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API Group plc Annual Report and Accounts 2008

Foils
Holographics
Laminates

Highlights

- 18 month reporting period reflecting change in year end to 31 March
- Group sales of £143 8m and operating profit before goodwill and exceptional items of £0 4m for the 18 months to 31 March 2008 Sales for 12 months to 31 March 2008 declined 7 8% to £93 4m and operating profit before exceptional items fell £0.6m to £0 4m
- Operating profit before exceptionals for the last 6 months of £0 6m compared to loss of £0 2m in the previous half year
- £2 4m of annualised savings achieved from overhead cost reduction programme, well ahead of original target of £1 0m
- Good progress in Europe as a result of lower costs and growth in foils and holographics Lower demand experienced in the US
- Relocation of Chinese manufacturing to new, purpose-built facility substantially complete although results hit by costs and disruption to supplies
- Pre-tax loss on continuing operations for the 18 month period of £7 1m (£1 8m loss for 12 months to 30 September 2006) after charging exceptional costs of £3 4m for restructuring and asset impairments Basic loss per share from continuing operations of 16 7p (8 9p loss)
- Net debt reduced by £5 9m from September 2007 peak of £23 0m, primarily as a result of £7 2m net proceeds raised in January's successful Open Offer to shareholders Further debt reduction anticipated in 2008/09 following provisional agreement for disposal of surplus property in China
- Continued focus on costs and debt reduction in the year ahead, as well as product and sales development

Contents

Chairman's Statement

The significant changes at API over the last 18 months have led to a much leaner and more competitive business.

This Annual Report covers the 18 months to 31 March 2008, reflecting the change in the year end from the previous date of 30 September The period under review was a difficult and challenging one for API although the Board is pleased with the progress that the Group has made since the interim results at the end of September 2007 Specifically, during the last six months we have strengthened the management team, improved our financial position and reduced the cost base which the Group is carrying into the new financial year

As previously announced, our shareholders overwhelmingly supported the Open Offer which raised net proceeds of £7 2m in January 2008 in order to strengthen the Company's balance sheet The raising of new equity occurred simultaneously with the renegotiation of the Group's main lending facility and the combined re-financing package provides adequate working capital for the Group's foreseeable requirements and sufficient flexibility to support a turnaround in financial performance Also in January 2008, the admission of the Company's shares to AIM will enable the Group to maintain a cost of compliance which is more appropriate to its current size and resources

Results summary

Sales from continuing operations for the 18 months ended 31 March 2008 were £143 8m Sales for the 12 months to 31 March 2008 were £93 4m, down 7 8% on the prior year, reflecting contract losses in Laminates, weak demand in the US and operational difficulties in China, partially offset by steady growth in our European Foils and Holographics businesses

Operating profit before exceptional items was £0 4m for both the 18 months and 12 months ended 31 March 2008 compared with £1 0m for the 12 months to 31 March 2007 On year-to-year comparatives, the improvement in trading in Europe and reduced central costs were offset by declines in the US and Asia Pacific and especially disruption in China associated with the relocation to the new factory

After two loss-making six month periods at the operating level the last half year has seen a return to overall profitability due to a much improved financial performance in Europe, reduced overhead costs and improved productivity partly countered by lower sales in the US and stock write-downs, costs and disruption caused by the factory relocation in China

After charging exceptional items of £3 4m and net finance costs of £4 1m, the loss before tax for continuing operations for the 18 months to 31 March 2008 was £7 1m (loss of £1 8m in year to 30 September 2006) Exceptional items for the period included restructuring expenses of £2 0m and a non-cash asset impairment charge of £1 9m relating to a suspended IT project The basic loss per share from continuing operations for the 18 month period was 16 7p per share

Net borrowings at 31 March 2008 were £17 1m representing gearing of 62% Compared to the position at the last interim results in September 2007, net borrowings were down £5 9m from a peak of £23 0m and gearing of 116% The improvement in net borrowings primarily reflects the net receipt of £7 2m from the Open Offer

Following the relocation of the Group's operations in Shanghai to their new site on the outskirts of the city, provisional agreement has been reached with a branch of the local government to sell the vacated property Net proceeds will initially be used to repay loans raised to finance the new factory investment project and return the Chinese business to a debt-free position

Dividend

In view of the continuing need to reduce debt and reinvest in the business, the Board is not recommending the payment of a dividend

Board

The Board was strengthened by the appointment of Andrew Turner as Group Chief Executive with effect from 15 October 2007 After leading the Group's re-financing, Andrew has already made significant progress in reducing corporate and operating costs and driving performance improvement

Andrew Robertson resigned as Group Finance Director on 20 March 2008 and recruitment of a replacement is underway In the interim period, the Group is benefitting from the services of a well-qualified acting Chief Financial Officer, Richard Scully

On 30 April 2008, Brian Birkenhead and Martin O'Connell stepped down as Non-Executive Directors in line with a decision to reduce the size of the Board Brian and Martin have served the Board with distinction since their appointments and the Board would like to express its thanks for the significant contributions which they have made and to wish them well for the future

Going forward, the composition of the Board will be more appropriate for a company of API's size and resources, whilst allowing us to maintain our commitment to high standards of corporate governance

Employees, customers and suppliers

After the challenges of the past 18 months, API's employees have renewed their focus on performance and results Their hard work and commitment is evident in the recent progress we have made in our businesses On behalf of the Board and shareholders, I would like to thank them for their continuing contribution

The Board would also like to convey its appreciation to API's customers and suppliers, who have remained loyal trading partners through recent difficult times

Outlook

The successful Open Offer and renegotiated banking facilities have restored the Group's liquidity and strengthened the balance sheet We expect to make further progress in improving gearing in the coming 12 months through strong cash generation from the businesses and disposal of surplus assets

General demand for the Group's products remains good and, outside of the US, there are no signs yet of an adverse impact from macro economic factors Whilst there is much work to be done in re-stabilising our operation in China after the relocation to its new facility, the majority of our businesses are carrying positive momentum into the new financial year The recent overhead reduction programme has lowered the cost base by £2 4m on an annualised basis and ongoing performance improvement initiatives are expected to deliver further benefits

Overall, the significant changes to the Group over the last 18 months, and especially in the last half year, have led to a much leaner and more competitive business The Board believes the Group will continue to make progress and is well placed to deliver improved returns to shareholders

Richard Wright
Non-Executive Chairman

Group Overview

API is a producer and distributor of speciality foils and laminated materials used primarily in the graphics and packaging industries. The main end use markets are in premium, fast moving consumer goods such as alcoholic drinks, perfumery, cosmetics, healthcare, speciality food and tobacco. These sectors use high impact graphics and finishes on labelling and packaging to reinforce and authenticate brand identity.

The Group is also a major supplier to the greeting card sector and also produces a range of holographic anti-counterfeit solutions for vouchers, tickets, official documents and currency

Foils is the Group's main business area, where API has a global network of manufacturing and distribution operations serving customers worldwide

Success factors include selection of API metallic, holographic and pigmented foil finishes by brand owners, stock availability and service for packaging and graphics material manufacturers and performance reliability on a range of manufacturing machinery used for foil application

Competitiveness in the bespoke security holograms sector depends on technical innovation, manufacturing to the highest tolerances and quality levels, complete integrity and effective partnership with a range of security solutions providers

As the European market leader in film-to-board lamination, API has the reputation and scale to handle packaging requirements for some of the world's leading brands

Key success factors in this market are technical know-how, low conversion costs and effective supply chain solutions for large volumes of materials In response to increasing concern about the environmental impact of packaging, API has acquired the worldwide licence for a fully bio-degradable and compostable laminate called Portabio

Chief Executive's Review

Good progress has been made in the last six months in addressing the Group's financial problems, streamlining the business and starting to turn around the performance of our operations in Europe.

Financing

The re-financing which was completed in January 2008 has re-established the cash and covenant headroom which management needs to operate the business, as well as significantly reducing the overall level of Group debt Debt will reduce further in 2008/09 when consideration is received from the sale of the Group's surplus land asset in Shanghai, China

Cost reduction

In November 2007, the management team launched an overhead cost reduction programme with an initial savings target of £1m per annum The programme has now been concluded with the achievement of annualised savings of approximately £2 4m

A review of centrally-controlled costs, including Group functions, shared service costs and central initiatives billed to operating units, yielded savings of approximately £1 5m per annum, the majority effective from January 2008 with the balance completing progressively during the remainder of the first quarter of 2008 In addition, streamlining of our UK operations has yielded a reduction of 24 people from our indirect labour headcount and a further 9 staff have been transferred from indirect to direct labour to provide additional production capacity The saving in overhead costs associated with these changes is approximately £0 9m per annum, effective April 2008 Total restructuring costs in relation to the November 2007 programme amounted to £1 2m out of total restructuring costs of £2 0m for the 18 month period

Group results

Group sales for the 18 months to 31 March 2008 were £143 8m and operating profit before exceptional items was £0 4m On a 12 month comparative basis to 31 March, Group sales reduced by 7 8% to £93 4m (6 8% reduction at constant exchange rates) This decline was due primarily to contract losses in the European Laminates business at the end of the prior year and lower sales from operations in the US and China Operating profit for the 12 months was down £0 6m to £0 4m after a doubling of profits in Europe to £2 0m and a £0 6m reduction in central costs were offset by declines in Asia Pacific and the US The last six months were particularly strong in Europe although the gains were partly offset by lower profitability in China and a particularly weak period of trading in the US The last six month s operating profit before exceptionals was £0 6m compared to a loss of £0 2m in the previous half year

Europe

External sales from our European operations were £95 8m for the 18 month period with an operating profit before exceptional items of £2 5m In the year to 31 March 2008, European operating profits increased by £1 0m compared to the prior year to £2 0m on sales down 4 3% to £62 6m On 12 month comparatives, Foils and Holographics grew by a combined 11% and operating profit advanced 13% despite significant operational problems in Holographics in the first half of the year Volume growth was driven by advances in security holographics and by sales from our Continental distribution units, including the newly-established operation in Italy Laminates returned to profit despite a 15% fall in sales, responding to contract losses at the beginning of 2007 with a deep restructuring programme and significant cost and efficiency gains The major part of the improvement in performance in Europe occurred in the last three months aided by a strong recovery in Holographics, a significant new product line developed between our Laminates and Holographics businesses and tighter control of costs

North America

US sales for the 18 months were £33 3m with operating profit before exceptional items of £1 6m On a 12 month basis US sales declined by 14% and operating profit declined by 44% against strong prior year comparatives The impact of exchange rates was more pronounced in the US than other regions and on a constant currency basis sales and operating profit declined by 9% and 40% respectively year on year The last six months were particularly difficult as the businesses suffered the effects of certain customers in the greeting card sector moving manufacturing to the Far East and a general slow down in market activity

Asia Pacific

18 months sales in Asia Pacific were £14 7m with an operating loss before exceptional items of £0 3m Results in Asia Pacific suffered from general disruption to trading associated with the relocation project in China By the end of April 2008 relocation of the China foils business to its new 300,000 square foot facility in the Jiading industrial zone of Shanghai was substantially complete and management was focusing on re-stabilising production and restoring normal service levels to customers Results in the last 6 months in China were disproportionally impacted by adjustments arising from a thorough balance sheet review Underlying profitability also declined due to the impact on export margins of exchange rates and the new VAT regime, general cost inflation and competitive conditions in the home market

Prospects

Looking forward, we are encouraged by demand for the Group's products, the skills, commitment and teamwork of our global workforce and the loyalty of our customer base

Faced with strong inflationary pressure on raw material and utility prices, we will continue to bear down on costs through improved utilisation of key manufacturing assets across the Group, efficiency improvement programmes focused especially on waste, an energetic purchasing function and an ongoing review of headcount and overhead expenses In addition, further steps are likely to be required to raise selling prices if the current rate of increase in input costs persists

The Group continues to invest in research and development to enhance the performance of its products and to bring new finishes and effects, as well as environmentally-friendly packaging options, to brand owners A number of exciting and profit-enhancing innovations are in the pipeline, some of which leverage technical synergies between the Group's businesses in standard foils, holographic foils and laminates

Directionally, we remain committed to the strategy of building on API's global position in the foils market, whilst concentrating for the foreseeable future on efficient execution, profit growth and improvement in the Group's overall financial condition

Andrew Turner
Group Chief Executive

Financial Review

The financial results are presented for the 18 months to 31 March 2008. The comparatives are for the year ended 30 September 2006. In order to make a more meaningful comparison, the Financial Review also includes certain unaudited pro forma financial information for the 12 months to 31 March 2008 for comparison with the 12 months to 31 March 2007.

