

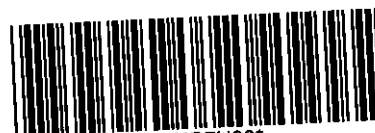
Morganite Electrical Carbon Limited

Directors' report and financial
statements

Registered number 1034653

4 January 2007

WEDNESDAY



AANR7U98

A11

31/10/2007

691

COMPANIES HOUSE

Contents

Directors' report	1
Statement of directors' responsibilities in respect of the Directors' Report and the financial statements	4
Independent auditors' report to the members of Morganite Electrical Carbon Limited	5
Profit and loss account	7
Balance sheet	8
Notes	9

Directors' report

The directors present their annual report and the audited financial statements for the year ended 4 January 2007.

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 group's profit improvement plan, as announced by Morgan Crucible Company Plc in February 2004 remains on track with key projects in 2006 including site rationalisation and implementation of a new software system in the Carbon business. Rationalisation project costs during the year in the company amounted to £1.0 million (2006: £2.2 million).

As a result of this restructuring, the company is well positioned to continue to service the needs of the global market and the directors are confident that the company's operating performance will continue to strengthen in future years.

Results and dividends

The profit for the year after taxation was £1,800,000 (2006: loss of £3,536,000).

The directors do not recommend the payment of a dividend (2006: £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.

Political and charitable donations

During the course of the year the company made no political donations (2006: Nil) and charitable donations amounting to £3,727 (2006: £3,660).

Directors' report *(continued)*

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 133 days (*2006: 45 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 (resigned 28 July 2006)
SG Jones (resigned 1 May 2007)
RA Marno
J Harvey
CJ Spacie
D Parr
I Richards (appointed 12 July 2007)
DI Stimson (appointed 12 July 2007)

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.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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

25TH OCTOBER 2007

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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 of Morganite Electrical Carbon Limited for the year ended 4 January 2007 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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.

Independent auditors' report to the members of Morganite Electrical Carbon Limited *(continued)*

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 4 January 2007 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

29 October 2007

Profit and loss account
for the year ended 4 January 2007

	<i>Note</i>	2007 £000	2006 £000
Turnover	2	26,403	25,522
Change in stocks of finished goods and work in progress		969	(1,186)
Raw materials and consumables		(8,183)	(5,510)
Other external charges		(2,863)	(2,238)
Staff costs	5	(12,055)	(11,735)
Depreciation and other amounts written off tangible and intangible fixed assets		(929)	(919)
Other operating charges		(4,110)	(4,444)
Restructuring costs		(1,034)	(2,218)
Operating loss		(1,802)	(2,728)
Exceptional items:			
Loss on sale of business		(32)	(251)
Profit/(loss) on disposal of land and buildings		102	(13)
Profit on reorganisation of fellow group companies	3	3,246	-
Profit/(loss) on ordinary activities before interest and taxation		1,514	(2,992)
Other interest receivable and similar income	6	5	-
Interest payable and similar charges	7	-	(825)
Profit/(loss) on ordinary activities before taxation	3	1,519	(3,817)
Tax on profit/(loss) on ordinary activities	8	281	281
Profit/(loss) on ordinary activities after taxation being the retained loss for the year	17	1,800	(3,536)

The current year's results derive from continuing operations.

There are no material differences between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalent.

No other gains and losses have been recognised in these financial statements other than the results for the financial years shown above. Accordingly, a separate statement of total recognised gains and losses has not been presented.

Balance sheet
at 4 January 2007

	Note	2007 £000	2006 £000
Fixed assets			
Tangible assets	9	7,775	7,260
			7,260
Current assets			
Stocks	10	6,347	5,224
Debtors	11	7,146	6,286
Fixed asset held for sale	12	323	-
		13,816	11,510
Creditors: amounts falling due within one year	13	(16,786)	(14,706)
Net current liabilities		(2,970)	(3,196)
Total assets less current liabilities		4,805	4,064
Creditors: amounts falling due after more than one year	14	(50)	(185)
Provisions for liabilities and charges	15	(294)	(1,218)
Net assets		4,461	2,661
Capital and reserves			
Called up share capital	16	23,837	23,837
Share premium account	17	37	37
Profit and loss account – accumulated deficit	17	(19,413)	(21,213)
Shareholders' funds – equity		4,461	2,661

These financial statements were approved by the board of directors on 25th October 2007 and were signed on its behalf by:



D Parr
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.

The basis is consistent with the financial statements for the year ended 4 January 2006.

