Art Pattern Limited

Directors' report and financial statements

31 March 1997
Registered number 2584243

Directors' report and financial statements

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 1997.

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.

As part of a group reorganisation, with effect from 3 May 1996, the assets, employees and business of Stanley Press Knives Limited were transferred to Art Pattern Limited.

Business review

The result for the year is shown in the profit and loss account on page 5. The directors consider the result to be satisfactory and look forward to continued profitability in 1998.

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 at 31 March 1997 and 31 March 1996 are as follows:

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

Directors' report

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

22 January 1998

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.

KPMG
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 21.

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 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

Chartered Accountants
Registered Auditors

27 January 1998

Profit and loss account

for the year ended 31 March 1997

	Note	1997 £	1996 £
Turnover		**7,957,340**	6,608,674
Change in stocks of finished goods and work in progress		**99,418**	(33,250)
Raw materials and consumables		**(3,849,886)**	(2,743,791)
Staff costs	*4*	**(2,797,235)**	(2,505,336)
Depreciation and other amounts written off tangible fixed assets		**(108,621)**	(119,804)
Other operating charges		**(992,185)**	(999,421)
Operating profit		**308,831**	207,072
Interest payable and similar charges	*5*	**(158,690)**	(54,912)
Profit on ordinary activities before taxation	*2*	**150,141**	152,160
Tax on profit on ordinary activities	*6*	**(17,380)**	(23,430)
Retained profit for the year		**132,761**	128,730

A statement of movement in reserves is set out on page 18.

The company had no recognised gains or losses other than the profit for the year.

Balance sheet
at 31 March 1997

	Note	1997 £	1997 £	1996 £	1996 £
Fixed assets					
Tangible assets	7		796,495		794,966
Investments	8		43,141		20,100
Current assets					
Stocks	9	439,044		318,406	
Debtors	10	1,834,979		1,810,534	
Cash at bank and in hand		302		855	
		2,274,325		2,129,795	
Creditors: amounts falling due within one year	11	(1,571,734)		(1,372,918)	
Net current assets			702,591		756,877
Total assets less current liabilities			1,542,227		1,571,943
Creditors: amounts falling due after more than one year	12		(241,355)		(340,714)
Provisions for liabilities and charges	13		(64,375)		(67,493)
Net assets			1,236,497		1,163,736
Capital and reserves					
Called up share capital	14		120,004		120,004
Other reserves	15		342,951		342,951
Profit and loss account	15		773,542		700,781
			1,236,497		1,163,736

These financial statements were approved by the board of directors on 22 January 1998 and signed on its behalf by:

ET Chapman
Director

Cash flow statement
for the year ended 31 March 1997

	Note	1997 £	1996 £
Reconciliation of operating profit to net cash flow from operating activities			
Operating profit		308,831	207,072
Depreciation charges		108,621	119,804
Loss on sale of fixed assets		2,454	15,781
(Increase)/decrease in stocks		(120,638)	12,744
Increase in debtors		(23,707)	(455,096)
(Decrease)/ increase in creditors		130,505	(30,214)
Net cash inflow/(outflow) from operating activities		406,066	(129,909)

Cash flow statement

	Note	1997 £	1996 £
Cash flow from operating activities		406,066	(129,909)
Returns on investments and servicing of finance	19	(152,662)	(66,912)
Taxation		(68,678)	6,353
Capital expenditure and financial investment	19	(172,604)	6,890
Cash inflow/(outflow) before financing		12,122	(183,578)
Financing	19	(23,917)	55,608
Decrease in cash in the period		(11,795)	(127,970)

	Note	1997 £	1996 £
Reconciliation of net cash flow to movement in net debt	20		
Decrease in cash in the period		(11,795)	(127,970)
Change in net debt resulting from cash flows		103,952	(55,608)
New finance leases		(80,035)	-
Movement in net debt in the period		12,122	(183,578)
Net debt at the start of the period		(802,246)	(618,668)
Net debt at the end of the period		(790,124)	(802,246)

Reconciliation of movements in shareholders' funds
for the year ended 31 March 1997

	1997	1996
	£	£
Profit for the financial year	**132,761**	128,730
Goodwill arising on acquisition written off	**(60,000)**	-
Net addition to shareholders' funds	**72,761**	128,730
Opening shareholders' funds	**1,163,736**	1,035,006
Closing shareholders' funds	**1,236,497**	1,163,736

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.

Intangible assets and investments (held as fixed assets)

The investments in subsidiary undertakings are included at cost less amounts written off and provisions for permanent diminution in value.

True and fair override on divisionalisation of subsidiary undertakings.