	18 months to 31 March 2008 £'000	12 months to 30 September 2006 £ 000	12 months to 31 March 2008 (unaudited) £'000	12 months to 31 March 2007 (unaudited) £'0000
Revenue	**143,783**	**101,979**	**93,391**	**101,253**
Operating profit before exceptional items	**408**	**994**	**437**	**988**
Exceptional items	(3,417)	(863)	(2,616)	(1,221)
Operating profit / (loss) from continuing operations	**(3,009)**	**131**	**(2,179)**	**(233)**

Revenue

Revenue from continuing operations for the 18 months to 31 March 2008 was £143 8m For the 12 months to 31 March 2008, revenue from continuing operations was down 7 8% to £93 4m including 1 0% due to the effect of exchange rate movements Revenue in Europe fell by 4 3% On a local currency basis, sales in the US and China reduced by 9% and 14% respectively

Operating profit

Operating profit before exceptional items for the 18 months to 31 March 2008 was £0 4m For the 12 months to 31 March 2008, operating profit before exceptional items was down £0 6m to £0 4m Gross profit reduced by £1 4m, though gross margins were maintained at 20 4% of sales as the volume reduction was offset by improved sales mix of work and a proportionate reduction in direct labour costs The loss of gross profit was partly offset by a reduction in other operating costs of £0 8m

Exceptional items for the 18 months to 31 March 2008 were £3 4m, with a net cash impact in the period of £1 5m Redundancy and restructuring costs included £0 8m relating to the retrenchment of the Laminates business implemented during the 6 months to 31 March 2007 and £1 2m relating to the Group cost reduction programme initiated in the last calendar quarter of 2007

Exceptional items also include an impairment of £1 9m against a previous investment in a Group-wide IT project The system has so far been implemented in two European locations but the project has been suspended The Board has taken the view that there will be no further implementation in the foreseeable future, requiring a full provision against the value of 'construction in progress' relating to business units where implementation

	18 months to 31 March 2008 £'000	12 months to 30 September 2006 £'000	12 months to 31 March 2008 (unaudited) £'000	12 months to 31 March 2007 (unaudited) £'000
Net finance costs	(4,126)	(1,924)	(2,873)	(2,468)
Loss on continuing activities before taxation	**(7,135)**	**(1,793)**	**(5,052)**	**(2,701)**
Tax credit / (expense)	407	(735)	783	(670)
Loss from continuing operations	**(6,728)**	**(2,528)**	**(4,269)**	**(3,371)**
Loss from discontinued operations	(1,130)	(230)	(1,130)	(127)
Loss for the period	**(7,858)**	**(2,758)**	**(5,399)**	**(3,498)**
Basic loss per share (continuing operations)	(16 7p)	(8 9p)	(9 7p)	(11 6p)

has been shelved These exceptional costs are partly offset by a gain on the sale of a surplus property asset in Charlotte, US of £0 3m and a net credit of £0 2m in relation to the relocation of the Shanghai factory

Finance costs

Net finance costs in the 18 months ended 31 March 2008 were £4 1m, including £0 1m relating to the pension fund (£0 3m for 12 months to 30 September 2006) For the 12 months to 31 March 2008, finance costs increased by £0 4m to £2 9m including £0 3m amortisation of costs associated with bank refinancing In addition, finance costs included realised and unrealised net exchange losses of £0 4m (2006 nil) arising on forward foreign currency contracts and an unrealised loss on an interest rate swap of £0 3m (2006 nil) These exchange and interest rate losses have been reported within interest costs since they do not meet the requirements for hedge accounting under IFRS

Financial Review (continued)

Taxation

For the 18 months to 31 March 2008, the Group reported a loss before discontinued operations and taxation of £7 1m and an after tax loss from continuing operations of £6 7m The tax credit £0 4m comprised a tax charge attributable to overseas operations of £0 5m (year to September 2006 £0 6m) and a deferred tax gain of £0 9m (£0 1m loss) Deferred tax in the period includes recognition of a deferred tax asset of £0 9m relating to carried forward tax losses in the US In addition, further US Federal tax losses carried forward at 31 March 2008 amount to $12 2m ($11 8m) which are available for offset against future taxable profits in the US

At 31 March 2008 the Group had UK capital allowances of £27 3m (£26 9m) available to offset against future taxable profits at the rate of 25 0% per annum on a reducing balance basis and tax losses arising in the UK of £5 7m (£2 0m) available for offset against future taxable profits Deferred tax assets in respect of UK tax losses and deferred capital allowances have not been recognised

Discontinued operations

The Group made a loss from discontinued operations of £1 1m in the 18 months ended 31 March 2008 comprising a £0 75m write-off of deferred consideration relating to the disposal of the Converted Products Division in January 2005 and £0 35m in legal and settlement costs connected with disputes arising from various business disposals

Earnings per share

Basic earnings per share from continuing operations were a loss per share of 16 7p for the 18 months to 31 March 2008 and a loss per share of 9 7p for the 12 months ended 31 March 2008 (11 6p 12 months ended 31 March 2007)

	18 months to 31 March 2008 £'000	12 months to 30 September 2006 £ 000	12 months to 31 March 2008 (unaudited) £'000	12 months to 31 March 2007 (unaudited) £'000
EBITDA after exceptional items	4,370	3,358	3,497	3,020
Working capital movements	(1,528)	(2,806)	362	(1,451)
Pension contributions above the amounts recognised in the income statement	(1,489)	(835)	(981)	(911)
Income taxes paid	(359)	(656)	(93)	(628)
Other movements	37	109	(49)	132
Net cash flow from operating activities	**1,031**	**(830)**	**2,736**	**162**
Other selected cash flow information				
Purchase of property plant and equipment	(8,180)	(6,140)	(4,533)	(7,106)
Interest paid	(3,280)	(2,047)	(2,319)	(2,186)
Proceeds from share issues	7,278	53	7,278	–
Net debt	17,149	15,523	17,149	20,824

Cash flow and borrowings

Net cash inflow from operating activities was £1 0m for the 18 month period EBITDA after exceptional items was £4 4m, offset by an increase in working capital of £1 5m and additional pension contributions of £1 5m For the 12 month period to 31 March 2008, net cash inflow from operating activities increased by £2 5m to £2 7m EBITDA after the cash impact of exceptional items increased from £3 0m to £3 5m Working capital reduced by £0 4m largely due to lower inventory levels

Capital expenditure was £8 2m in the 18 months to 31 March 2008, compared to depreciation of £5 5m, and included £5 3m expenditure on the new facility in China At the year end, outstanding spend on the China project scheduled for completion in 2008/09 amounted to £3 5m Elsewhere in the Group, capital expenditure in the coming year is expected to be well below depreciation as management focuses on efficiency improvements and better utilisation of existing assets

Cash interest expense was £3 3m for the 18 months and on an annual basis increased from £2 2m to £2 3m for the 12 months ending 31 March 2008 Net receipts from the share issue completed in January 2008 amounted to £7 2m

Net debt (financial liabilities excluding the fair value of derivatives less cash) increased by £1 6m to £17 1m at 31 March 2008 However good progress has been made in reducing debt by £5 9m from a peak of £23 0m at 30 September 2007

Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business to achieve its strategic objectives The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the financial position of the Group No changes have been made to the Group's objectives, policies or processes during the periods ending 31 March 2008 and 30 September 2006 The Group monitors capital using normal financial ratios, primarily gearing, debt to EBITDA and cash cover

In January 2008, the Company made an Open Offer of ordinary shares, raising £7 2m net of costs from equity shareholders These proceeds were used to reduce borrowings and resulted in a reduction in the gearing ratio from 116% at 30 September 2007 to 62% at 31 March 2008

The ratio of net debt to earnings before interest, tax, depreciation and amortisation was 4 9 times at 31 March 2008, substantially reduced from 10 0 times (based on 12 month trailing EBITDA after exceptional items) at the last interim accounts on 30 September 2007 The Group was within banking covenants and the Directors have agreed a plan for improving debt cover in the next 12 months based on improved operational performance and disposal of surplus assets

Financial risk management

The Group continually reviews its approach to the management of financial risk Control over treasury and risk management is exercised by the Board through the setting of policy and the regular review of forecasts and financial exposures Financial instruments, in particular forward contracts and currency swaps, are used to manage the financial risks associated with the Group's underlying business activities and the financing of those activities The Group does not undertake any trading activity in financial instruments

Liquidity

The Group's policy is to ensure that bank and other funding facilities are sufficient to meet foreseeable peak borrowing requirements Facilities are in place to finance independently the main geographic regions within the Group – USA, China and Europe In the US the Group's banking facilities comprise a term loan of $1 1m repayable over a 5 year period from April 2006 and a working capital facility up to $7 0m capped in accordance with the level of working capital at any one time At 31 March 2008 the amount available was $3 4m Lending is secured over US assets In China, the Group has bank loans of Rmb35m repayable in 2008 It is anticipated that repayment will be financed from the sale of land on the old manufacturing site and the loans are secured against that property In the UK, the Group renegotiated its bank facilities in January 2008 to enable it to continue to finance its operations The Group's UK facilities at 31 March 2008 totalled £21 0m comprising a term loan of £4 5m repayable in quarterly instalments to 1 October 2009, a term loan of £4 0m repayable on 31 January 2010, a revolving credit facility of £7 5m to 30 November 2009 and a multi-option facility up to £5 0m repayable on 18 January 2009 UK borrowings are secured against the Group's UK assets

Interest rates

At 31 March 2008, the Group had gross borrowings of £19 8m which were funded on a floating rate basis The Group uses interest rate swaps to fix a proportion of its interest costs and hedge against future changes in floating rates Taking account of applicable floating-to-fixed interest rate swaps, a one percentage point change in market rates would have an impact of approximately £0 1m on the Group's annual interest bill

Foreign currency exchange rates

The Group's activities are global in nature, with a significant proportion of the Group's revenues and purchases arising in countries other than the UK or denominated in currencies other than Sterling Whenever possible, receipts and payments in foreign currencies are matched to create natural hedges Forward contracts are used to hedge foreign exchange exposures arising on the differences between forecast receipts and payments in foreign currencies

The balance sheets of foreign subsidiaries are translated into Sterling at closing exchange rates Any gains and losses on translation are recorded in reserves In order to limit translation exposure and the resulting impact on shareholders' funds, the Group aims to use available currency facilities to borrow in those currencies in which the Group has significant net assets Whilst borrowings in the period were predominantly held in sterling, the Group expects to increase the amount of foreign currency borrowings in the next financial year The Group does not hedge the translation effect of exchange rate movements on the income statement

The exchange rates used for the translation of the results and assets of the US, Chinese and Euro based operations are shown below The impact on shareholders' equity during the 18 months to 31 March 2008 of changes to rates used for the translation was a gain of £0 2m compared to a loss of £0 8m for the year to 30 September 2006 Principal exchange rates used in the financial statements were

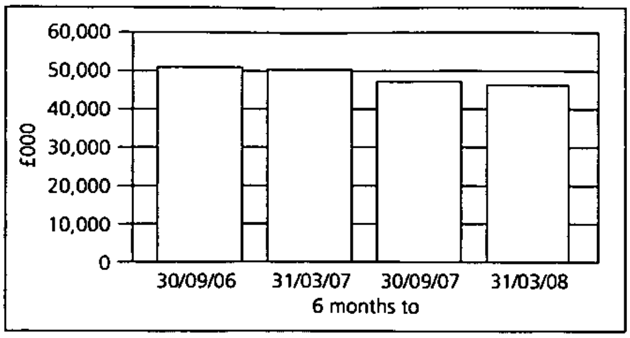
	Average		Closing	
Rate to £1	18 months to 31 March 2008	12 months to 30 September 2006	As at 31 March 2008	As at 30 September 2006
US $	1 98	1 80	1 99	1 87
Euro	1 44	1 46	1 25	1 47
RMB	15 02	14 46	13 94	14 76

