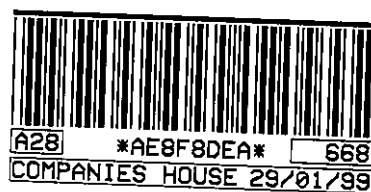


Art Pattern Limited

Directors' report and financial statements

31 March 1998

Registered number 2584243



Directors' report and financial statements

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 1998.

Principal activities

The company is engaged in the manufacture of patterns, press knives, dies, punches, forme cutters, magnetic cutting systems and the sale of reconditioned machinery.

Business review

The result for the year is shown in the profit and loss account on page 5.

Year 2000

The directors have made an assessment of the impact of the Year 2000 on the business and operations. This assessment exercise has identified certain systems that require upgrading. Plans are in place to take action in respect of this.

Market value of land and buildings

In the opinion of the directors the market value of the land and buildings is not significantly different from their value in the accounts.

Directors and directors' interests

The directors, all of whom served throughout the year, together with their share interests in the company are as follows:

	Ordinary shares of £1 each	
	At 31 March 1998	At 31 March 1997
Mr ET Chapman	30,002	30,002
Mr RR Coleman	18,002	30,002
Mr P Franks	20,000	20,000
Mr MP Langham	20,000	20,000
Mr R Fuller	20,000	20,000
Mr KS Demorais	-	-

Directors' report *(continued)*

Directors and directors' interests

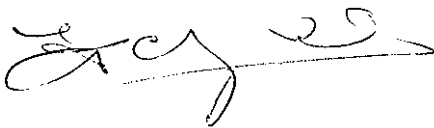
According to the register of directors' interests, no rights to subscribe for shares in the company were granted to any of the directors or their immediate families, or exercised by them during the financial year except as indicated below:

	Number of options At start and end of year	Exercise price	Date from which exercisable	Expiry date
Mr KS Demorais	12,000	£2.20	7.11.1999	7.11.2006

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



ET Chapman
Secretary

Bedford Street
Leicester

28/1/99

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;
- 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.



1 Waterloo Way
Leicester
LE1 6LP

Auditors' report to the members of Art Pattern Limited

We have audited the financial statements on pages 5 to 19.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

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 31 March 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink that reads 'KPMG' in a stylized, cursive font, with a horizontal line underneath it.

Chartered Accountants
Registered Auditors

28 January 1999

Profit and loss account
for the year ended 31 March 1998

	<i>Note</i>	1998 £	1997 £
Turnover		7,487,346	7,957,340
Change in stocks of finished goods and work in progress		264,831	99,418
Raw materials and consumables		(3,128,997)	(3,188,076)
Staff costs	4	(2,708,117)	(2,797,235)
Other external charges		(363,855)	(661,810)
Depreciation and other amounts written off tangible and intangible fixed assets		(121,665)	(108,621)
Other operating charges		(1,222,235)	(992,185)
Operating profit		207,308	308,831
Interest payable and similar charges	5	(146,012)	(158,690)
Profit on ordinary activities before taxation	2	61,296	150,141
Tax on profit on ordinary activities	6	(48,242)	17,380
Retained profit for the year		109,538	132,761

A statement of movement in reserves is set out on page 17.

All activities relate to continuing operations.

Balance sheet
at 31 March 1998

	<i>Note</i>	1998		1997	
		£	£	£	£
Fixed assets					
Tangible assets	7		829,392		796,495
Intangible assets	8		32,930		-
Investments	9		230,160		43,141
			<u>1,092,482</u>		<u>839,636</u>
Current assets					
Stocks	10	728,971		439,044	
Debtors	11	2,250,071		1,834,979	
Cash at bank and in hand		312		302	
			<u>2,979,354</u>		<u>2,274,325</u>
Creditors: amounts falling due within one year	12	(2,305,088)		(1,571,734)	
Net current assets			<u>674,266</u>		<u>702,591</u>
Total assets less current liabilities			<u>1,766,748</u>		<u>1,542,227</u>
Creditors: amounts falling due after more than one year	13		(320,148)		(241,355)
Provisions for liabilities and charges	14		(5,500)		(64,375)
Net assets			<u>1,441,100</u>		<u>1,236,497</u>
Capital and reserves					
Called up share capital	15		120,004		120,004
Other reserves	16		438,016		342,951
Profit and loss account	16		883,080		773,542
Shareholders funds - equity interests			<u>1,441,100</u>		<u>1,236,497</u>

