

THE PALATINE ENGRAVING COMPANY LIMITED

Report and Financial Statements

31 December 2004

Registered Number: 2703966



The Palatine Engraving Company Limited

Registered No. 2703966

DIRECTORS

J-P Bobst
S J Darlington
M A Ridings

SECRETARY

S J Darlington

AUDITORS

Ernst & Young LLP
No.1 Colmore Square
Birmingham
B4 6HQ

BANKERS

The Royal Bank of Scotland
2nd Floor
79-83 Colmore Row
Birmingham
B3 2AP

REGISTERED OFFICE

2 Meir Road
Old Forge Drive
Park Farm North
Redditch
B98 7SY

The Palatine Engraving Company Limited

DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 31 December 2004.

RESULTS AND DIVIDENDS

The loss for the year, after taxation, amounted to £433,000 (2003: Profit of £1,000). No dividend is proposed (2003: £Nil).

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The company's principal activities continue to be that of letterpress platemakers and engravers of embossing and foil blocking dies for the printing, packaging and greeting card manufacturing industries.

FUTURE DEVELOPMENTS

No major changes are expected in the nature of the company's activities.

DIRECTORS AND THEIR INTERESTS

The directors who held office during the year are set out below

J-P Bobst
S J Darlington
M A Ridings

There are no directors' interests requiring disclosure under the Companies Act 1985.

AUDITORS

A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

On behalf of the board



S J Darlington
Secretary

4 October 2005

The Palatine Engraving Company Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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 of the company for that year. 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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE PALATINE ENGRAVING COMPANY LIMITED

We have audited the company's financial statements for the year ended 31 December 2004 which comprise Profit and Loss Account, Balance Sheet and the related notes 1 to 20. These financial statements have been prepared on the basis of 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 auditors' 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

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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.

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 United Kingdom 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 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
Birmingham

4 October 2005

The Palatine Engraving Company Limited

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2004

	<i>Notes</i>	2004 £'000	2003 £'000
Turnover	2	2,332	2,590
Cost of sales		(1,788)	(1,536)
Gross Profit		544	1,054
Administrative expenses		(999)	(1,042)
(Loss) / profit on ordinary activities before taxation	3	(455)	12
Tax on (loss) / profit on ordinary activities	6	22	(11)
(Loss) funded from reserves			
/ Profit retained for the financial year	15	(433)	1

The company had no unrecognised gains or losses in the year other than the results shown above.

The Palatine Engraving Company Limited

BALANCE SHEET at 31 December 2004

	Notes	2004 £'000	2003 £'000
FIXED ASSETS			
Tangible assets	7	753	844
Investments	8	-	-
		<u>753</u>	<u>844</u>
CURRENT ASSETS			
Stocks	9	92	32
Debtors	10	725	725
Cash at bank and in hand		466	946
		<u>1,283</u>	<u>1,703</u>
CREDITORS: amounts falling due within one year	11	<u>(682)</u>	<u>(782)</u>
NET CURRENT ASSETS		<u>601</u>	<u>921</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,354</u>	<u>1,765</u>
CREDITORS: amounts falling due after more than one year	12	<u>(967)</u>	<u>(945)</u>
		<u>387</u>	<u>820</u>
CAPITAL AND RESERVES			
Called up share capital	14	1	1
Share premium	15	595	595
Profit and loss account	15	(209)	224
EQUITY SHAREHOLDERS' FUNDS	15	<u>387</u>	<u>820</u>

The financial statements were approved by the Board on 4 October 2005 and signed on its behalf by:



S J Darlington
Director

The Palatine Engraving Company Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2004

1. ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared in accordance with applicable UK accounting standards and under the historical cost convention

Consolidated financial statements have not been prepared because the company has taken advantage of section 228 of the Companies Act 1985 which exempts the company from the obligation to prepare and deliver group accounts as it is included in the consolidated financial statements of Bobst Group (UK Holdings) Limited, a company registered in England and Wales. These financial statements present information about the company as an individual and not about its group.

Cashflow statement

The Company has taken advantage of the exemption from preparing a cash flow statement conferred by FRS 1 (revised) on the grounds that it is entitled to the exemption as a wholly owned subsidiary of a parent undertaking which publishes a consolidated cash flow statement.