Pensions

The Group operates a number of pension schemes for its employees At 31 March 2008 the Group's IAS19 gross pension liability was £3 5m (2006 £10 9m) with a net liability of £2 5m (2006 £7 6m) after accounting for a deferred tax asset of £1 0m (2006 £3 3m) The main UK defined benefit scheme is the API Group plc Pension and Life Assurance Fund The IAS19 liability has been calculated using a discount rate of 6 5% (2006 5 1%)

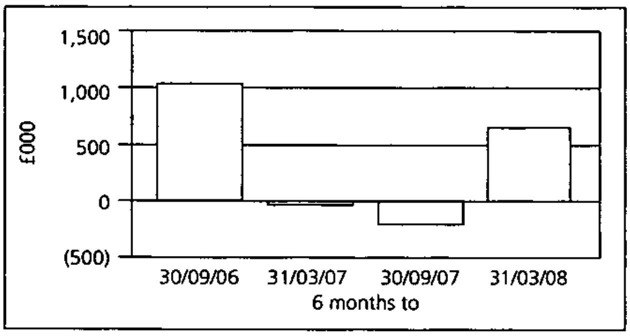
No new members have been admitted to the Fund since October 2006 and the Trustees are currently reviewing the triennial valuation at 30 September 2007, the results of which are expected later this year The previous valuation at 30 September 2004 calculated a funding deficit of £6 0m on a continuing basis In order to reduce the deficit, the Group makes annual contributions into the scheme of 4 per cent of pensionable earnings along with additional contributions of £0 3m per year The Group also makes regular contributions of 8 per cent of pensionable earnings in respect of the accrual of future service benefits and also pays all pension related administration fees on behalf of the Fund

Key performance indicators



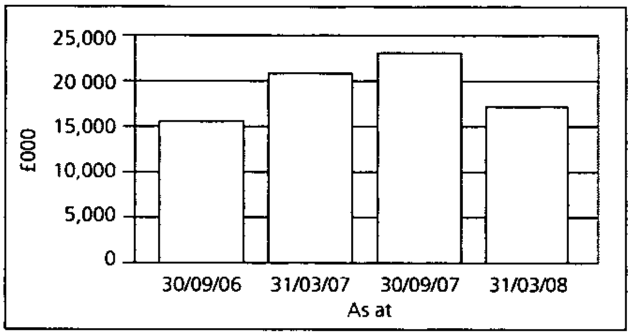
Sales revenue

Sales revenue has declined over the last two years due to contract losses in Laminates, weakening demand in the US and recent operational problems in China connected with the business relocation These adverse trends have been partly offset by growth in European Foils and Holographics Future sales growth depends on restoring output in China, especially increasing shipments to the Group's European distribution units, continued advances in security holographics and new product developments in Laminates



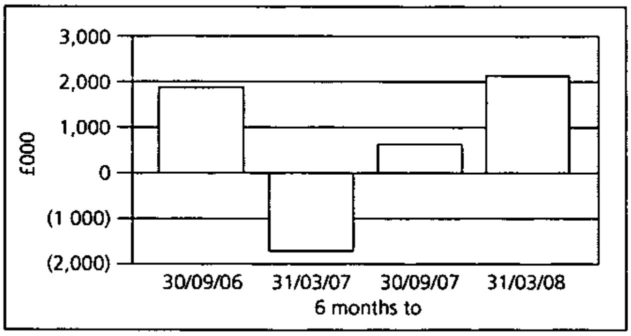
Operating profit

Operating profit improvement in the last 6 months is due to reduced costs and improved productivity in the European businesses combined with lower central costs offset by lower profitability in the US and a recent sharp fall in the contribution from China The full benefit of the recent cost reduction programme is expected to show in the new financial year along with the re-establishment of profitable trading in China



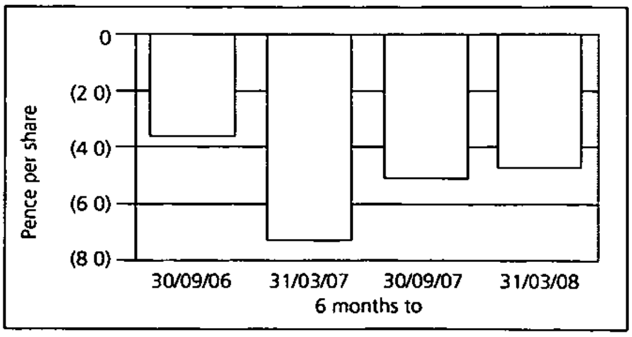
Net debt

Debt levels have been building over the last two years as a consequence of the Group's £11m investment programme in its new manufacturing facility in China and disappointing trading performance in Europe The reduction in the last 6 months reflects primarily the receipt of £7 2m net proceeds from the Open Offer which completed in January 2008 Debt is expected to reduce further in the next 6 months as a result of the sale of surplus property assets in China



Operating cash inflow

Net cash flow from operating activities improved in the last 6 months to £2 1m as a result of advances in profitability and lower inventory levels Future cash flows depend on improving trading results, especially in Europe and China, and continued progress in reducing working capital



Earnings per share (continuing operations)

The negative earnings per share over the last two years is due to interest and exceptional costs in excess of operating income The loss per share in the latest 6 month period is diluted by an increase in the number of shares in issue from the effective date of the Open Offer Future prospects for earnings per share depend on a combination of improved trading performance, debt reduction, reduced exceptional costs and utilisation of unrecognised tax losses

Principal risks and uncertainties

This section describes the key risks which could affect the business operations and the financial results of the Group

A significant proportion of the Group's raw material and conversion costs are affected by the price of oil and gas An increase or volatility in the price of these commodities could adversely affect the Group's results Whilst purchasing policies seek to reduce exposure to commodity prices, significant input cost increases could prove irresistible as well as difficult to pass through to customers due to competitive pressures in most end markets

For a large proportion of Group activity, manufacturing costs are incurred in a different currency to the currency of sale Cost competitiveness is therefore sensitive to certain exchange rate movements, especially the strength of Sterling relative to the Euro and the Chinese Renminbi relative to the Euro and US Dollar

A significant proportion of the Group's sales are in developed, western economies, including the UK In line with the general move of manufacturing to lower cost countries, certain of the Group's immediate and end-use customers routinely consider relocating facilities to regions where the Group's infrastructure is less well developed, such as Eastern Europe and Asia In addition, the business relies for a proportion of its turnover on a small number of key customers and supply contracts Any accelerated reduction in the accessible customer base downturn in the fortunes of major customers or lack of success in maintaining or replacing existing major contracts could have a material adverse effect upon the Group's operating results

Whilst there is no direct link between Group sales prospects and the general economic climate, levels of customer activity may be impacted by changes in consumer confidence and spending patterns It is therefore unlikely that financial results could be insulated from any prolonged downturn or recession in the Group's main markets

The Group operates in an international market and as such is exposed to risks that are both external and internal to the Group These risks include, but are not limited to, failure to comply with legislative and regulatory requirements, fire or equipment failure and the actions of customers and competitors The Group is also exposed to political and economic risks in the regions it operates where changes to Government policy can affect the Group's business and results The Board has adopted a standard process for identification, assessment and management of business risks and this is described in the Directors' Report However, there can be no absolute assurance that such procedures will be effective in identifying or controlling each of the operational risks faced by the business

Whilst the Directors believe that the terms of the Group's banking facilities provide adequate headroom and opportunity for compliance, failure to meet covenant and other conditions could result in the Company being forced to accept materially less attractive lending terms and to implement measures designed to accelerate the repayment of debt to the detriment of shareholder value

Directors and Advisers

DIRECTORS
RC Wright, Chairman*
A Turner, Group Chief Executive
AJ Walker*
LA Wiseman*
M Batzer*

*Non-executive

SECRETARY
R Hart

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REGISTRARS AND TRANSFER AGENTS
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34 Beckenham Road, Beckenham, Kent, BR3 4TU

Directors' Report

The Directors present their Annual Directors' Report and the Financial Statements for the eighteen months ended 31 March 2008 This follows a change in the Company's accounting reference date from 30 September to 31 March

RESULTS AND DIVIDENDS

The Group's results for the eighteen month period are set out in the Group Income Statement on page 20 The Group incurred a pre-tax loss on continuing operations of £7 1m (12 months to 30 September 2006 £1 8m) after charging net exceptional costs of £3 4m (2006 £0 9m) The loss after tax and minority interest attributable to equity shareholders amounted to £8 0m (2006 £3 5m) The total loss per ordinary share was 19 5p (2006 9 5p) In the light of the Group's results, the Directors do not recommend the payment of a dividend It is proposed that the loss for the period be set against reserves

PRINCIPAL ACTIVITIES, BUSINESS REVIEW AND FUTURE DEVELOPMENTS

API Group plc is the holding company of a group of companies which manufacture and distribute speciality foils and laminated materials used primarily in the graphics and packaging industries The Directors' Report should be read in conjunction with the Chief Executive s Review on pages 5 to 6 and the Financial Review on pages 6 to 11, which set out an appraisal of the Group's activities, performance and development, including key performance indicators The principal operating companies of the Group during the period are listed on page 56

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's principal risks and uncertainties are set out in the Financial Review on page 11 and the Board's approach to risk management is set out in the discussion on Corporate Governance on pages 16 to 18

DIRECTORS

The Directors of the Company as at the date of this report are

Richard Wright, 62, (Non-executive Chairman) joined the Board on 3 September 2001 and was appointed Chairman on 1 February 2006 He has previously held senior executive roles with the Ford Motor Company, including Director, European Operations, at Jaguar Cars Limited, Director of Sales, Ford Motor Company Limited and President/Managing Director of Ford Belgium NV He is the former Chair of the Board of National Savings and Investments and is currently Chair, Corporate Relations Board and member of The Business School Board at Warwick Business School, University of Warwick He is a Non-executive Director of Sonas Investments Limited Mr Wright is a member of the Company's Nominations Committee

Andrew Turner, 45, (Group Chief Executive Officer) joined the Board on 15 October 2007 Mr Turner is a graduate mechanical engineer with an MBA and has over 14 years' experience in the packaging sector Before joining API, he was Global Vice President, Marketing & Sales for the Tobacco Packaging sector of Alcan, the international packaging group Prior to that, he was Divisional Managing Director with Field Group plc, the printed paperboard packaging company, with responsibility for operations in the UK, Germany and Spain

Andrew Walker, 56, (Senior Independent Director) joined the Board on 25 July 2003 He has wide public company experience both in manufacturing and service companies He was previously Group Chief Executive of McKechnie plc Prior to joining McKechnie he was Group Chief Executive of South Wales Electricity, joining them from TI Group plc Mr Walker is currently non-executive Chairman of Bioganix plc and a non-executive Director of Ultra Electronic Holdings plc, Plastics Capital plc, Manganese Bronze Holdings plc, Delta plc, Fountains plc, Porvair plc and Brintons Limited He is Chairman of the Company's Remuneration and Audit Committees

Luke Wiseman, 41, (Non-executive Director) joined the Board on 1 September 2006 Mr Wiseman is responsible for European research at Steel Partners (UK) Limited Steel Partners II, LP, a private investment partnership, and its affiliates have a significant beneficial interest in the shares in the Company He is a non-executive Director of Barbican Group Holdings and certain of its affiliated companies Mr Wiseman is a member of the Company's Audit Committee

Max Batzer, 63 (Non-executive Director) joined the Board on 10 October 2007 Mr Batzer is a Portfolio Manager at Wynnefield Capital Inc which has a significant beneficial interest in the Company's shares He is also a Director of Cornell Companies, Inc (a company listed on the New York Stock Exchange) and Integral Wealth Management and has previously held positions as Chairman of the Board and CEO of Diagnostic Health Services, Director and Executive Committee member of Simmons Airlines Inc , a publicly traded regional airline, and President of General Hide and Skin Corporation, a worldwide commodity trading organization Mr Batzer is Chairman of the Company s Nominations Committee

The above persons were all Directors of the Company as at 31 March 2008 David Walton was an Executive Director of the Company until his resignation on 17 August 2007 Andrew Robertson was an Executive Director of the Company from his appointment on 1 April 2007 until his resignation on 20 March 2008 Brian Birkenhead and Martin O'Connell were each Non-executive Directors of the Company for the whole of the period and resigned from the Board on 30 April 2008

The Board is also currently served by Richard Scully who, whilst not a Director of the Company, is fulfilling the role of Chief Financial Officer for the Group and attends Board meetings at the invitation of the Directors The Board has instigated a process to appoint a permanent Group Finance Director