These financial statements were approved by the board of directors on 28/1/99 and signed on its behalf by:


ET Chapman
Director

Cash flow statement
for the year ended 31 March 1998

	<i>Note</i>	1998 £	1997 £
Reconciliation of operating profit to net cash flow from operating activities			
Operating profit		207,308	308,831
Depreciation charges		121,665	108,621
Loss on sale of fixed assets		30,483	2,454
Increase in stocks		(289,927)	(120,638)
Increase in debtors		(415,092)	(23,707)
Increase in creditors		704,975	130,505
		<hr/>	<hr/>
Net cash inflow from operating activities		359,412	406,066
		<hr/> <hr/>	<hr/> <hr/>

Cash flow statement

Cash flow from operating activities		359,412	406,066
Returns on investments and servicing of finance	21	(149,389)	(152,662)
Taxation		(20,715)	(68,678)
Capital expenditure and financial investment	21	(96,278)	(172,604)
		<hr/>	<hr/>
Cash inflow before financing		93,030	12,122
Financing	21	(158,117)	(23,917)
		<hr/>	<hr/>
Decrease in cash in the period		(65,087)	(11,795)
		<hr/> <hr/>	<hr/> <hr/>

Reconciliation of net cash flow to movement in net debt

	22		
Decrease in cash in the period		(65,087)	(11,795)
Change in net debt resulting from cash flows		158,117	103,952
New finance leases		(210,453)	(80,035)
		<hr/>	<hr/>
Movement in net debt in the period		(117,423)	12,122
Net debt at the start of the period		(790,124)	(802,246)
		<hr/>	<hr/>
Net debt at the end of the period		(907,547)	(790,124)
		<hr/> <hr/>	<hr/> <hr/>

Reconciliation of movements in shareholders' funds
for the year ended 31 March 1998

	1998 £	1997 £
Profit for the financial year	109,538	132,761
Goodwill arising on acquisition written off	-	(60,000)
Other recognised gains relating to the year	95,065	-
	<hr/>	<hr/>
Net addition to shareholders' funds	204,603	72,761
Opening shareholders' funds	1,236,497	1,163,736
	<hr/>	<hr/>
Closing shareholders' funds	1,441,100	1,236,497
	<hr/> <hr/>	<hr/> <hr/>

Statement of total recognised gains and losses

	1998 £	1997 £
Profit for the financial year	109,538	132,761
Know-how treated as part of cost of investment in subsidiary undertaking	50,000	-
Unrealised profit on assets transferred to subsidiary	45,065	-
	<hr/>	<hr/>
Total recognised gains and losses relating to the year	204,603	132,761
	<hr/> <hr/>	<hr/> <hr/>

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 company is exempt by virtue of s248 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.

Goodwill

Goodwill arising on the acquisition of businesses (representing the excess of the fair value of the consideration given over the fair value of the separate net assets acquired) is written off against reserves. Any excess of the fair value of net assets acquired over the fair value of the consideration given (negative goodwill) is credited direct to reserves.

Fixed assets and depreciation

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

Freehold buildings	-	2% per annum reducing balance
Leasehold land and buildings	-	10% per annum reducing balance
Plant and machinery	-	15% per annum reducing balance
Fixtures and fittings	-	10% per annum reducing balance
Motor vehicles	-	25% per annum reducing balance
Computer software	-	33.3% per annum reducing balance

No depreciation is provided on freehold land.

