

Morganite Electrical Carbon Limited
Directors' report and financial
statements
Registered number 1034653
4 January 2004



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 4 January 2004.

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, seals and bearings and will continue to do so for the foreseeable future.

The company is part of a globally managed team within the Morgan Crucible group of companies. During the year, the group undertook a number of restructurings. As part of this manufacturing programme, certain assets and liabilities of two fellow group companies, Morganite Special Carbons Limited and Morgan Industrial Systems Limited, were transferred to Morganite Electrical Carbon Limited on 28 September 2003 and 13 October 2003 respectively.

As a result of this restructuring the company will show an improvement in operating performance 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 £2,868,000 (2003: £266,000)

The directors do not recommend the payment of a dividend (2003: £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

Directors' report *(continued)*

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 81 days (2003: 74 days).

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
 SG Jones
 RA Marno
 J Harvey
 CJ Spacie

On 17 April 2003 W Macfarlane and on 24 July 2003 R Himatsinka, DWC Morgan and G Cartwright resigned as directors.

On 31 December 2003 M Perkins and M Cox resigned as directors.

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 2004	4 January 2003
Ordinary shares of 25p each		
RA Marno	360	360
G Cowie	10,090	1,096
WE Macfarlane	-	12,680
M Cox	-	16,364
M Perkins	-	5,579
S G Jones	-	154
CJ Spacie	445	-

	4 January 2004	4 January 2003
Ordinary shares held under option		
RA Marno	-	-
WE Macfarlane	-	40,281
G Cowie	20,281	20,281
M Perkins	-	6,283
S G Jones	6,112	6,112
CJ Spacie	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 22 June 2007 at prices between 320.90p and 477.50p per share. During the year, Mr RA Marno acquired and later disposed of 5,880 ordinary shares. Since the balance sheet date 110,000 share options were granted to Mr Marno under the Morgan Long Term Incentive Plan 2004 at a price of 1.22p. Dr CJ Spacie acquired 111 ordinary shares and Mr G Cowie was granted 20,000 options in The Morgan Executive Share Option Scheme 2004.

Directors' report *(continued)*

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

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

19TH OCTOBER 2004

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 17.

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

Respective responsibilities of directors and auditors

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

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

Basis of 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 2004 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

20 October 2004

Profit and loss account
for the year ended 4 January 2004

	<i>Note</i>	2004 £000	2003 £000
Turnover	<i>2</i>	22,475	19,787
Change in stocks of finished goods and work in progress		(801)	(642)
Raw materials and consumables		(4,048)	(3,516)
Other external charges		(2,066)	(1,406)
Staff costs	<i>5</i>	(10,879)	(9,204)
Depreciation and other amounts written off tangible and intangible fixed assets		(1,573)	(1,611)
Other operating charges		(6,319)	(3,767)
Operating loss		(3,211)	(359)
Income from shares in group undertaking	<i>6</i>	-	105
Other interest receivable and similar income	<i>7</i>	-	1
Interest payable and similar charges	<i>7</i>	-	-
Loss on ordinary activities before taxation	<i>3</i>	(3,211)	(253)
Tax on loss on ordinary activities	<i>8</i>	343	(13)
Loss on ordinary activities before taxation being the retained loss for the year	<i>16</i>	(2,868)	(266)

Notes of historical cost profits and losses
for the year ended 4 January 2004

	2004 £000	2003 £000
Reported loss on ordinary activities before taxation	(3,211)	(253)
Difference between historical cost depreciation charge and the actual charge		
Of the year calculated on the revalued amount	29	29
Historical cost loss on ordinary activities before taxation	(3,182)	(224)
Historical cost loss for the year retained after taxation and dividends	(2,839)	(237)

Statement of total recognised gains and losses
for the year ended 4 January 2004

	2004 £000	2003 £000
Loss for the financial year	(2,868)	(266)
Prior year adjustment relating to accounting policy for deferred tax	-	(1,105)
Prior year adjustment relating to assets acquired	-	109
Total gains and losses recognised since last annual report	(2,868)	(1,262)