Depreciation

Depreciation is calculated to write off the cost of all tangible fixed assets evenly over their estimated useful lives at the following rates:

Freehold buildings	-	2 - 4%
Short leasehold buildings	-	over the period of the lease
Plant & equipment	-	10 - 20%
Office equipment & fixtures	-	10 - 33%
Motor Vehicles	-	33%

The carrying value of tangible fixed assets is reviewed for impairment in periods if events or changes in circumstance indicate that the carrying value may not be recoverable.

Stocks

Stocks are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price less the estimated cost of disposal. Cost is computed as follows:

Raw materials	-	purchase cost on a first in, first out basis
Work in progress & finished goods	-	cost of direct materials & labour, plus attributable overheads

Foreign currencies

Transactions in foreign currencies are recorded at the rate approximating to those ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or at contracted rates, if applicable. All differences are taken to the profit and loss account.

Leasing

Rentals paid under operating leases are charged to income on a straight-line basis over the lease term.

The Palatine Engraving Company Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2004

1. ACCOUNTING POLICIES (continued)

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receiving more, tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Pensions

The company operates a defined benefit pension scheme, which requires contributions to be made to a separately administered fund. The expected cost of providing pensions, as calculated periodically by independent qualified actuaries, is charged to the profit and loss account so as to spread the cost over the service lives of employees in the scheme in such a way that the pension cost is a substantially level percentage of current and expected future pensionable payroll.

2. TURNOVER

Turnover represents the amount derived from the provision of goods and services which fall within the Company's ordinary activities, stated net of value added tax.

An analysis of turnover by geographic market is given below:

	2004 £'000	2003 £'000
United Kingdom	2,248	2,502
Rest of Europe	79	86
Other	5	2
Total	<u>2,332</u>	<u>2,590</u>

All activities are classed as continuing.

The Palatine Engraving Company Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2004

3. (LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging:

	2004 £'000	2003 £'000
Auditors' remuneration - audit	9	9
Depreciation	187	195
Operating lease rentals - land and buildings	21	21
- motor vehicles	31	31
	<u>248</u>	<u>256</u>

4. DIRECTORS' EMOLUMENTS

Directors' emoluments have been borne by the parent company, Bobst Group (UK) Holdings Limited and Bobst SA. The directors of the company are also directors or officers of a number of the companies within the Bobst Group SA group. The directors services to the company do not occupy a significant amount of their time. As such the directors do not consider that they have received any remuneration for their incidental services to the company for the years ended 31 December 2004 and 31 December 2003.

5. STAFF COSTS

	2004 No	2003 No
The average number of persons employed by the company during the period was:		
Production, sales and distribution	46	47
Administration	6	5
	<u>52</u>	<u>52</u>
	£'000	£'000
Staff costs:		
Wages and salaries	1,184	1,143
Social security costs	117	113
Other pension costs	52	55
	<u>1,353</u>	<u>1,311</u>

The Palatine Engraving Company Limited

NOTES TO THE FINANCIAL STATEMENTS at 31 December 2004

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2004 £'000	2003 £'000
Current taxation:		
Group relief	-	11
Adjustment in respect of prior year	(22)	-
	<u>(22)</u>	<u>11</u>

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK. The differences are explained below:

	2004 £'000	2003 £'000
(Loss) / profit on ordinary activities before tax	<u>(455)</u>	<u>12</u>
(Loss) / profit on ordinary activities multiplied by the standard rate of Corporation Tax in the UK of 30% (2003 – 30%)	(137)	3
Effect of:		
Group relief surrendered for no payment	112	-
Disallowed expenses and non-taxable income	7	18
Depreciation in excess of capital allowances	15	(5)
Other timing differences	3	(4)
Adjustment in respect of prior year	(22)	(1)
	<u>(22)</u>	<u>11</u>

The Palatine Engraving Company Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2004

7. TANGIBLE FIXED ASSETS

	<i>Land and buildings</i>	<i>Plant & equipment</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cost:			
At 1 January 2004	886	2,039	2,925
Additions	-	96	96
At 31 December 2004	886	2,135	3,021
Depreciation:			
At 1 January 2004	465	1,616	2,081
Provided during the year	31	156	187
At 31 December 2004	496	1,772	2,268
Net book value:			
At 31 December 2004	390	363	753
At 31 December 2003	421	423	844

The net book value of land and buildings is analysed as follows:

	2004	2003
	<i>£'000</i>	<i>£'000</i>
Freehold land	130	130
Freehold buildings	245	269
Short leasehold buildings	15	22
	390	421

8. INVESTMENTS

	Subsidiary undertakings
	<i>£</i>
At 31 December 2004 and 2003, stated at cost	202

The company holds the entire issued ordinary share capital of The Palatine Engraving Company (Scotland) Limited, a dormant company registered in Scotland.