Intangible assets are amortised over their estimated useful economic lives as follows:

Design rights - 15% per annum reducing balance

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 life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included with creditors. Rentals payable are apportioned 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 rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Pension costs

The company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Taxation

The charge for taxation is based on the profit 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 derived from the provision of goods and services to customers during the year, after deduction of value added tax and trade discounts.

Employee share schemes

The cost of awards to employees that take the form of shares or rights to shares are recognised over the period of the employee's related performance. Where there are no performance criteria, the cost is recognised when the employee becomes unconditionally entitled to the shares.

Notes (continued)

2 Profit on ordinary activities before taxation

	1998	1997
	£	£
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration:		
Audit	9,000	8,500
Other services - fees paid to the auditor	11,762	14,250
Depreciation and other amounts written off tangible and intangible fixed assets	121,665	108,621
Rent of property under operating lease	77,700	68,000

3 Remuneration of directors

	1998	1997
	£	£
Directors' emoluments	331,997	357,282
Company contributions to money purchase pension schemes	40,018	43,737

The aggregate of emoluments of the highest paid director were £68,507 (1997 : £70,483), and company pension contributions of £5,060 (1997 : £6,609) were made to a money purchase scheme on his behalf.

	Number of directors	
	1998	1997
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	6	6
The number of directors in respect of whose services shares are receivable under long term incentive schemes is:	1	1

Notes (continued)

4 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, was 144 (1997: 155).

The aggregate payroll costs of these persons were as follows:

	1998 £	1997 £
Wages and salaries	2,379,355	2,463,358
Social security costs	224,385	229,460
Other pension and private health costs	104,377	92,417
Employees' benefit trust	-	12,000
	<u>2,708,117</u>	<u>2,797,235</u>

5 Interest payable and similar charges

	1998 £	1997 £
On bank loans and overdrafts	117,896	126,654
Debenture interest	2,917	10,500
Finance charges payable in respect of finance leases and hire purchase contracts	25,199	21,536
	<u>146,012</u>	<u>158,690</u>

6 Taxation

	1998 £	1997 £
UK corporation tax at 21% (1997: 24%) on the profit for the year on ordinary activities	8,800	37,498
Deferred taxation credit	(58,875)	(3,118)
Under/(over) provision in previous year	1,833	(17,000)
	<u>(48,242)</u>	<u>17,380</u>

Notes (continued)

7 Tangible fixed assets

	Land and buildings £	Plant and machinery £	Fixtures fittings tools and equipment £	Motor vehicles £	Total £
<i>Cost</i>					
At beginning of year	231,637	757,467	82,141	225,296	1,296,541
Additions	-	174,225	952	52,695	227,872
Transfer to group company	-	(88,469)	-	-	(88,469)
Disposals	-	(135,482)	(1,524)	(58,778)	(195,784)
At end of year	231,637	707,741	81,569	219,213	1,240,160
<i>Depreciation and diminution in value</i>					
At beginning of year	26,635	340,566	54,204	78,641	500,046
Charge for year	4,103	78,904	2,815	32,931	118,753
Transfer to group company	-	(63,734)	-	-	(63,734)
Disposals	-	(111,737)	(633)	(31,927)	(144,297)
At end of year	30,738	243,999	56,386	79,645	410,768
<i>Net book value</i>					
At 31 March 1998	200,899	463,742	25,183	139,568	829,392
At 31 March 1997	205,002	416,901	27,937	146,655	796,495

The net book value of land and buildings comprises:

	1998 £	1997 £
Freehold	200,874	204,975
Short leasehold	25	27
	200,899	205,002

Included in the total net book value of tangible fixed assets is £315,954 (1997 : £193,990) in respect of assets held under finance leases. Depreciation for the year on these assets was £44,407 (1997 : £49,207).

