Pension and Life Assurance Scheme ('SSS') and The Morgan Pension Scheme ('MPS'). 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 will be accounted for by the company when the accounting standard is fully adopted by the company, as if the scheme was a defined contribution scheme.

The latest actuarial valuations were carried out at 6 April 2002 ('SSS') and 1 April 2001 ('MPS') and was updated for FRS 17 purposes to 4 January 2003 by a qualified independent actuary. Details of the actuarial valuations are included in the accounts of The Morgan Crucible Company Plc, the ultimate parent company.

The charge for the year was £728,000 (2002: £635,000). It has been agreed that an employer contribution rates of 11%, 20% and 35% of pensionable pay will apply in future years.

21 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, Madera Walk, Windsor, Berkshire, SL4 1EP.