Under the Company's Articles of Association, all the Directors are subject to retirement by rotation and to re-election by shareholders at intervals of no more than three years Any Director appointed during the year is required to retire and seek re-election at the next Annual General Meeting Richard Wright, having been last re-appointed to the Board at the 2005 Annual General Meeting, is retiring at the 2008 Annual General Meeting and, being eligible, has indicated that he will offer himself for re-election In addition, Andrew Turner and Max Batzer were each appointed to the Board following the Annual General Meeting held in 2007 and, accordingly, will retire at the 2008 Annual General Meeting and have also each indicated that they will offer themselves for re-election at that meeting No other person is required by the Company's Articles of Association to retire by rotation or otherwise at the 2008 Annual General Meeting As part of the annual evaluation of the Board, as reported at page 16, the Board concluded that each of the Directors offering themselves for re-election continue to demonstrate commitment to their particular roles and perform effectively and their re-election is accordingly recommended by the Board

DIRECTORS' INTERESTS

The interests of the existing Directors and their immediate families in the shares of the Company (including share options) were as shown below

	Shares		Options over shares	
	31/03/08	30/09/06	31/03/08	30/09/06
A Turner (appointed 15 October 2007)	26,741	N/A	800,000 (see below)	N/A
RC Wright	373,591	60,000	–	–
A J Walker	165,986	41,666	–	–
L A Wiseman	–	–	–	–
M Bazter (appointed 10 October 2007)	–	N/A	–	N/A

During the period, Andrew Turner received an award of options over 800,000 shares under the API Group plc 2006 Performance Share Plan ("the PSP") The award is in the form of "nil cost" options over shares and no price is payable for the grant of the options The right to exercise options is subject to the achievement of certain targets for financial performance over a three year period commencing 1 April 2008

From 1 April 2008 to 22 May 2008 there were no changes in the above interests All the above interests were beneficial at the above dates Andrew Turner was, at 15 October 2007, 31 March 2008 and 22 May 2008, deemed to be interested as a discretionary beneficiary of the Company's No 2 Employee Benefit Trust in all the ordinary shares in the Company held by that trust on those dates Save as mentioned above, no Director had any interest in any share capital of the Company or of any subsidiary

During the period, no Director had an interest in any significant contract relating to the business of the Company or its subsidiaries other than the service contracts of certain Directors and qualifying third party indemnities granted by the Company to each of the Directors, as described in further detail on page 16

During the period, the Company maintained liability insurance for its Directors and Officers and also maintained liability insurance for the benefit of the Trustees of the Group pension scheme

SUBSTANTIAL INTERESTS IN SHARES

The Company has been notified of the following substantial interests in the issued ordinary shares of the Company as at the date of this report

	% of issued share capital
Steel Partners II, LP	35 7
Wynnefield Capital, Inc	31 5
Berggruen Holdings Limited	9 1
Credit Agricole Cheuvreux International Limited	4 5

Except as disclosed above, as at the date of this report, the Directors were not aware of any interests amounting to 3% or more of the issued share capital of the Company

SAFETY, HEALTH AND THE ENVIRONMENT ("SHE")

The Group operates its businesses in a manner which aims to eliminate the possibility of its activities causing harm to people and the environment The Group has established management systems and is advised by qualified personnel to ensure that each of its businesses meets or exceeds all local legal and regulatory requirements in the country or countries in which it operates Audits by external experts are undertaken periodically to verify whether SHE compliance obligations are met and to identify opportunities for continuous improvement Progress towards completion of any recommendations arising from such audits is monitored by the Audit Committee

The Group Chief Executive is accountable to the Board for the overall supervision of the Group's SHE management programme

The environment

The preservation and protection of the environment is an issue of fundamental importance for the Company and each of the operating businesses in the Group The Group's environmental responsibilities are managed through detailed internal systems, with a number of the Group's operating units maintaining certification to the international environmental management standard ISO 14001 During 2007, the Laminates business achieved certification to the Forestry Stewardship Council 'Chain of Custody' standard

API Group complies with all applicable environmental legislation and the Group continues to invest in systems and equipment to ensure that environmental performance is measured and improved in the key areas of eliminating solvent emissions, energy efficiency, noise, waste and packaging management and soil/groundwater protection In excess of 50% of manufacturing waste is recycled

Health and safety

The Board regards the provision by the Group of safe workplaces as a fundamental business responsibility and one which it takes very seriously With the assistance of qualified personnel and input from Safety Committees, all employees of the Group are involved in implementing the Company's Health and Safety Management system

Skill development is a key element of the Group's approach and it encourages this through the organisation and funding of both internal and external health and safety training During 2007, this included nationally accredited health and safety training for managers and employees, as well as hazard-specific training for environmental protection, fire safety, workplace transport, control of hazardous substances and personal protective equipment

A key performance indicator monitored by the Board is the incidence of accidents at work causing an employee to be absent for one day or more (lost time accidents) The number of lost time accidents recorded for the 12 months to 31 March 2008 was thirteen compared to nineteen for the prior 12 month period

EMPLOYEES

The Board is aware of the importance of good relationships and communication with employees The Group continues to inform employees of the progress of the businesses, recognising the value which can be created where there is a common awareness of the financial and economic factors affecting performance The Company encourages continuing consultation and communication at site level so that it may take the views of its employees into account when making decisions which are likely to affect their interests Training and development of employees remains a priority and the Group also operates a number of incentive schemes which encourage employees to contribute directly to the achievement of the Group's goals and reward individual and collective success

Both employment policy and practice in the Group are based on non-discrimination and equal opportunity irrespective of age, race, religion, sex, colour, sexual orientation and marital status The Group endeavors to employ and train disabled people and their aptitudes and abilities are realistically assessed and taken fully into account when suitable vacancies occur Disabled employees have the same opportunities as other employees so far as training, career development and promotion are concerned

The Board has implemented a "Disclosure Policy" to ensure that staff of the Group may, in confidence, raise any allegations of harassment or bullying or any other breach of the Company's policies or values Arrangements are in place for the proportionate and independent investigation of any such allegations and for appropriate follow-up action where required

The Company's pension arrangements for the UK-based employees of the Group are summarised in note 18 to the Consolidated Financial Statements

PAYMENTS TO SUPPLIERS

The Group's policy is normally to pay suppliers according to agreed terms of business Terms are agreed with suppliers upon entering into contracts and the Group's policy is to adhere to the payment terms, providing the supplier meets its obligations The Company is a holding company and had no trade creditors at the end of the financial period

CHARITABLE AND POLITICAL DONATIONS

Charitable donations made by the Group during the period amounted to £1,244 (2006 £650) There were no political donations

GOING CONCERN

The Directors consider that, after making appropriate enquiries and at the time of approving the financial statements, there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future The Directors therefore continue to adopt the going concern basis in preparing the financial statements

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial period The Directors have elected to prepare the financial statements for the Group in accordance with International Financial Reporting Standards, as adopted by the European Union and implemented in the UK 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 Group as at the end of the financial period and of the profit or loss of the Group for that period In preparing those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates which are reasonable and prudent,
- state whether applicable International Financial Reporting Standards have been followed, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business

The Directors confirm that the accompanying financial statements comply with the above requirements

The Directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985 and, going forward, the Companies Act 2006 They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps to prevent and detect fraud and other irregularities

DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 12 Having made enquiries of fellow Directors and of the Company's Auditor, each of those Directors confirms that, as at the date of this report and as far as each Director is aware, there is no relevant audit information of which the Company's Auditor is unaware and each Director has taken such steps as he might reasonably be expected to take as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of such information

AUDITOR

Ernst & Young LLP has expressed its willingness to continue in office as Auditor and, in accordance with Section 489(1) of the Companies Act 2006, a resolution proposing its re-appointment will be put to the members at the 2008 Annual General Meeting

By order of the Board

Roger Hart
Secretary
Poynton
Cheshire
22 May 2008

Corporate Governance

On 12 February 2008, the listing of the Company's shares on the Official List of the London Stock Exchange was cancelled and they were simultaneously listed on the Alternative Investment Market (AIM) AIM rules do not require the Company to comply with the corporate governance best practice provisions set out within section 1 of the Combined Code on Corporate Governance ("the Combined Code") Nevertheless, the Directors believe that good corporate governance remains essential for the Company and accordingly, they have considered the provisions of the Combined Code, in the context of the Company's size and resources Set out below are the principles of the Combined Code which the Board has adopted for the future and how the Group has applied those principles

THE BOARD

The Board currently comprises a Non-executive Chairman, one Executive Director and three Non-executive Directors As reflected in the biographical details of the Directors given in the Directors' Report on page 13, the Directors have a wide range of business, financial, general and international experience which they can contribute to the Group

Richard Wright and Andrew Walker are considered to be independent of management and free from any business or other relationships which could materially interfere with the exercise of their independent judgment Luke Wiseman and Max Batzer have each been designated by the Board as non-independent by virtue of their associations with Steel Partners II L P and Wynnefield Capital, Inc respectively, both major shareholders

The Board appoints one of the independent Non-executive Directors to be the Senior Independent Director During the period, Andrew Walker fulfilled this role

The Chairman is primarily responsible for the workings of the Board and ensuring that its role is achieved and he is not involved in day to day operational issues The division of responsibility between the Chairman and the Group Chief Executive has been set out in writing and agreed by the Board Save for matters reserved for decision by the Board, the Group Chief Executive, with the support of the Chief Financial Officer, is responsible for the running of the Group's business, carrying out the agreed strategy adopted by the Board and implementing specific Board decisions relating to the operation of the Group

The Board meets on a regular basis and, during the period ended 31 March 2008 and in addition to other ad hoc meetings as required, met formally 17 times Appropriate documentation and financial information is provided on a monthly basis and also in advance of each Board meeting This normally includes monthly management accounts, reports on current trading and papers on matters in respect of which the Board makes decisions or is invited to give its approval Regular reports are given to the Board on such matters as insurance and treasury issues, legal matters, pensions and safety, health and environmental issues Specific presentations are also made on business or strategic issues when appropriate Regular presentations are received from the General Manager of each of the Group's principal operating businesses in respect of its market position, current trading and prospects and from other senior managers responsible for key functions or projects

The Board has a formal schedule of reserved powers, which it retains for Board decision-making on a range of key issues, including the formulation of strategy, financial reporting and controls, corporate governance matters, treasury and risk management and the remuneration policy for Executive Directors and other senior executives of the Group A procedure has been adopted for Directors to obtain independent professional advice, where appropriate, at the cost of the Company and all Directors have unrestricted access to the Company Secretary In relation to non-reserved matters, the Board is assisted by a number of committees with delegated authority Further details in respect of each of the Audit Committee and the Remuneration Committee are set out on pages 17 and 18 respectively The other principal standing committee is the Nominations Committee which is responsible for nominating candidates (both Executive and Non-executive) for the approval of the Board to fill vacancies or appoint additional persons to the Board It is also responsible for making recommendations regarding the composition and balance of the Board and succession planning for other senior executives

During the period the Nominations Committee comprised Richard Wright, Andrew Walker and Brian Birkenhead and the Group Chief Executive - previously David Walton and since his appointment, Andrew Turner On 15 May 2008, the Board reviewed the membership of the Committee in the light of the changes to the Board and the Committee now comprises Richard Wright, Andrew Turner and Max Batzer who now chairs the Committee

The Board has formally adopted an induction programme for new Directors which is tailored to each new Director who joins the Board and includes briefings regarding the activities of the Group and visits to the operating units The Board has also established a formal process, led by the Chairman, for the annual evaluation of the performance of the Board, its principal Committees and individual Directors, following which the Board takes any appropriate action to ensure that the performance of the Board as a whole, of its principal Committees and of each individual Director is such that each can perform at the optimum level for the benefit of the Company

Throughout the period and as at the date of this report, the Articles of Association of the Company contained provisions for the benefit of Directors officers and employees of the Company and its subsidiary and associated companies to indemnify them out of the assets of the Company to the full extent allowed by the law against liabilities incurred by them in the course of carrying out their duties In addition, and in accordance with the Company's Memorandum and Articles of Association, the Company has granted qualifying third party indemnities to each of its current Directors in respect of any liability which attaches to them in defending proceedings brought against them, to the extent permitted by the Companies Acts Copies of such indemnities are available for inspection upon application to the Company Secretary