Notes (continued)

8 Intangible fixed assets

	Design rights £
<i>Cost</i>	
Addition	35,842
	<hr/>
<i>Amortisation</i>	
Charge for year	2,912
	<hr/>
<i>Net book value</i>	
At 31 March 1998	32,930
	<hr/> <hr/>
At 31 March 1997	-
	<hr/> <hr/>

9 Investments

	Own shares £	Shares in group undertakings £	Total £
<i>Cost</i>			
At beginning of year	-	80,000	80,000
Additions	55,500	131,519	187,019
	<hr/>	<hr/>	<hr/>
At end of year	55,500	211,519	267,019
<i>Provisions</i>			
At beginning and end of year	-	(36,859)	(36,859)
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At end of year	55,500	174,660	230,160
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The company owns the entire share capital of Stanley Press Knives Limited, Magnaflex Systems Limited and Envelope Machines Direct Limited. All companies are incorporated in Great Britain and registered in England and Wales. None of the companies has traded since acquisition.

On 17 December 1997 the company acquired 69% of the share capital of a company, Art Pattern Kalkman BV which is incorporated and registered in Holland.

At the end of the year Stanley Press Knives Limited, Magnaflex Systems Limited and Envelope Machines Direct Limited had total share capital and reserves of £23,041, (1997 : £23,041), £58,428 (1997 : £58,428), and £100 (1997 : £100). No financial statements have been prepared for Art Pattern Kalkman BV at this stage.

During the year the company paid £55,500 to The Art Pattern Employee Benefit Trust relating to the purchase of 12,000 shares which in the future will be distributed to directors under a share option scheme. The nominal value of these shares is £12,000.

Notes (continued)

10 Stocks

	1998 £	1997 £
Raw materials and consumables	233,372	208,276
Work in progress	495,599	230,768
	728,971	439,044
	728,971	439,044

11 Debtors

	1998 £	1997 £
Trade debtors	2,229,301	1,824,731
Amount owed by subsidiary undertaking	3,323	-
Other debtors	738	738
Prepayments and accrued income	16,709	9,510
	2,250,071	1,834,979
	2,250,071	1,834,979

12 Creditors: amounts falling due within one year

	1998 £	1997 £
Debenture loan	20,000	40,000
Bank loans and overdrafts	471,559	432,986
Obligations under finance leases and hire purchase contracts	96,152	76,084
Trade creditors	1,382,531	632,810
Amounts owed to subsidiary undertaking	81,546	81,446
Other creditors including taxation and social security:		
Corporation tax	47,593	54,475
Other taxes and social security	87,461	109,451
Other creditors	29,520	24,035
Accruals and deferred income	88,726	120,447
	2,305,088	1,571,734
	2,305,088	1,571,734

The bank loans and overdrafts are secured by way of a fixed charge over the company's freehold property and fixed and floating charges over the assets and undertakings of the company.

Notes (continued)

13 Creditors: amounts falling due after more than one year

	1998	1997
	£	£
Debenture loan	60,000	60,000
Bank loans repayable in less than five years	127,503	117,302
Obligations under finance leases and hire purchase contracts	132,645	64,053
	320,148	241,355
	320,148	241,355

The debenture loan is repayable by equal annual instalments of £20,000. Interest is charged at 10% per annum and the debenture is secured by fixed charge on the company's property and fixed and floating charges over the assets and undertakings of the company.

The bank loan is repayable by equal monthly instalments of £3,361 and interest is charged at 2.25% above the bank base rate.

Obligations under finance leases and hire purchase contracts are secured upon the assets to which they relate.

14 Provisions for liabilities and charges

Deferred taxation

An analysis is set out below:

	1998		1997	
	Provided	Unprovided	Provided	Unprovided
	£	£	£	£
Accelerated capital allowances	5,500	85,500	64,375	-
	5,500	85,500	64,375	-
	5,500	85,500	64,375	-

Notes (continued)

15 Called up share capital

	1998	1997
	£	£
Authorised:		
Ordinary shares of £1 each	250,000	250,000
	<u> </u>	<u> </u>
Allotted, called up and fully paid:		
Ordinary shares of £1 each	120,004	120,004
	<u> </u>	<u> </u>

16 Reserves

	Other reserves	Profit and loss account
	£	£
At beginning of year	342,951	773,542
Retained profit for the year	-	109,538
Know how on acquisition of subsidiary	50,000	-
Unrealised profit on assets transferred to subsidiary	48,265	
Less attributable taxation	3,200	
	<u> </u>	<u> </u>
	45,065	-
	<u> </u>	<u> </u>
At end of year	438,016	883,080
	<u> </u>	<u> </u>

The cumulative amount of goodwill written off against other reserves amount to £115,520 (1997 : £115,520).