Balance sheet
at 4 January 2004

	Note	2004 £000	2003 £000
Fixed assets			
Tangible assets	9	20,619	18,574
Investments	10	261	261
		<u>20,880</u>	<u>18,835</u>
Current assets			
Stocks	11	7,197	5,368
Debtors	12	12,448	9,278
Cash at bank and in hand		-	2,407
		<u>19,645</u>	<u>17,053</u>
Creditors: amounts falling due within one year	13	<u>(30,382)</u>	<u>(24,625)</u>
Net current liabilities			
Due within one year		(14,941)	(11,103)
Debtors due after more than one year		4,204	3,531
		<u>(10,737)</u>	<u>(7,572)</u>
Total assets less current liabilities		<u>10,143</u>	<u>11,263</u>
Provisions for liabilities and charges	14	<u>(3,980)</u>	<u>(2,232)</u>
Net assets		<u>6,163</u>	<u>9,031</u>
Capital and reserves			
Called up share capital	15	8,837	8,837
Share premium account	16	37	37
Revaluation reserve	16	1,704	1,733
Profit and loss account	16	(4,415)	(1,576)
Shareholders' funds – equity	16	<u>6,163</u>	<u>9,031</u>

These financial statements were approved by the board of directors on 17 October 2004 and were signed on its behalf by:



RA 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 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 2003.

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 to 10 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.

Government grants

Capital based government grants are included within accruals in the balance sheet and credited to the profit and loss account over the useful economic lives of the asset to which they relate.

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:

	2004 £000	2003 £000
Europe	17,005	14,789
The Americas	1,943	1,875
Australasia	332	377
Africa and Middle East	1,068	441
The Far East	2,127	2,305
	22,475	19,787

Notes (continued)

3 Loss on ordinary activities before taxation

	2004	2003
	£000	£000
<i>This is stated after charging/(crediting):</i>		
Depreciation	1,588	1,611
Rentals under operating leases:		
Hire of plant and machinery	71	68
Other operating leases	175	182
Research and development costs	623	742
Auditors remuneration – audit services	21	18
– non-audit services	1	20
Exchange losses	-	60
Exchange gains	(43)	(88)
Restructuring costs	2,231	-

4 Remuneration of directors

	2004	2003
	£000	£000
Aggregate emoluments	532	561
	Number of directors	
	2004	2003
Retirement benefits are accruing to the following number of directors under a defined benefit scheme	5	7

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

Highest paid director	2004 £000	2003 £000
Aggregate emoluments	131	118
Accrued pension at the end of the year	47	42

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

	4 January 2004	4 January 2003
Ordinary shares of 25p each	360	360
Ordinary shares held under option	-	-

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 25 June 2007 at prices between 211.68p and 478.00p per share. Since the balance sheet date 110,000 share options were granted under The Morgan Long Term Incentive Plan 2004 at a price of 1.22p. During the year 5,880 ordinary shares were acquired and later disposed of.

Notes *(continued)*

5 Staff numbers and costs

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

	2004 No	2003 No
Management and administration	116	101
Production staff	245	219
	<u>361</u>	<u>320</u>

The aggregate payroll costs of these persons were as follows:

	2004 £000	2003 £000
Wages and salaries	8,896	7,868
Social security costs	726	608
Other pension costs	1,257	728
	<u>10,879</u>	<u>9,204</u>

6 Income from investments

	2004 £000	2003 £000
Income from investments in subsidiary undertakings	-	105

7 Net finance charges

	2004 £000	2003 £000
Interest receivable on deposits	-	(1)
Interest payable	-	-

Notes (continued)

8 Taxation

	2004 £000	2003 £000
UK corporation tax		
Adjustment in respect of previous periods	48	(31)
Foreign tax		
Current tax on income for the period	-	20
Total current tax charge	48	(11)
Deferred tax		
Origination and reversal of timing differences	(386)	30
Pension cost relief in excess of pension charge	(101)	(6)
Adjustment in respect of previous periods	96	-
Total deferred tax charge	(391)	24
Tax on loss on ordinary activities	(343)	13

Factors affecting the tax charge for the period

The current tax credit for the period is lower (2003: lower) than the standard rate of corporation tax in the UK (2004: 30%, 2003: 30%). The differences are explained below:

	2004 £000	2003 £000
Current tax reconciliation		
Loss on ordinary activities before tax	(3,211)	(253)
Current tax at 30% (2003: 30%)	(963)	(76)
Effects of:		
Expenses not deductible for tax purposes	35	37
Capital allowances for period in excess of depreciation	141	(24)
Utilisation of tax losses	678	63
Adjustments to tax charge in respect of previous period	48	(31)
Other timing differences	109	-
Withholding tax paid	-	20
Total current tax charge (see above)	48	(11)