ACCOUNTABILITY AND AUDIT

All the Directors are equally accountable under law for the proper stewardship of the Group's affairs The Board acts in a way which allows all Directors to bring their independent judgment to bear on issues of strategy, performance and resources, including key appointments and standards of conduct

AUDIT COMMITTEE

During the period, the Audit Committee comprised Brian Birkenhead, Andrew Walker and Richard Wright It was chaired by Mr Birkenhead until his resignation from the Board with effect from 30 April 2008 and, with effect from 1 May 2008, Andrew Walker became its chairman on and from 15 May 2008, Luke Wiseman replaced Richard Wright as a member of the Committee The Committee meets at least three times per year and the Company's Auditor is normally in attendance Andrew Walker is experienced in chairing audit committees

The Audit Committee reviews a wide range of accounting and financial reporting matters on behalf of the Board It reviews the internal and external audit activities, monitors compliance with statutory requirements for financial reporting and reviews the half year and annual financial statements before they are presented to the Board for approval The terms of reference of the Audit Committee also include keeping under review the scope and results of the audit and its cost effectiveness and the independence and objectivity of the Auditor The Committee is also required to review the nature and extent of non-audit services provided by the Auditor (in order to seek to balance the maintenance of objectivity and value for money), the effectiveness of the Group's internal control systems and the scope and remit of the Company's Internal Auditor At least once each year, the Audit Committee meets with the Auditor without the Executive Directors present The Audit Committee also monitors progress towards implementation of any recommendations arising from audits by external experts of the Group's compliance with its SHE obligations

During the period, the Committee conducted a review of various matters, including the following

- the Company s interim and annual financial statements and formal announcements on financial performance before submission to the Board for approval,
- the Group's risk profile and the effectiveness of the Group's accounting systems and internal controls,
- the Group's internal audit process, the effectiveness of the Internal Auditor and the 2007/08 internal audit plan,
- the provision of audit and non-audit services provided by the external Auditor, their audit fees and their independence and objectivity, and
- the Group's treasury operations, including net debt levels, facility headroom, compliance with banking covenants and level and appropriateness of hedging arrangements

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for ensuring that the Group maintains a system of internal controls and the Audit Committee, on behalf of the Board, has formally reviewed the effectiveness of the internal control system of the Group for the period ended 31 March 2008

The key processes used in doing so included the following

- review of Group risk assessment reports,
- production and regular updating of summaries of key controls,
- review of reports prepared throughout the period by the Internal Auditor,
- biannual confirmations from local management that the procedures set out in the Group's financial policy manual have been followed,
- reporting of the outcome of the Audit Committee meetings by the Chairman of the Audit Committee to the Board and the Board receiving minutes of those meetings, and
- review of the role of insurance in transferring risk from the Group

There is an ongoing process for identifying, evaluating and managing the business risks faced by the Group and this process was in place for the period under review and up to the date of this Directors' Report Business risks are identified and evaluated through senior management's ongoing review of progress against strategic objectives agreed with the management team of each business in the Group and a system of formal risk assessments within each part of the Group

The Group has also established and operates a number of key internal financial control procedures including the promulgation and policing of a written framework of financial reporting and operating procedures in accordance with generally accepted accounting practice, appropriate central review and approval procedures in respect of major areas of risk (such as acquisitions and disposals, major contracts, capital expenditure, litigation, treasury management, taxation and environmental issues), detailed budgeting procedures with an annual budget approval, monthly consideration of actual results compared with budgets and forecasts, regular reviews of rolling profit and cash flow forecasts, regular reviews of the Group capital expenditure plan, and reporting of legal and accounting developments

The internal audit function is contracted out to an external supplier to ensure a robust and effective service The Internal Auditor is tasked to focus on areas of greatest risk as identified and approved from time to time by the Audit Committee

Reviews of the control checklists and comprehensive management information are performed on a timely basis Any significant weaknesses are brought to the attention of the Audit Committee and the Board and corrective action agreed and implemented The control checklists are reviewed and substantially verified by the Internal Auditor

REMUNERATION COMMITTEE

During the period, the Committee comprised Andrew Walker and Brian Birkenhead and was chaired by Andrew Walker Brian Birkenhead resigned from the Board with effect from 30 April 2008 and Richard Wright was appointed to the Committee in his place Richard Wright was replaced by Max Batzer on 15 May 2008 The Committee therefore comprises with effect from 15 May 2008, Andrew Walker and Max Batzer and is chaired by Andrew Walker On occasions and for matters not related to him, the Group Chief Executive is consulted on proposals relating to the remuneration of members of the Group's senior management team and he also attends meetings of the Committee by invitation

The Committee, on behalf of the Board and with input from external advisers as appropriate, determines all elements of the remuneration packages of the Executive Directors and the framework and broad policy for the remuneration of other members of the senior executive management of the Group to ensure that they are fairly rewarded for their individual contribution to the Company's overall performance, approves the terms of service contracts with Executive Directors, approves any compensation arrangements resulting from the termination by the Company of a Director's service contract and approves the grant of long term incentives

No Director was involved in deciding the level and composition of his own remuneration The remuneration of Non-executive Directors, other than the Chairman, is reviewed and determined by the other members of the Board The remuneration of the Chairman is reviewed and determined on behalf of the Board by the Committee (with the Chairman playing no part in the related decisions)

Following the listing of the Company's shares on AIM, the Board has resolved that the annual fees payable to Richard Wright, as Non-executive Chairman, should be reduced from £70,000 to £50,000 and that the annual fees payable to Andrew Walker, as Senior Independent Director, should be reduced from £32,500 to £30,000, each change to take effect from 1 May 2008

RELATIONS WITH SHAREHOLDERS

The Company is committed to maintaining open, effective and ongoing communications with shareholders Presentations are made to institutional shareholders covering the interim and preliminary results and the Company seeks regular contact with its major shareholders Any significant events affecting the Group and any appropriate updates on current trading are published, as appropriate All shareholders have the opportunity formally and informally to put questions at the Company's Annual General Meeting and the Chairman usually makes a statement on current trading conditions at that meeting It is the Company's practice to propose separate resolutions on each substantially separate issue at the Annual General Meeting The Chairmen of the Remuneration, Nominations and Audit Committees normally attend the Annual General Meeting to answer questions which may be relevant to the work of those Committees The Chairman also advises shareholders on the proxy voting details for each of the resolutions after the resolution is put to the meeting

The Company's Financial Calendar is set out on page 60 The Company's website provides financial and other business information about the Group, including an archive of past announcements and annual reports and share price information

Auditor's Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF API GROUP PLC

We have audited the group financial statements (the "financial statements") of API Group plc for the period ended 31 March 2008 which comprise the Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes 1 to 26 These financial statements have been prepared under the accounting policies set out therein

We have reported separately on the parent company financial statements of API Group plc for the period ended 31 March 2008

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

The directors responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities

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 whether the group financial statements have been 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 The information given in the Directors' Report includes that specific information presented in the Chief Executive's and Financial Reviews that is cross referred from the Results and Dividends section of the Directors' Report

In addition we report to you if, in our opinion, 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 other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements The other information comprises only the Chairman's Statement, the Chief Executive's Review, the Financial Review and the Directors' Report We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

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 group financial statements, and of whether the accounting policies are appropriate to the group's and 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 group 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 group financial statements

Opinion

In our opinion

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 March 2008 and of its loss for the period then ended,
- the group 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

Ernst & Young LLP
Registered auditor
Manchester
22 May 2008

Group Income Statement

for the eighteen months ended 31 March 2008

	Note	Eighteen months ended 31 March 2008 £'000	Year ended 30 September 2006 £'000
Continuing operations			
Revenue	2	**143,783**	101,979
Cost of sales		**(115,120)**	(80,656)
Gross profit		**28,663**	21,323
Other operating costs		**(28,255)**	(20,329)
Operating profit before exceptional items	2	**408**	994
Exceptional items	5	**(3,417)**	(863)
Operating (loss) / profit from continuing operations	2,3	**(3,009)**	131
Finance revenue	6	**292**	85
Finance costs	6	**(4,418)**	(2,009)
		(4,126)	(1,924)
Loss on continuing activities before taxation		**(7,135)**	(1,793)
Tax credit / (expense)	7	**407**	(735)
Loss from continuing operations		**(6,728)**	(2,528)
Discontinued operations			
Loss from discontinued operations	8	**(1,130)**	(230)
Loss for the period		**(7,858)**	(2,758)
Attributable to			
Profit attributable to minority equity interest		**137**	695
Loss attributable to equity holders of the parent		**(7,995)**	(3,453)
Total loss for the period		**(7,858)**	(2,758)
Earnings per ordinary share (pence)			
Basic loss per share from continuing operations	9	**(16 7)**	(8 9)
Diluted loss per share from continuing operations	9	**(16 7)**	(8 9)
Basic loss per share on loss for the period	9	**(19 5)**	(9 5)
Diluted loss per share on loss for the period	9	**(19 5)**	(9 5)

Group Statement of Recognised Income and Expense

for the eighteen months ended 31 March 2008

	Note	Eighteen months ended 31 March 2008 £'000	Year ended 30 September 2006 £'000
Exchange differences on retranslation of foreign operations		**489**	(972)
Actuarial gains / (losses) on defined benefit pension plans	18	**5,936**	(1,311)
Tax on items taken directly to or transferred from equity	7	**(1,852)**	393
Net income / (expense) recognised directly in equity		**4,573**	(1,890)
Loss for the period		**(7,858)**	(2,758)
Total recognised income and expense for the year		**(3,285)**	(4,648)
Attributable to			
Equity holders of the parent		**(3,734)**	(5,176)
Minority equity interests		**449**	528
		(3,285)	(4,648)

Group Balance Sheet

at 31 March 2008

	Note	31 March 2008 £'000	30 September 2006 £'000
Assets			
Non-current assets			
Property, plant and equipment	10	**30,901**	30,500
Intangible assets - goodwill	11	**6,480**	6,480
Deferred tax assets	7	**2,062**	3,263
		39,443	40,243
Current assets			
Trade and other receivables	12	**17,440**	20,112
Inventories	13	**11,760**	13,195
Other financial assets - forward currency hedging contracts		**108**	-
Cash and short-term deposits	14	**2,131**	4,909
		31,439	38,216
Total assets		**70,882**	78,459
Liabilities			
Current liabilities			
Trade and other payables	15	**18,762**	22,306
Financial liabilities	16	**6,794**	1,758
Income tax payable		**588**	379
Provisions	17	**83**	306
		26,227	24,749
Non-current liabilities			
Financial liabilities	16	**13,041**	18,674
Deferred tax liabilities	7	**363**	659
Provisions	17	**70**	93
Defined benefit pension plan deficit	18	**3,482**	10,879
		16,956	30,305
Total liabilities		**43,183**	55,054
Net assets		**27,699**	23,405
Equity			
Called up share capital	19	**8,998**	8,612
Share premium	20	**7,136**	244
Other reserves	20	**298**	298
Foreign exchange reserve	20	**(188)**	(366)
Retained earnings	20	**5,568**	9,179
API Group shareholders' equity		**21,812**	17,967
Minority interest	20	**5,887**	5,438
Total equity		**27,699**	23,405

Signed on behalf of the Board
A Turner
22 May 2008

Group Cash Flow Statement

for the eighteen months ended 31 March 2008

	Note	Eighteen months ended 31 March 2008 £'000	Year ended 30 September 2006 £'000
Operating activities			
Group operating (loss) / profit		**(3,009)**	131
Adjustments to reconcile group operating profit to net cash flows from operating activities			
Operating loss from discontinued operations		–	(230)
Depreciation of property, plant and equipment		**5,498**	3,457
Impairment of property, plant and equipment		**1,881**	–
Profit on disposal of property, plant and equipment		**(263)**	(22)
Share-based payments		**300**	131
Difference between pension contributions paid and amounts recognised in the income statement		**(1,489)**	(835)
Decrease / (increase) in inventories		**1,611**	(870)
Decrease / (increase) in trade and other receivables		**1,211**	(523)
Decrease in trade and other payables		**(4,118)**	(1,120)
Movement in provisions		**(232)**	(293)
Cash generated from / (used in) operations		**1,390**	(174)
Income taxes paid		**(359)**	(656)
Net cash flow from operating activities		**1,031**	(830)
Investing activities			
Interest received		**184**	85
Purchase of property, plant and equipment		**(8,180)**	(6,140)
Sale of property, plant and equipment		**730**	244
Sale of subsidiary undertakings		**984**	–
Net cash flow from investing activities		**(6,282)**	(5,811)
Financing activities			
Interest paid		**(3,280)**	(2,047)
Dividends paid to minority interests		–	(487)
Proceeds from share issues		**7,278**	53
New borrowings		**2,330**	1,956
Repayment of borrowings		**(3,459)**	–
Net cash flow from financing activities		**2,869**	(525)
Decrease in cash and cash equivalents		**(2,382)**	(7,166)
Effect of exchange rates on cash and cash equivalents		**51**	116
Cash and cash equivalents at the beginning of the period	14	**3,346**	10,396
Cash and cash equivalents at the end of the period	14	**1,015**	3,346