The company also holds two £1 shares in Palatine Engraving Pension Fund Trustee Limited, being the whole of the issued share capital. This company acts as trustee of The Palatine Engraving Company Limited Pension Scheme.

The Palatine Engraving Company Limited

NOTES TO THE FINANCIAL STATEMENTS at 31 December 2004

9. STOCKS

	2004 £'000	2003 £'000
Raw materials and consumables	88	28
Work in progress	4	4
	<u>92</u>	<u>32</u>

The difference between the above values and the replacement cost of stocks is not material.

10. DEBTORS

	2004 £'000	2003 £'000
Trade debtors	591	596
Other debtors	80	92
Corporation tax	22	-
Prepayments and accrued income	32	37
	<u>725</u>	<u>725</u>

11. CREDITORS: amounts falling due within one year

	2004 £'000	2003 £'000
Trade creditors	171	97
Amounts owed to group undertakings	330	503
Corporation tax	-	23
Other taxes and social security costs	100	117
Accruals and deferred income	81	42
	<u>682</u>	<u>782</u>

12. CREDITORS: amounts falling after more than one year

	2004 £'000	2003 £'000
Amount owed to group undertakings	<u>967</u>	<u>945</u>

The amount owed to group undertakings is non-interest bearing and has no fixed repayment date.

The Palatine Engraving Company Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2004

13. DEFERRED TAXATION

Deferred taxation provided in the financial statements and the amounts not provide are as follows:

	Provided		Not Provided	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Accelerated capital allowance	-	-	(12)	1
Other timing differences	-	-	(8)	(5)
	<u>-</u>	<u>-</u>	<u>(20)</u>	<u>(4)</u>

14. SHARE CAPITAL

	2004 and 2003	
	Authorised	Allotted, called up & fully paid
	£'000	£'000
Ordinary shares of £1 each	<u>1</u>	<u>1</u>

15. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	Called up share- capital	Share Premium account	Profit and loss account	Equity share- holders funds
	£'000	£'000	£'000	£'000
At 1 January 2003	1	595	223	819
Profit for the year	-	-	1	1
At 1 January 2004	<u>1</u>	<u>595</u>	<u>224</u>	<u>820</u>
Loss for the year	-	-	(433)	(433)
At 31 December 2004	<u>1</u>	<u>595</u>	<u>(209)</u>	<u>387</u>

The Palatine Engraving Company Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2004

16. PENSION COMMITMENTS

The company operates a pension scheme the assets of which are held separately from those of the company. The scheme is of the defined benefit type and benefits are based on the years of service and the employees' average remuneration in a number of years prior to retirement.

The most recent actuarial valuation was carried out at 31 May 2004. The valuation showed the aggregate market value of the scheme's assets to be £890,000. The scheme showed a deficit of £111,000 and a funding level of 89% at that date.

The assumptions which have the most significant effect on the valuation are as follows:

- investment returns will exceed salary increases by 2 per cent per annum;
- pension increases for post April 1997 service will be 2.5%.

The pension charge for the year to 31 December 2004 under this scheme was £51,000 (2003, 12 months: £55,000).

The future rates of contributions of the company will be 10.8% of earnings. This scheme is closed to new members and accordingly, the average age of members is expected to increase over time and this will increase the annual cost of pension accrual as a percentage of pensionable salaries.

There were no unpaid contributions as at the balance sheet date.

The company currently accounts for pension costs in accordance with SSAP 24. The new accounting standard for pensions, FRS 17, will not become mandatory for the company until year ending 31 December 2005. The disclosures required under the transitional arrangements of FRS 17 are set out below.

<u>FRS 17 valuation assumptions:</u>	2004	2003	2002	2001
Salary increase rate	4.30%	4.64%	4.35%	4.50%
Deferred pension increase rate	2.80%	2.64%	2.35%	2.50%
Pensions in payment increase				
Pre April 1997 service (*)	0.00%	0.00%	0.00%	0.00%
Post April 1997 service(*)	2.80%	2.64%	2.35%	2.50%
Discount rate	5.30%	5.36%	5.50%	6.00%
Inflation assumption	2.80%	2.64%	2.35%	2.50%

(*) or otherwise provided for in the scheme rules

Return on assets				
Equities	7.05%	7.30%	7.00%	7.50%
Bonds	4.55%	4.80%	4.50%	5.00%
Cash and net current assets	4.75%	3.75%	4.00%	3.00%