The financial statements have been prepared on a going concern basis as the parent company has indicated that it will provide such financial assistance as is necessary for the foreseeable future.

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 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.

Notes *(continued)*

1 **Accounting policies** *(continued)*

Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a "finance lease". The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful economic life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included in creditors. Rentals are apportioned on a sum of the digits basis between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as operating leases and the rentals payable 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. 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.

Revenue based on the grants are credited to the profit and loss account so as to match them with the expenditure towards which they are intended to contribute.

Turnover

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

Notes (continued)

2 Analysis of turnover between markets

Turnover attributable to the geographical markets of the company were:

	2007 £000	2006 £000
Europe	20,944	20,468
The Americas	2,021	1,819
Australasia	404	402
Africa and Middle East	1,074	872
The Far East	1,960	1,961
	26,403	25,522

3 Profit/(loss) on ordinary activities before interest and taxation

	2007	2006
	£000	£000
<i>This is stated after charging/(crediting):</i>		
Depreciation	929	919
Rentals under operating leases:		
Hire of plant and machinery	79	81
Other operating leases	817	856
Research and development costs	1,183	856
Auditors remuneration – audit of these financial statements	25	25
– other services relating to taxation	1	2
Exchange losses	173	29
Restructuring costs	1,034	2,218
Income from grants	(47)	(185)
Write-off of intercompany loans on winding up of fellow group companies (see notes 11 and 13)	(3,246)	-

4 Remuneration of directors

	2007 £000	2006 £000
Aggregate emoluments	891	1,098

Number of directors

	2007	2006
Retirement benefits are accruing to the following number of directors under a defined benefit scheme	5	6

Notes (continued)

4 Remuneration of directors (continued)

Highest paid director	2007 £000	2006 £000
Aggregate emoluments	228	238
Accrued pension at the end of the year	57	54

5 Staff numbers and costs

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

	2007 No	2006 No
Management and administration	122	115
Production staff	226	245
	348	360

The aggregate payroll costs of these persons were as follows:

	2007 £000	2006 £000
Wages and salaries	10,276	9,871
Social security costs	824	834
Other pension costs	955	1,030
	12,055	11,735

6 Interest receivable and similar income

	2007 £000	2006 £000
Interest receivable and similar income	5	-

7 Interest payable and similar charges

	2007 £000	2006 £000
Interest payable to parent undertaking	-	825

Notes (continued)

8 Taxation

	2007 £000	2006 £000
UK corporation tax		
Total current tax charge	-	-
Deferred tax		
Origination and reversal of timing differences	(281)	(281)
Total deferred tax charge	(281)	(281)
Tax on loss on ordinary activities	(281)	(281)

Factors affecting the tax charge for the period

The current tax credit for the period is lower (2006: lower) than the standard rate of corporation tax in the UK of 30% (2006: 30%). The differences are explained below:

	2007 £000	2006 £000
Current tax reconciliation		
Profit/(loss) on ordinary activities before tax	1,509	(3,817)
Current tax at 30% (2006: 30%)	453	(1,145)
Effects of:		
Expenses not deductible for tax purposes	105	148
Difference between capital allowances and depreciation	(338)	(179)
Tax losses surrendered from/to group companies	(217)	1,178
Other timing differences	(3)	(2)
Unrelieved losses	-	-
Total current tax charge (see above)	-	-

Factors that may affect future tax charges

It has been announced that the corporation tax rate applicable to the company will change from 30% to 28% from 1 April 2008. This has no impact on the current year.

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	2,115	12,757	207	15,079
Additions	-	1,946	-	1,946
Disposals	-	(974)	-	(974)
Transfer to current assets	(355)	-	-	(355)
At end of year	1,760	13,729	207	15,696
Depreciation				
At beginning of year	334	7,283	202	7,819
Charge for year	36	893	-	929
Disposals	-	(795)	-	(795)
Transfer to current assets	(32)	-	-	(32)
At end of year	338	7,381	202	7,921
Net book value				
At 4 January 2007	1,422	6,348	5	7,775
At 4 January 2006	1,781	5,474	5	7,260
			2007 £000	2006 £000
The cost of the land included in freehold land and buildings is:			110	110

Included within tangible fixed assets are assets held under finance lease with cost of £75,000 (2006: £75,000). Depreciation of £4,000 (2006: £Nil) has been charged on these assets.