Notes to the Consolidated Financial Statements

1 GROUP ACCOUNTING POLICIES

Authorisation of financial statements and statement of compliance with IFRS

The Group's financial statements for the eighteen months ended 31 March 2008 were authorised for issue by the Board of Directors on 22 May 2008 and the balance sheet was signed on the Board's behalf by A Turner

API Group plc is a public company incorporated and domiciled in England & Wales The company's ordinary shares are traded on the Alternative Investment Market of the London Stock Exchange

Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) The Group has applied optional exemptions available to it under IFRS 1

The principal accounting policies which follow set out those policies which apply in preparing the financial statements for the eighteen months ended 31 March 2008 These policies have been consistently applied to all periods presented unless otherwise stated

Four interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) are effective for the current period These are IFRIC 7 "Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies", IFRIC 8 "Scope of IFRS 2", IFRIC 9 "Reassessment of Embedded Derivatives" and IFRIC 10 "Interim Financial Reporting and Impairment" The adoption of these Interpretations has not led to any changes in the Group's accounting policies

During the period, the IASB and IFRIC have issued certain standards and interpretations which have an effective date after the commencement of the current financial period (1 October 2006) These are Amendment to IFRS 2 – Vesting Conditions and Cancellations, IFRS 3 Business Combinations (revised January 2008), IFRS 7 Financial Statements Disclosures and the consequential amendments to IAS 1 Presentation of Financial Statements, IFRS 8 Operating Segments, IAS 1 (Revised) Presentation of Financial Statements, IAS 23 (Revised) Borrowing Costs, IAS 27 Consolidated and Separate Financial Statements (revised January 2008), IFRIC 12 Service Concession Arrangements, IFRIC 13 Customer Loyalty Programmes, IFRIC 14 IAS 19 – the Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

These standards and interpretations have not been adopted in these financial statements The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements on initial adoption The impact of IAS1 (revised) will be disclosure only

IFRS 7 will be adopted in the financial statements for the year ended 31 March 2009 All other standards and interpretations listed above will be adopted in the financial statements for the year ended 31 March 2010

The consolidated financial statements are presented in sterling and all values are rounded to the nearest thousand (£'000) except when otherwise indicated

Significant judgements and estimates

The preparation of the financial statements requires management to make judgements, estimates and assumptions that effect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the period However, the nature of estimation means that actual outcomes could differ from those estimates Details regarding judgements which have the most significant effect on the amounts recognised in the financial statements are covered in the notes to the accounts

Basis of consolidation

The consolidated accounts comprise those of the parent company and its subsidiary undertakings for the eighteen months ended 31 March 2008 The results for the subsidiary undertakings are included for the full period except where control is acquired or sold during the period, when results are included from or to the date of acquisition or sale

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full

Minority interest represents the portion of profit or loss and net assets in subsidiaries that is not held by the group and is presented separately within equity in the consolidated balance sheet, separate from parent shareholders' equity

Business combinations and goodwill

On the acquisition of a business, fair values are attributed to the net assets acquired Goodwill arises where the fair value of the consideration given for a business exceeds the fair value of such net assets

Goodwill arising on acquisitions is capitalised and subject to impairment review, both annually and when there are indications that the carrying value may not be recoverable Between 5 October 1997 and 1 October 2004 goodwill was amortised over its estimated useful life Such amortisation ceased on 30 September 2004 The Group's policy before 5 October 1997 was to eliminate goodwill arising upon acquisitions against reserves Under IFRS 1 and IFRS 3, such goodwill will remain eliminated against reserves

For the purposes of impairment testing, goodwill is allocated to the related cash-generating units monitored by management Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the income statement

Revenue recognition

Revenue represents the value of goods sold to third parties excluding value added tax, less estimated rebates, returns and settlement discounts It is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be reliably measured This is normally the date of despatch

1 GROUP ACCOUNTING POLICIES (CONTINUED)

Exceptional items

Exceptional items are material items which derive from events or transactions that fall within the ordinary activities of the Group and which need to be disclosed by virtue of their size or incidence

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses The Group's policy is to write off the difference between the cost of each item of property, plant and equipment and its residual value systematically over its estimated useful life Annual reviews are made of the estimated remaining lives and residual values of individual productive assets, taking account of commercial and technological obsolescence as well as normal wear and tear Under this policy it is impractical to indicate average asset lives exactly but the indicative ranges are as follows

- Freehold buildings and long leasehold property – 14 to 50 years
- Plant and machinery – 5 to 20 years
- Office and IT equipment – 3 to 10 years

Freehold land is not depreciated

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised

As permitted by IFRS 1, property previously revalued before the transition date of 1 October 2004 has been treated as deemed cost at the transition date

Borrowing costs are not capitalised

Intangible assets

Intangible assets acquired separately from a business are capitalised at cost Intangible assets acquired with a business acquisition are capitalised at fair value at the date of acquisition if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably The useful lives of intangible assets are assessed as finite or indefinite

The carrying values of intangible assets are reviewed annually for impairment or if events or changes in circumstances indicate the carrying value may not be recoverable Intangible assets, created within the business are not capitalised and expenditure is charged against income as it is incurred

Research costs

Research costs are expensed as incurred

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight line basis over the lease term

Inventories

Inventories are stated at the lower of cost and estimated net realisable value Cost is determined on a first in first out basis Cost of work in progress and finished goods comprises the cost of raw materials, direct labour and overheads attributable to the production of stock Net realisable value comprises the estimated selling value less selling costs

Trade and other receivables

Trade and other receivables are recognised and carried at original invoice value less an allowance for any amounts which may not be collectible Should an amount become uncollectible, it is written off to the income statement in the period in which it is identified

Cash and cash equivalents

Cash and cash equivalents principally comprise funds held with banks and other financial institutions with an original maturity of three months or less For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts

Financial liabilities - interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value of the consideration received net of issue costs associated with the borrowing After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost under the effective interest rate method

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain The expense relating to any provision is presented in the income statement net of any reimbursement If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability Where discounting is used the increase in the provision due to the passage of time is recognised as a finance cost

1. GROUP ACCOUNTING POLICIES (CONTINUED)

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss,
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future, and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity Otherwise income tax is recognised in the income statement

Pensions and other post-retirement benefits

The cost of providing benefits under the defined benefit pension plans is determined separately for each plan using the projected unit credit method, which attributes entitlements to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice Past service costs are recognised in profit or loss on a straight line basis over the vesting period or immediately if the benefits have vested When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in the future entitlement) occurs the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs

The interest element of the defined benefit pension cost represents the change in present value of scheme obligations resulting from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year The expected return on plan assets is based on an assessment made at the beginning of the year of long term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year The difference between the expected return on plan assets and the interest cost is recognised in the income statement as other finance income or expense

Actuarial gains and losses are recognised in full in the statement of recognised income and expense in the period in which they occur

The defined benefit pension liability in the balance sheet comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less any past service cost not yet recognised and less fair value of plan assets out of which the obligations are to be settled directly Fair value is based on market price information and in the case of quoted securities is the published bid price

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable

Share based payments

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award Fair value is determined by an external valuer using the Monte-Carlo pricing model In valuing equity-settled transactions, no account is taken of any vesting conditions other than conditions linked to the price of the shares of the company (market conditions)

An expense is recognised in the income statement for all awards irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity

1 GROUP ACCOUNTING POLICIES (CONTINUED)

Employee Share Option Trust ("ESOP Trust")

The Company has a discretionary trust established to facilitate the operation of the Company's executive share option schemes Shares in API Group plc held by the ESOP Trust are classified in shareholders equity and are recognised at cost Amounts received on exercise of these options are also recognised in equity, with any difference between proceeds from the exercise of these options and the original cost being taken to revenue reserves No gain or loss is recognised in the financial statements on the purchase, sale, issue or cancellation of equity shares

Foreign currencies

The assets and liabilities of overseas subsidiary undertakings are translated into sterling at rates ruling at the balance sheet date Income and expenses are translated at the average rates for the period The exchange differences arising on the translation of the financial statements of foreign subsidiary undertakings are taken directly to a separate component of equity On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement

Transactions in foreign currencies are recorded at the rate 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 All translation differences are taken to the income statement

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations Such derivative instruments are measured at fair value on the date which the derivative contract is entered into and are subsequently remeasured at fair value at the balance sheet date Derivatives are carried as assets if the fair value is positive and liabilities if the fair value is negative

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles The fair value of interest rate swaps is determined by reference to market values for similar instruments

Hedge accounting is adopted when the hedging relationship is formally designated and documented on inception Such hedges are expected to be highly effective in offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine whether they have been highly effective during the reporting period for which they were designated During the periods to 31 March 2008, hedge accounting has not been applied Gains and losses arising from the changes in the fair value of derivatives that do not qualify for hedge accounting are taken to finance revenue or finance costs in the income statement

2 SEGMENTAL ANALYSIS

The primary segment reporting format is determined to be geographical At 31 March 2008, the Group is organised into three distinct independently managed geographic segments in accordance with the location of assets, Europe, North America and Asia Pacific Secondary segmental information is reported by business segment

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties

Primary reporting format
By geographic segment

	Eighteen months ended 31 March 2008 Continuing and Total £'000	Year ended 30 September 2006 Continuing £'000	Discontinued £'000	Total £'000
Total revenue by origin				
Europe	**100,113**	68,367	–	68,367
North America	**33,796**	25,958	129	26,087
Asia Pacific	**15,863**	12,775	–	12,775
	149,772	107,100	129	107,229
Inter-segmental revenue				
Europe	**4,353**	3,115	–	3,115
North America	**513**	494	–	494
Asia Pacific	**1,123**	1,512	–	1,512
	5,989	5,121	–	5,121
External revenue by origin				
Europe	**95,760**	65,252	–	65,252
North America	**33,283**	25,464	129	25,593
Asia Pacific	**14,740**	11,263	–	11,263
Segment revenue	**143,783**	101,979	129	102,108
External revenue by destination				
UK	**50,528**	34,398	14	34,412
Continental Europe	**42,350**	25,467	–	25,467
Americas	**30,953**	25,769	106	25,875
Asia Pacific	**17,002**	12,681	9	12,690
Africa	**2,950**	3,664	–	3,664
	143,783	101,979	129	102,108

No revenue arises from discontinued businesses in the eighteen months ended 31 March 2008

All revenue is derived from the sale of goods

2 SEGMENTAL ANALYSIS (CONTINUED)

	Eighteen months ended 31 March 2008			Year ended 30 September 2006		
	Continuing £'000	Discontinued £'000	Total £'000	Continuing £'000	Discontinued £'000	Total £'000
Operating profit / (loss)						
Europe						
before exceptional items	2,481	–	2,481	205	–	205
exceptional items	(790)	–	(790)	(597)	–	(597)
	1,691	–	1,691	(392)	–	(392)
North America						
before exceptional items	1,560	–	1,560	1,521	(53)	1,468
exceptional items	297	–	297	(242)	(177)	(419)
	1,857	–	1,857	1,279	(230)	1,049
Asia Pacific						
before exceptional items	(289)	–	(289)	1,276	–	1,276
exceptional items	238	–	238	–	–	–
	(51)	–	(51)	1,276	–	1,276
Central costs						
before exceptional items	(3,344)	–	(3,344)	(2,008)	–	(2,008)
exceptional items	(3,162)	–	(3,162)	(24)	–	(24)
	(6,506)	–	(6,506)	(2,032)	–	(2,032)
Total operating profit / (loss) before exceptional items	408	–	408	994	(53)	941
Exceptional items	(3,417)	–	(3,417)	(863)	(177)	(1,040)
Segment result						
Total operating profit / (loss)	(3,009)	–	(3,009)	131	(230)	(99)
Loss on disposal of discontinued operations	–	(1,130)	(1,130)	–	–	–
Profit / (loss) before finance costs and taxation	(3,009)	(1,130)	(4,139)	131	(230)	(99)
Net finance costs	(4,126)	–	(4,126)	(1,924)	–	(1,924)
Loss before taxation	(7,135)	(1,130)	(8,265)	(1,793)	(230)	(2,023)
Tax credit / (expense)	407	–	407	(735)	–	(735)
Loss for the period	(6,728)	(1,130)	(7,858)	(2,528)	(230)	(2,758)