Notes (continued)

9 Tangible fixed assets

	Freehold land and buildings £000	Plant and machinery £000	Fixtures, fittings and equipment £000	Total £000
Cost or valuation				
At beginning of year	15,756	21,320	207	37,283
Additions	314	4,518	-	4,832
Disposals	-	(5,741)	-	(5,741)
At end of year	16,070	20,097	207	36,374
Depreciation				
At beginning of year	3,330	15,177	202	18,709
Charge for year	294	1,279	-	1,573
Disposals	-	(4,527)	-	(4,527)
At end of year	3,624	11,929	202	15,755
Net book value				
At 4 January 2004	12,446	8,168	5	20,619
At 4 January 2003	12,426	6,143	5	18,574

	2004 £000	2003 £000
The cost/revaluation of the land included in freehold land and buildings is:	921	921

10 Investment in subsidiary undertakings

	2004 £000	2003 £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

	2004 £000	2003 £000
Raw materials and consumables	1,548	1,334
Finished goods and goods for resale	2,220	1,529
Work in progress	3,429	2,505
	7,197	5,368

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

12 Debtors

	2004 £000	2003 £000
Due within one year		
Trade debtors	4,528	2,945
Amounts owed by fellow subsidiary undertaking	2,841	2,281
Dividends due	-	116
Other debtors	145	-
Prepayments and accrued income	730	405
	8,244	5,747
Due after more than one year		
Pension prepayment	4,204	3,531
Total debtors	12,448	9,278

13 Creditors: amounts falling due within one year

	2004 £000	2003 £000
Bank overdraft	2,863	-
Amounts owed to parent undertaking	19,544	18,212
Amounts owed to fellow subsidiary undertakings	4,364	3,978
Trade creditors	2,351	1,052
Corporation tax	-	175
Other taxation and social security	904	382
Other creditors	-	8
Accruals	356	818
	30,382	24,625

Included in the amounts owed to parent undertaking are loans totalling £18,772,000. The loans from the parent undertaking have no fixed date for repayment.

Notes (continued)

14 Provisions for liabilities and charges

	Restructuring £'000	Deferred taxation £'000	Total £'000
5 January 2003	-	2,232	2,232
Acquired on intergroup transfers	2,576	970	3,546
Charged/(released) to the profit and loss account	556	(391)	165
Utilised	(1,963)	-	(1,963)
4 January 2004	1,169	2,811	3,980

Deferred taxation

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

	2004 £000	2003 £000
Accelerated capital allowances	1,561	1,177
Other timing differences	1,250	1,055
Total provision for deferred tax	2,811	2,232

15 Share capital

	2004 £	2003 £
<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	8,837	8,837

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
Opening shareholders funds at 5 January 2003	8,837	37	1,733	(1,576)	9,031
Retained loss for the year	-	-	-	(2,868)	(2,868)
Revaluation surplus realised	-	-	(29)	29	-
At 4 January 2004	8,837	37	1,704	(4,415)	6,163

Notes (continued)

17 Capital commitments

Commitments for capital expenditure for which no provision has been made in these accounts amounts to £44,000 (2003: £6,000), all of which has been authorised and contracted for.

18 Leasing commitments

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

	2004 £000	2003 £000
Operating leases which expire within one year	120	27
Within two to five years	120	210
	240	237

19 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 1 April 2003 ('SSS') and 6 April 2002 ('MPS') and was updated for FRS 17 purposes to 4 January 2004 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 £1,257,000 (2003: £728,000). It has been agreed that an employer contribution rates of 12%, 26% and 40% of pensionable pay will apply in future years.

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

21 Post balance sheet event

Following the period under review, the company completed a sale and leaseback agreement on the land and buildings at Morriston, Swansea. At the same time, a 20 year lease in respect of the site was entered into with Standard Life.

As part of The Morgan Crucible Company plc's agreement to dispose of the net operating assets of its Global Auto and Consumer Business to Energy Conversion Systems Holdings, LLC, incorporated in Delaware, USA, the Auto and Consumer product division based at Morriston, Swansea was sold to Energy Conversion Systems Italy srl. on 11 June 2004.