Notes (continued)

10 Stocks

	2007 £000	2006 £000
Raw materials and consumables	1,780	1,467
Finished goods and goods for resale	1,996	1,441
Work in progress	2,571	2,316
	6,347	5,224

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

11 Debtors

	2007 £000	2006 £000
Trade debtors	2,264	2,274
Amounts owed by parent undertaking (short term loan)	196	-
Amounts owed by fellow subsidiary undertaking	3,016	2,672
Other debtors	385	723
Prepayments and accrued income	1,285	617
	7,146	6,286

During the year, an inter company loan of £442,000 due from Morgan Industrial Systems Limited was waived due to the voluntary liquidation and winding up of the company.

12 Fixed assets held for sale

As a result of the closure of the Kings Lynn site in June 2005, the property at Kings Lynn is to be sold. The amount expected to be achieved on sale is not expected to be less than the book value.

Notes (continued)

13 Creditors: amounts falling due within one year

	2007 £000	2006 £000
Bank overdraft	6,477	3,214
Trade creditors	3,878	2,627
Amounts owed to parent undertaking	3,239	2,559
Amounts owed to fellow subsidiary undertakings	2,009	5,071
Amounts owed under finance lease agreements	25	25
Other taxation and social security	625	688
Accruals	533	522
	<u>16,786</u>	<u>14,706</u>

During the year, inter company loans of £1,619,000 and £2,069,000 due to Morganite Electro Carbon Limited and Electro Carbon Limited respectively were waived due to the voluntary liquidation and winding up of the companies.

14 Creditors: amounts falling due after more than one year

	2007 £000	2006 £000
Loan due to parent undertaking	-	135
Amounts owed under finance lease agreements	50	50
	<u>50</u>	<u>185</u>

15 Provisions for liabilities and charges

	Restructuring £000	Deferred taxation £000	Disposal of business £000	Total £000
5 January 2006	577	436	205	1,218
Charged/(released) to the profit and loss account	54	(281)	-	(227)
Utilised	(492)	-	(205)	(697)
4 January 2007	<u>139</u>	<u>155</u>	<u>-</u>	<u>294</u>

Restructuring

In 2004, Morgan Crucible announced a group profit improvement plan. The closing restructuring provision above of £139,000 relates to the costs involved in achieving this improvement plan.

Notes (continued)

15 Provisions for liabilities and charges (continued)

Disposal of business

In addition to this, a provision of £205,000 which was made against future obligations of costs to be incurred as part of the sale of the Auto and Consumer Business which was disposed of in June 2004, has been fully utilised during the year.

Deferred taxation

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

	2007 £000	Restated 2006 £000
Accelerated capital allowances	158	443
Other timing differences	(3)	(7)
Total provision for deferred tax	155	436

16 Share capital

	2007 £000	2006 £000
<i>Authorised</i> - ordinary shares of £1 each	24,537	24,537
<i>Allotted, called up and fully paid</i> - ordinary shares of £1 each	23,837	23,837

17 Reconciliation of shareholders' funds and movement on reserves

	Share capital £000	Share premium £000	Profit and loss account £000	Total £000
Opening shareholders funds at 5 January 2006	23,837	37	(21,213)	2,661
Retained profit for the year	-	-	1,800	1,800
At 4 January 2007	23,837	37	(19,413)	4,461

18 Capital commitments

Commitments for capital expenditure for which no provision has been made in these accounts amount to £Nil (2006: £94,000), all of which have been authorised and contracted for.

Notes (continued)

19 Leasing commitments

Annual commitments under non-cancellable operating leases are as follows:

	Land & Buildings		Plant & machinery	
	2007 £000	2006 £000	2007 £000	2006 £000
Operating leases which expire within one year	21	37	21	36
Within two to five years	77	-	151	137
After five years	600	666	-	-
	<u>698</u>	<u>703</u>	<u>172</u>	<u>173</u>

Finance lease creditors are as follows:

	Plant & machinery	
	2007 £000	2006 £000
Finance lease obligations due within one year	25	25
Within two to five years	50	50
	<u>75</u>	<u>75</u>

20 Pension costs

The company is a member of a larger group wide pension scheme providing benefits based on final pensionable pay. The assets 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 in the financial statements as if the scheme was a defined contribution scheme.

The latest actuarial valuations were carried out at 1 April 2004 ('SSS') and 6 April 2004 ('MPS') and was updated for FRS 17 purposes to 31 December 2006 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 £955,000 (2006: £1,030,000). It has been agreed that employer contribution rates of 8% and 17% of pensionable pay will apply from April 2007.

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 Quadrant, 55-57 High Street, Windsor, Berkshire, SL4 1LP.