2. SEGMENTAL ANALYSIS (CONTINUED)

	Eighteen months ended 31 March 2008 Continuing and Total £'000	Year ended 30 September 2006 Continuing £'000	Discontinued £'000	Total £'000
Assets and liabilities				
Assets				
Europe	**36,322**	45,887	–	45,887
North America	**13,618**	14,726	–	14,726
Asia Pacific	**16,641**	9,674	–	9,674
Segment assets	**66,581**	70,287	–	70,287
Unallocated	**4,301**	8,150	22	8,172
	70,882	78,437	22	78,459
Liabilities				
Europe	**18,781**	29,021	–	29,021
North America	**2,128**	2,978	–	2,978
Asia Pacific	**1,488**	1,585	–	1,585
Segment liabilities	**22,397**	33,584	–	33,584
Unallocated	**20,786**	21,470	–	21,470
	43,183	55,054	–	55,054
Other segment information				
Capital expenditure				
Europe	**2,219**	2,280	–	2,280
North America	**668**	1,468	–	1,468
Asia Pacific	**5,293**	2,392	–	2,392
	8,180	6,140	–	6,140
Depreciation				
Europe	**3,676**	2,413	–	2,413
North America	**1,022**	617	41	658
Asia Pacific	**800**	386	–	386
	5,498	3,416	41	3,457

2 SEGMENTAL ANALYSIS (CONTINUED)

Secondary reporting format

By business segment

	Eighteen months ended 31 March 2008 Continuing and Total £'000	Year ended 30 September 2006 Continuing £'000	Discontinued £'000	Total £'000
Total revenue				
Foils	**94,417**	65,075	–	65,075
Laminates	**50,891**	37,254	–	37,254
Chromagem	**–**	–	129	129
	145,308	102,329	129	102,458
Inter-segmental revenue				
Foils	**1,525**	350	–	350
Laminates	**–**	–	–	–
Chromagem	**–**	–	–	–
	1,525	350	–	350
External revenue				
Foils	**92,892**	64,725	–	64,725
Laminates	**50,891**	37,254	–	37,254
Chromagem	**–**	–	129	129
Segment revenue	**143,783**	101,979	129	102,108
Assets				
Foils	**54,650**	54,042	–	54,042
Laminates	**11,931**	16,245	–	16,245
Chromagem	**–**	–	–	–
Segment assets	**66,581**	70,287	–	70,287
Unallocated	**4,301**	8,150	22	8,172
	70,882	78,437	22	78,459
Capital expenditure				
Foils	**7,848**	4,039	–	4,039
Laminates	**332**	2,101	–	2,101
Chromagem	**–**	–	–	–
Segment capital expenditure	**8,180**	6,140	–	6,140

Notes to the Consolidated Financial Statements (continued)

3. OPERATING (LOSS) / PROFIT

	Eighteen months ended 31 March 2008 £'000	Year ended 30 September 2006 £'000
This is stated after charging / (crediting)		
Research and development expenditure expensed during the period	**1,369**	980
Depreciation of property, plant and equipment	**5,498**	3,457
Profit on disposal of property, plant and equipment	**(263)**	(22)
Cost of inventories recognised as an expense	**78,431**	52,316
Including write-down of inventories to net realisable value	**2,917**	1,613
Net foreign currency differences	**162**	73
Operating lease payments - minimum lease payments	**1,330**	548
Audit of the financial statements	**128**	123
Other fees payable to the Group's auditors		
-audit of the group pension scheme	**8**	8
-local statutory audits for subsidiaries	**76**	87
-services relating to corporate finance transactions	**230**	-
-other services	**55**	60

4. STAFF COSTS AND DIRECTORS' EMOLUMENTS

	Eighteen months ended 31 March 2008 £'000	Year ended 30 September 2006 £'000
Wages and salaries	**30,502**	22,177
Social security costs	**2,856**	2,391
Pension costs		
- defined benefit (note 18)	**1,074**	767
- defined contribution (note 18)	**135**	105
- non contributory pension schemes	**136**	110
	34,703	25,550

Included in wages and salaries is a total expense for share-based payments of £301,000 (2006 £131,000)
Details of share-based payments are included in note 21

The average monthly number of employees during the period was made up as follows

	Eighteen months ended 31 March 2008 No	Year ended 30 September 2006 No
Foils	**735**	744
Laminates	**125**	155
Head office	**39**	35
	899	934

4 STAFF COSTS AND DIRECTORS' EMOLUMENTS (CONTINUED)

Directors' emoluments

	Eighteen months ended 31 March 2008 £'000	Year ended 30 September 2006 £'000
Total		
Aggregate emoluments	**1,074**	624
Contributions to defined contribution schemes (2 directors)	**22**	-
Compensation for loss of office	**276**	33
	1,372	657
Highest paid director		
Aggregate emoluments	**362**	312
Contributions to defined contribution schemes	**-**	-
Compensation for loss of office	**156**	-
	518	312

No current director is a member of the defined benefit pension scheme

5 EXCEPTIONAL ITEMS

	Eighteen months ended 31 March 2008 £'000	Year ended 30 September 2006 £'000
Exceptional items charged against operating profit comprise		
Restructuring of UK operating businesses	**(790)**	(597)
Charlotte facility closure	**297**	(242)
Rationalisation of Group costs	**(1,281)**	(24)
Impairment of fixed assets	**(1,881)**	-
Factory relocation - China	**238**	-
	(3,417)	(863)

Restructuring of UK operating businesses

These relate to employee redundancy, relocation and other one-off costs In the eighteen months to 31 March 2008 this related largely to redundancy and other costs associated with business improvement measures within the UK businesses

Charlotte factory closure

In the year ended 30 September 2006, provision was made in respect of the estimated closure costs of the Charlotte factory in the United States In the eighteen months to 31 March 2008, these costs were utilised and the factory site was sold, realising a gain on disposal

Rationalisation of Group costs

These costs relate to the severance and other related costs in respect of a number of senior executives who were made redundant during the period The costs include compensation for loss of office paid to the former Chief Executive and the former Group Finance Director

Impairment of fixed assets

As part of the review of Group costs, the project to install Oracle IT systems throughout the Group was suspended As there will be no further implementation of the system for the forseeable future capitalised costs incurred to date relating to businesses where Oracle has not yet been installed have been fully impaired

Factory relocation - China

During the period, the Group's subsidiary in China, Shanghai Shen Yong received compensation for sale of a parcel of land acquired by the local authorities as a first stage of a full relocation of the Shanghai factory The compensation was £541,000, net of costs incurred as a direct result of the compulsory acquisition Offset against this amount is £303,000 in relation to initial relocation costs, including dual running costs, of the new facility

6. FINANCE REVENUE AND FINANCE COSTS

	Eighteen months ended 31 March 2008 £'000	Year ended 30 September 2006 £'000
Finance revenue		
Interest receivable on bank and other short term deposits	**33**	85
Gains arising on forward foreign currency contracts	**259**	-
	292	85
Finance costs		
Interest payable on bank loans and overdrafts	**(3,556)**	(1,698)
Other interest payable	**(92)**	-
Losses arising on forward foreign currency contracts	**(433)**	-
Unrealised loss on interest rate swap	**(260)**	-
Finance cost in respect of defined benefit pension plans	**(77)**	(311)
	(4,418)	(2,009)

7. TAXATION

(a) Tax on loss on ordinary activities

	Eighteen months ended 31 March 2008 £'000	Year ended 30 September 2006 £'000
Tax credited / (charged) in the income statement		
Current income tax		
UK Corporation tax	-	-
Foreign tax	**(525)**	(613)
Total current income tax expense	**(525)**	(613)
Deferred tax		
Origination and reversal of temporary differences		
- defined benefit pension plan	**(407)**	(281)
- tax losses	**915**	-
- accelerated capital allowances	**(7)**	(121)
- other short term timing differences	**437**	-
- effect of change in deferred tax rate	**(6)**	-
	932	(402)
Adjustment to previous year	-	280
Total deferred tax credit / (expense)	**932**	(122)
Tax credit / (expense) in the income statement (continuing operations)	**407**	(735)

There was no income or deferred tax on discontinued operations

Tax relating to items credited / (charged) to equity

Deferred tax		
Actuarial gains and losses on pension schemes – in respect of the current period	**(1,662)**	393
– effect of change in tax rate	**(190)**	-
	(1,852)	393

7 TAXATION (CONTINUED)

(b) Reconciliation of the total tax charge

The tax expense in the income statement for the period is higher than the standard rate of corporation tax in the UK of 30% (2006 30%) The differences are reconciled below

	Eighteen months ended 31 March 2008 £'000	Year ended 30 September 2006 £'000
Loss before taxation from continuing operations	**(7,135)**	(1,793)
Loss before taxation from discontinued operations	**(1,130)**	(230)
Accounting loss before income tax	**(8,265)**	(2,023)
Accounting loss multiplied by the UK standard rate of corporation tax of 30% (2006 30%)	**(2,480)**	(607)
Adjustments to tax in respect of prior period - deferred tax	**–**	(280)
Adjustments in respect of foreign tax rates	**10**	(28)
Additional tax on overseas dividends	**–**	18
Losses for which deferred tax is not recognised	**1,308**	676
Other temporary differences for which deferred tax is not recognised	**1,045**	869
Initial recognition of US tax losses	**(915)**	–
Change in deferred tax rate	**129**	–
Expenses not deductible for tax purposes	**139**	87
Disposal of discontinued operations	**357**	–
Total tax (credit) / expense reported in the income statement	**(407)**	735

(c) Unrecognised tax losses

The Group has tax losses arising in the UK of £5,702,000 (2006 £2,013,000) that are available and may be offset against future taxable profits of those businesses in which the losses arose The UK tax group also has capital allowances of £27,261,000 (2006 £26,900,000) available to offset against future taxable profits at the rate of 25% a year on a reducing balance basis As the Group continues to face challenging trading conditions in the UK, deferred tax assets have not been recognised in respect of the UK tax losses and capital allowances on the basis that it is not probable they will in the short term be used to offset taxable profits

The Group also has unrecognised US tax losses carried forward of $12,219,000 (2006 $11,839,000), which are available for offset against future profits for a period of between 12 and 18 years A deferred tax asset of £915,000 has been recognised on the US losses as the US company has now been trading profitably for a number of years and is expected to continue to do so The asset represents 3 years' projected profits before tax at a rate of 37% In addition, a deferred tax asset has been recognised in respect of the deficit on the UK and US defined benefit pension funds as the Directors believe it is appropriate to consider a longer period (see note 18)

(d) Deferred tax

The deferred tax included in the balance sheet is as follows

	Eighteen months ended 31 March 2008 £'000	Year ended 30 September 2006 £'000
Deferred tax liability		
Revaluation of fixed assets	**(256)**	(275)
Accelerated capital allowances	**(107)**	(106)
Other short term temporary differences	**–**	(278)
	(363)	(659)
Deferred tax asset		
Defined benefit pension plan	**975**	3,263
Tax losses	**915**	–
Other short term temporary differences	**172**	–
	2,062	3,263

8. DISCONTINUED OPERATIONS

	Eighteen months ended 31 March 2008 £'000	Year ended 30 September 2006 £'000
Revenue	**–**	129
Expenses	**–**	(359)
Operating loss and loss after tax for the period for discontinued operations	**–**	(230)
Loss on disposal of discontinued operations	**(1,130)**	–
Loss for the period from discontinued operations	**(1,130)**	(230)

The net cash flows attributable to discontinued operations are as follows

	Eighteen months ended 31 March 2008 £'000	Year ended 30 September 2006 £'000
Operating cash flows	**–**	(105)
Investing cash flow	**984**	111
Net cash inflow	**984**	6