The gross negative consolidation adjustment arising on business acquisitions amounts to £398,201 (1997 : £398,201).

During the year the company acquired an interest in a subsidiary undertaking, Art Pattern Kalkman BV. The cost of the investment included £50,000 for know how and £45,605 unrealised profit on assets transferred to the subsidiary, which amounts have been credited to capital reserve.

17 Pension scheme

As explained in the accounting policies set out on page 10, the company operates a pension scheme providing benefits based on final pensionable pay, contributions being charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method.

The charge for the year is £94,942 (1997 : £88,360).

Notes (continued)

18 Commitments

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

	1998		1997	
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases which expire:				
Within one year	-	8,560	-	-
Within two to five years	77,700	-	66,000	8,560
	<u>77,700</u>	<u>8,560</u>	<u>66,000</u>	<u>8,560</u>
	<u><u>77,700</u></u>	<u><u>8,560</u></u>	<u><u>66,000</u></u>	<u><u>8,560</u></u>

19 Acquisition of business

On 17 December 1997, the company formed a subsidiary, Art Pattern Kalkman BV.

The purchase price consisted of the following:

	£
Cash	8,519
Know how used by subsidiary	50,000
Assets transferred to subsidiary	73,000
	<u>131,519</u>
	<u><u>131,519</u></u>

20 Related party transactions

During the year Art Pattern Limited traded with Art Pattern Kalkman BV in which Art Pattern Limited owns 69% of the share capital.

Turnover amounted to £3,323 and this amount is included in debtors at 31 March 1998.

All transactions were at arms length.

Notes (continued)

21 Analysis of cash flows

	1998 £	1998 £	1997 £	1997 £
Returns on investment and servicing of finance				
Interest paid	(124,190)		(131,126)	
Interest element of finance lease and hire purchase liabilities	(25,199)		(21,536)	
	<u> </u>	<u>(149,389)</u>	<u> </u>	<u>(152,662)</u>
		<u> </u>		<u> </u>
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(17,419)		(136,979)	
Purchase of intangible fixed assets	(35,842)		-	
Purchase of own shares	(55,500)		-	
Payments to acquire subsidiary undertaking	(8,519)		(60,000)	
Sale of plant and machinery	21,002		24,375	
	<u> </u>	<u>(96,278)</u>	<u> </u>	<u>(172,604)</u>
		<u> </u>		<u> </u>
Financing				
Repayment of finance leases and hire purchase liabilities	(121,793)		5,499	
Loan finance repaid	(176,324)		(29,416)	
New bank loan	160,000		-	
Debenture loan repaid	(20,000)		-	
	<u> </u>	<u>(158,117)</u>	<u> </u>	<u>(23,917)</u>
		<u> </u>		<u> </u>

22 Analysis of net debt

	At beginning of year £	Cash flow £	Other non cash changes £	At end of year £
Cash in hand, at bank	302	10	-	312
Overdrafts	(378,987)	(65,097)	-	(444,084)
		<u> </u>		
		(65,087)		
Debt due after one year	(177,302)	(10,201)	-	(187,503)
Debt due within one year	(94,000)	46,525	-	(47,475)
Finance leases and hire purchase liabilities	(140,137)	121,793	(210,453)	(228,797)
		<u> </u>		
		158,117		
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>(790,124)</u>	<u>93,030</u>	<u>(210,453)</u>	<u>(907,547)</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>