As part of a rationalisation of the group, the trade and net assets of a subsidiary undertaking was transferred into the company on 3 May 1996. The consideration for this divisionalisation was based on the book value of the subsidiary undertaking's net assets and took no account of goodwill inherent in that business. This resulted in an apparent overvaluation of investments held in the company's books though there was no overall loss to the group. Schedule 4 to the Companies Act 1985 requires, that where such overvaluation is expected to be permanent the investments should be written down accordingly. The directors consider that as the substance of the transaction was merely to recognise the group's operations, such a treatment would fail to give a true and fair view and the diminution in value of the investments has instead been allocated to goodwill.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

2 Profit on ordinary activities before taxation

	1997	1996
	£	£
Profit on ordinary activities before taxation is stated after charging		
Auditors' remuneration	**8,500**	8,500
Depreciation	**108,621**	119,804
Rent of property under operating lease	**68,000**	68,000

Notes *(continued)*

3 Remuneration of directors

	1997 £	1996 £
Directors' emoluments	**357,282**	292,610
Company contributions to money purchase pension schemes	**43,737**	30,500

The aggregate of emoluments of the highest paid director were £70,483 *(1996 : £57,509)*, and company pension contributions of £6,609 *(1996 : £6,000)* were made to a money purchase scheme on his behalf.

	Number of directors 1997	1996
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**6**	6

4 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, was 155 *(1996: 151)*.

The aggregate payroll costs of these persons were as follows:

	1997 £	1996 £
Wages and salaries	**2,463,358**	2,216,424
Social security costs	**229,460**	212,882
Other pension and private health costs	**92,417**	76,030
Employees' benefit trust	**12,000**	-
	2,797,235	2,505,336

Notes *(continued)*

5 Interest payable and similar charges

	1997 £	1996 £
On bank loans, overdrafts and other loans wholly repayable within five years	**126,654**	26,054
Debenture interest	**10,500**	11,250
Finance charges payable in respect of finance leases and hire purchase contracts	**21,536**	17,608
	158,690	54,912

6 Taxation

	1997 £	1995 £
UK corporation tax at 24% *(1996 : 25%)* on the profit for the year on ordinary activities	**37,498**	46,500
Deferred taxation credit	**(3,118)**	(23,070)
Over provision in previous year	**(17,000)**	-
	17,380	23,430

Notes *(continued)*

7 Tangible fixed assets

	Land and buildings £	Plant and machinery £	Fixtures fittings tools and equipment £	Motor vehicles £	Total £
Cost					
At beginning of year	231,637	698,635	82,141	223,284	1,235,697
Additions	-	50,332	-	61,730	112,062
Transfers from group company	-	20,000	-	4,917	24,917
Disposals	-	(11,500)	-	(64,635)	(76,135)
At end of year	231,637	757,467	82,141	225,296	1,296,541
Depreciation and diminution in value					
At beginning of year	22,449	325,872	16,002	76,408	440,731
Charge for year	4,186	65,101	3,202	36,132	108,621
Disposals	-	(7,163)	-	(42,143)	(49,306)
At end of year	26,635	383,810	19,204	70,397	500,046
Net book value					
At 31 March 1997	**205,002**	**373,657**	**62,937**	**154,899**	**796,495**
At 31 March 1996	209,188	372,763	66,139	146,876	794,966

The net book value of land and buildings comprises:

	1997 £	1996 £
Freehold	**204,975**	209,157
Short leasehold	**27**	31
	205,002	209,188

Included in the total net book value of tangible fixed assets is £193,990 *(1996 : £149,582)* in respect of assets held under finance leases. Depreciation for the year on these assets was £49,207 *(1996 : £27,709)*.

Notes *(continued)*

8 Investment

Shares in group undertakings

	£
Cost	
At beginning of year	20,100
Additions	60,000
At end of year	80,100
Provisions	
Provided in year	36,959
Net book value	
At end of year	43,141

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.

During the year the entire share capital of Stanley Press Knives Limited was acquired for £60,000.

As part of a rationalisation of the group, the trade and net assets of Stanley Press Knives Limited were transferred into the company at 3 May 1996. The consideration for this divisionalisation was based upon the book value of the subsidiary undertaking's net assets and took no account of goodwill inherent in the business; this resulted in an apparent overvaluation of investments held in the company's books, though there was no overall loss to the group. The directors consider that as the substance of the transaction was merely to reorganise the group operations, such a treatment would fail to give a true and fair view and the diminution in value of the investment has instead been allocated to goodwill.

The effect on the company's balance sheet of this departure from the requirements of schedule 4 is to recognise goodwill of £60,000 *(1996 : Nil)*, which has been written off to reserves.

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, £58,428 and £100 respectively.