The Palatine Engraving Company Limited

NOTES TO THE FINANCIAL STATEMENTS at 31 December 2004

16. PENSION COMMITMENTS (continued)

FRS 17 valuation results:

	2004 £'000	2003 £'000	2002 £'000
Equities	795	720	562
Bonds	263	236	190
Cash and net current assets	(73)	10	8
Total market value	985	966	760
Actuarial value of liability	(1,241)	(1,260)	(1,001)
Deficit	(256)	(294)	(241)
Deferred tax adjustment	77	88	72
Net pension liability	(179)	(206)	(169)
Ratio of total market value to actuarial value of liability	79.4%	76.7%	75.9%

	2004 £'000	2003 £'000	2002 £'000
Analysis of operating profit charge			
Current service cost	65	62	51
Past service cost	-	-	-
Total operating profit charge	65	62	51
Analysis of net return on pension scheme			
Expected return on pension scheme assets	66	51	57
Interest on pension scheme liabilities	(69)	(57)	(50)
Net return	(3)	(6)	7

Analysis of actuarial loss recognised in the Statement of Total Recognised Gains and Losses (STRGL)

Actual return less expected return on pension scheme assets	9	77	(146)
Experience gains and losses arising on the scheme liabilities	171	(3)	(4)
Changes in assumptions underlying the present value of the scheme liabilities	(35)	(139)	(82)
Actuarial loss recognised in the STRGL	145	(65)	(232)

The Palatine Engraving Company Limited

NOTES TO THE FINANCIAL STATEMENTS at 31 December 2004

16. PENSION COMMITMENTS (continued)

FRS 17 valuation results (continued):

	2004 £'000	2003 £'000	2002 £'000
Movement in deficit during the year			
At 1 January 2004	(294)	(241)	(17)
Current service cost	(65)	(62)	(51)
Contributions	51	76	52
(Interest costs) / net return on assets	(3)	(6)	7
Other movements	(90)	(4)	-
Actuarial loss	145	(65)	(232)
At 31 December 2004	<u>(256)</u>	<u>(294)</u>	<u>(241)</u>

History of experience gains and losses

Differences between the expected and actual return on scheme assets:

Amount (£000)	9	77	(146)
Percentage of scheme assets	0.9%	7.9%	19.2%
Experience gains and losses on scheme liabilities:			
Amount (£000)	171	(3)	(3)
Percentage of liabilities	13.7%	-0.2%	-0.3%
Total amount recognised in the STRGL:			
Amount (£000)	145	(65)	(232)
Percentage of scheme liabilities.	11.7%	-5.2%	-23.1%

Balance sheet presentation

	2004 £'000	2003 £'000	2002 £'000
Net assets excluding pension liability	387	820	819
Pension liability	(179)	(206)	(169)
Net assets including pension liability	<u>208</u>	<u>614</u>	<u>650</u>

Reserves Note

	2004 £'000	2003 £'000	2002 £'000
Profit and loss reserve excluding pension asset	(209)	224	223
Pension reserve	(179)	(206)	(169)
Profit and loss reserve	<u>(388)</u>	<u>18</u>	<u>54</u>

The Palatine Engraving Company Limited

NOTES TO THE FINANCIAL STATEMENTS at 31 December 2004

17. CONTINGENT LIABILITIES AND COMMITMENTS

The Company is party to a bank cross guarantee covering amounts due by other group companies.

18. OPERATING LEASE COMMITMENTS

At 31 December 2004, the company had annual commitments in respect of non-cancellable operating leases as set below:

	2004 £'000	2003 £'000
<i>Land and buildings</i>		
Expiring within one year	-	21
<i>Other</i>		
Within one year	9	4
In two to five years	-	18
	9	22

19. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption, in FRS 8, from providing details of transactions with members of the Bobst Group (UK Holdings) Limited and the Bobst Group SA groups.

20. PARENT COMPANY AND ULTIMATE CONTROLLING PARTY

The company's immediate parent undertaking is Bobst Group (UK Holdings) Limited. It has included the company in its group financial statements, copies of which are available from its registered office:

2 Meir Road, Old Forge Drive, Redditch, B98 7SY.

The company's ultimate parent and ultimate controlling party is Bobst Group SA which is incorporated in Switzerland. Copies of Bobst Group SA's financial statements are available from its registered office: Bobst SA, 1001 Lausanne, Switzerland.