9 Stocks

	1997 £	1996 £
Raw materials and consumables	**208,276**	187,056
Work in progress	**230,768**	131,350
	439,044	318,406

Notes *(continued)*

10 Debtors

	1997 £	1996 £
Trade debtors	**1,824,731**	1,770,045
Other debtors	**738**	26,000
Prepayments and accrued income	**9,510**	14,489
	1,834,979	1,810,534

11 Creditors: amounts falling due within one year

	1997 £	1996 £
Debenture loan	**40,000**	20,000
Bank loans and overdrafts	**432,986**	391,745
Obligations under finance leases and hire purchase contracts	**76,084**	50,642
Trade creditors	**632,810**	542,593
Amounts owed to subsidiary undertaking	**81,446**	58,405
Other creditors including taxation and social security:		
Corporation tax	**54,475**	101,917
Other taxes and social security	**109,451**	101,729
Other creditors	**24,035**	24,804
Accruals and deferred income	**120,447**	81,083
	1,571,734	1,372,918

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)*

12 Creditors: amounts falling due after more than one year

	1997	1996
	£	£
Debenture loan	**60,000**	80,000
Bank loans repayable in less than five years	**117,302**	176,718
Obligations under finance leases and hire purchase contracts	**64,053**	83,996
	241,355	340,714

The debenture loan is repayable by five equal annual instalments commencing on 28 March 1997. 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.

13 Provisions for liabilities and charges

Deferred taxation

An analysis is set out below:

	1997		1996	
	Provided	**Unprovided**	Provided	Unprovided
	£	£	£	£
Accelerated capital allowances	**64,375**	**-**	68,693	-
Short term timing differences	**-**	**-**	(1,200)	-
	64,375	**-**	67,493	-

Notes *(continued)*

14 Called up share capital

	1997	1996
	£	£
Authorised:		
Ordinary shares of £1 each	**250,000**	250,000
Allotted, called up and fully paid:		
Ordinary shares of £1 each	**120,004**	120,004

15 Reserves

	Other reserves	Profit and loss account
	£	£
At beginning of year	342,951	700,781
Retained profit for the year	-	132,761
Goodwill on acquisition of subsidiary written off	-	(60,000)
At end of year	342,451	773,542

The cumulative amount of goodwill written off against other reserves amount to £115,520 *(1996 : £55,250).*

The gross negative consolidation adjustment arising on business acquisitions amounts to £398,201 *(1996 : £398,201).*

16 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 £88,360.

Notes *(continued)*

17 Commitments

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

	1997		1996	
	Land and buildings	**Other**	Land and buildings	Other
	£	**£**	£	£
Operating leases which expire:				
Within one year	-	-	8,000	-
Within two to five years	**66,000**	**8,560**	6,000	-
Over five years	-	-	60,000	8,560
	66,000	**8,560**	74,000	8,560

18 Acquisition of business

On 3 May 1996, the company acquired the trade and assets of Stanley Press Knives Limited. Details of the assets and liabilities acquired are set out below.

	Book value	Fair value adjustments	Fair value
	£	£	£
Assets			
Tangible fixed assets	47,958	23,041	24,917
Stocks	5,000		5,000
Debtors	65,055		65,055
Total assets	118,013		94,972
Liabilities			
Bank overdraft	34,819		34,819
Creditors	60,153		60,153
Total liabilities	94,972		94,972
Net assets	23,041		-

Goodwill of £60,000 calculated as the difference between the purchase consideration of £60,000 and the fair value of the net assets of Nil has been written off to reserves.

Notes *(continued)*

19 Analysis of cash flows

	1997 £	1997 £	1996 £	1996 £
Returns on investment and servicing of finance				
Interest paid	(131,126)		(54,912)	
Interest element of finance lease and hire purchase liabilities	(21,536)		-	
Dividend paid	-		(12,000)	
		(152,662)		(66,912)
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(136,979)		-	
Payments to acquire subsidiary undertaking	(60,000)			
Sale of plant and machinery	24,375		6,353	
		(172,604)		6,353
Financing				
Repayment of finance leases and hire purchase liabilities	5,499		(50,392)	
Loan finance repaid	(29,416)		(44,000)	
New bank loan	-		150,000	
		(23,917)		55,608

20 Analysis of net debt

	At beginning of year £	Cash flow £	Other non cash changes £	At end of year £
Cash in hand, at bank	855	(553)		302
Overdrafts	(367,745)	(11,242)		(378,987)
		(11,795)		
Debt due after one year	(290,072)	121,996		(168,076)
Debt due within one year	(10,646)	(103,546)		(114,192)
Finance leases and hire purchase liabilities	(134,638)	85,502	(80,035)	(129,171)
Total	(802,246)	92,157	(80,035)	(790,124)