Discontinued operations for the prior year represent the results of Chromagem, a subsidiary which ceased trading during March 2006

The loss on disposal of discontinued operations relates to the sale of the Converted Products Division in January 2005 At 30 September 2006, £2,000,000 was held in other debtors in respect of deferred consideration Only £1,250,000 of this deferred consideration was paid on the due date Following settlement of a number of disputes with the purchaser, the remaining amount of £750,000 has been written off, together with other settlement costs payable to the purchaser and related legal fees A claim in respect of alleged breach of warranties from the purchaser is still outstanding Details of this are included in note 25

9. EARNINGS PER ORDINARY SHARE

Basic earnings per share is calculated by dividing net profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period plus the number of ordinary shares at the period end that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares As any dilation would reduce the loss per share, the diluted weighted average number of shares is equivalent to the basic weighted average number of shares

The following reflects the income and share data used in the basic and diluted earnings per share computations

	Eighteen months ended 31 March 2008 £'000	Year ended 30 September 2006 £'000
Net loss attributable to equity holders of the parent - continuing operations	**(6,865)**	(3,223)
Loss attributable to equity holders of the parent - discontinued operations	**(1,130)**	(230)
Net loss attributable to equity holders of the parent	**(7,995)**	(3,453)

	Eighteen months ended 31 March 2008 No	Year ended 30 September 2006 No
Basic and diluted weighted average number of ordinary shares	**41,018,077**	36,198,528

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements

The weighted average number of shares excludes the shares owned by the API Group plc No 2 Employee Benefit Trust

The weighted average number of shares reflects the bonus element of the shares issued under the open offer implied by the discount on the market price immediately prior to admission of the new shares The comparative figures have also been adjusted to reflect this bonus element

Earnings / (loss) per ordinary share

	Eighteen months ended 31 March 2008 pence	Year ended 30 September 2006 pence
Continuing operations		
Basic loss per share	**(16 7)**	(8 9)
Diluted loss per share	**(16 7)**	(8 9)
Discontinued operations		
Basic loss per share	**(2 8)**	(0 6)
Diluted loss per share	**(2 8)**	(0 6)
Total		
Basic loss per share	**(19 5)**	(9 5)
Diluted loss per share	**(19 5)**	(9 5)

10. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land £'000	Freehold Buildings £'000	Leasehold Land and Buildings £'000	Plant and machinery £'000	Office and IT equipment £'000	Total £'000
Cost						
At 1 October 2005	2,316	7,920	2,682	49,503	6,668	69,089
Additions	–	–	–	5,406	734	6,140
Disposals	–	–	(73)	(2,801)	(93)	(2,967)
Foreign currency adjustment	(108)	(375)	(27)	(905)	(96)	(1,511)
At 30 September 2006	2,208	7,545	2,582	51,203	7,213	70,751
Additions	–	–	2,795	4,354	1,031	8,180
Disposals	(182)	(403)	–	(1,478)	(452)	(2,515)
Foreign currency adjustment	(116)	(402)	269	(6)	(126)	(381)
At 31 March 2008	**1,910**	**6,740**	**5,646**	**54,073**	**7,666**	**76,035**
Depreciation						
At 1 October 2005	–	2,015	956	34,487	2,939	40,397
Provided during the year	–	286	152	2,508	511	3,457
Disposals	–	–	(62)	(2,593)	(91)	(2,746)
Foreign currency adjustment	–	(194)	(14)	(567)	(82)	(857)
At 30 September 2006	–	2,107	1,032	33,835	3,277	40,251
Provided during the period	–	327	230	4,193	748	5,498
Impaired during the period	–	–	–	–	1,881	1,881
Disposals	–	(157)	–	(1,444)	(449)	(2,050)
Foreign currency adjustment	–	(210)	37	(196)	(77)	(446)
At 31 March 2008	**–**	**2,067**	**1,299**	**36,388**	**5,380**	**45,134**
Net book value at 31 March 2008	**1,910**	**4,673**	**4,347**	**17,685**	**2,286**	**30,901**
Net book value at 30 September 2006	2,208	5,438	1,550	17,373	3,931	30,500
Net book value at 30 September 2005	2,316	5,905	1,726	15,016	3,729	28,692

11. INTANGIBLE ASSETS - GOODWILL

	£'000
At 1 October 2005, 30 September 2006 and 31 March 2008	**6,480**

As from 1 October 2004, the date of transition to IFRS, goodwill was no longer amortised (previously amortised over a period up to 20 years) but is now subject to annual impairment testing

Impairment of goodwill

Goodwill acquired through business combinations has been allocated for impairment testing purposes to the following cash-generating units, as follows

- Foils - Europe,
- Foils - Holographics,
- Foils - China, and
- Foils - Germany (formerly MEPA)

These represent the lowest level within the group at which goodwill is monitored for internal management purposes

Carrying amount of goodwill allocated to cash-generating units

	Foils Europe £'000	Foils Holographics £'00	Foils China £'000	Foils Germany £'000	Total £'000
Carrying amount of goodwill	2,538	1,686	1,292	964	6,480

The recoverable amount of each of the cash generating units has been determined on a value in use basis over a five year period Value in use is calculated as the net present value of post tax cash flows derived from detailed financial plans and is in excess of the book value of goodwill at the period end The most significant assumptions relevant to determination of the recoverable amount are the growth rate and discount factor The cash flows are extrapolated from the budget for the year ending 31 March 2009, which has been approved by the Board and unapproved financial projections prepared for the following four years A discount rate of 11 0% has been used

The directors believe that no reasonable possible change in any of the above key assumptions would cause the carrying value of the units to exceed their recoverable amounts

12. TRADE AND OTHER RECEIVABLES

	31 March 2008 £'000	30 September 2006 £'000
Amounts falling due within one year		
Trade receivables	**15,610**	17,477
Prepayments	**1,083**	295
Other debtors	**747**	2,340
	17,440	20,112

13. INVENTORIES

	31 March 2008 £'000	30 September 2006 £'000
Raw materials	**3,239**	3,610
Work in progress	**2,486**	2,273
Finished goods	**6,035**	7,312
	11,760	13,195

14. CASH AND SHORT-TERM DEPOSITS

	31 March 2008 £'000	30 September 2006 £'000
Cash at bank and in hand	**1,270**	4,909
Short term deposits	**861**	–
	2,131	4,909

Short term deposits earn interest at the prevailing floating daily bank deposit rate

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following

	31 March 2008 £'000	30 September 2006 £'000
Cash at bank and in hand	**1,270**	4,909
Short term deposits	**861**	-
Bank overdrafts (note 16)	**(1,116)**	(1,563)
	1,015	3,346

15. TRADE AND OTHER PAYABLES

	31 March 2008 £'000	30 September 2006 £'000
Trade payables	**11,886**	15,425
Other payables	**6,876**	6,881
	18,762	22,306

16. FINANCIAL LIABILITIES

	31 March 2008 £'000	30 September 2006 £ 000
Current		
Bank overdrafts	**1,116**	1,563
Current instalments due on bank loans	**5,267**	195
Forward currency hedging contracts	**295**	–
Interest rate swap	**116**	–
	6,794	1,758
Non-current		
Non-current instalments due on bank loans	**12,897**	18,674
Interest rate swap	**144**	–
	13,041	18,674

Bank loans

Bank loans comprise the following

	31 March 2008 £'000	30 September 2006 £'000
Term loans (£)	**7,505**	7,831
Revolving credit facility (£)	**7,500**	10,000
Term loan (US$)	**528**	936
Term loan (Chinese Remnimbi)	**2,511**	–
Term loan (Euro)	**120**	102
	18,164	18,869
Less current instalments due on bank loans	**(5,267)**	(195)
	12,897	18,674

The Group's UK facilities comprise term loans of £8 5m falling due for repayment between April 2008 and January 2010, a £7 5m revolving credit facility due for renewal in January 2010 and a multi-option overdraft facility of £5m Unamortised financing costs of £995,000 (2006 £169,000) are deducted from the term loans The average rate of interest payable on all UK borrowings during the period was 2 65% over LIBOR In the US the Group has banking facilities comprising a term loan of $1 1m repayable in installments between April 2008 and May 2010 and a working capital facility of up to $7 0m, depending on the level of working capital At 31 March 2008, the amount available was $3 4m Interest is payable on US borrowings at the rate of 1% over the US prime interest rate In China, working capital loans of RMB 35m are repayable within 12 months The average rate of interest is 6 5% The facilities are secured by charges over the Group's UK, Chinese and US assets, totalling £43 7m (2006 £58 0m)

In the UK, the Group has taken out an interest rate swap contract on £10m of its borrowings This swaps floating rate borrowings at 3 month LIBOR with a fixed rate of 6 165% until 30 June 2010

17. PROVISIONS

	Restructuring £'000	Other £'000	Total £'000
At 1 October 2006			
Current	306	–	306
Non-current	–	93	93
	306	93	399
Arising during the year	83	12	95
Utilised	(306)	(35)	(341)
At 31 March 2008	**83**	**70**	**153**
Analysed as			
Current	83	–	83
Non-current	–	70	70
	83	70	153

Restructuring

At 30 September 2006, the financial statements included a provision of £73,000 relating to a vacant property and £233,000 in respect of the estimated closure costs of its plant located in Charlotte, USA These provisions have been utilised during the period A provision of £83,000 has been made in the current period, relating to rent payable on a vacant property as a result of the rationalisation of central costs

Other

The Group pays discretionary payments to a number of former long serving employees The estimated liability in respect of these former employees is reflected above

18. PENSIONS AND OTHER POST-RETIREMENT BENEFITS

The Group operates a number of pension schemes In the UK, the principal pension scheme is the API Group Pension and Life Assurance Scheme, a funded pension scheme for the Company and its UK subsidiaries providing benefits based on final pensionable earnings The scheme is funded by the payment of contributions to a separately administered trust fund This scheme has admitted no new members since October 2006 A defined benefit scheme was operated in the US, the API Foils, Inc North American Pension Plan This was closed during the year ended 30 September 2005

A defined contribution scheme is also operated in the UK Overseas employees participate in a variety of different pension arrangements of the defined contribution type and are funded in accordance with local practice Non contributory schemes are operated in the US and China In the US, this is available to members of the North New Jersey Teamsters 11 Union

The assets and liabilities of the defined benefit schemes are

At 31 March 2008

	United Kingdom £'000	United States £'000	Total £'000
Equities	33,215	702	33,917
Bonds	31,585	650	32,235
Property	–	107	107
Cash	51	–	51
Fair value of scheme assets	64,851	1,459	66,310
Present value of scheme liabilities	(68,178)	(1,614)	(69,792)
Net pension liability	**(3,327)**	**(155)**	**(3,482)**

At 30 September 2006

	United Kingdom £'000	United States £'000	Total £'000
Equities	33,309	731	34,040
Bonds	29,746	686	30,432
Property	–	109	109
Cash	90	–	90
Fair value of scheme assets	63,145	1,526	64,671
Present value of scheme liabilities	(73,589)	(1,961)	(75,550)
Net pension liability	(10,444)	(435)	(10,879)

18 PENSIONS AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

The amounts recognised in the Group Income Statement and Group Statement of Recognised Income and Expense for the period are as follows

Eighteen months ended 31 March 2008

	United Kingdom £'000	United States £'000	Total £'000
Recognised in the Income Statement			
Current service cost	1,064	–	1,064
Past service cost	10	–	10
Recognised in arriving at operating loss	**1,074**	**–**	**1,074**
Expected return on scheme assets	(5,522)	(160)	(5,682)
Interest cost on scheme liabilities	5,626	133	5,759
Other finance cost / (revenue)	**104**	**(27)**	**77**
Taken to the Statement of Recognised Income and Expense			
Actual return on scheme assets	2,331	80	2,411
Less expected return on scheme assets	(5,522)	(160)	(5,682)
	(3,191)	(80)	(3,271)
Other actuarial gains and losses	8,946	261	9,207
Actuarial gains and losses recognised in the Statement of Recognised Income and Expense	**5,755**	**181**	**5,936**

Year ended 30 September 2006

	United Kingdom £'000	United States £'000	Total £'000
Recognised in the Income Statement			
Current service cost	817	–	817
Past service cost	50	–	50
Gain from curtailment of scheme	(100)	–	(100)
Recognised in arriving at operating profit	767	–	767
Expected return on scheme assets	(3,142)	(120)	(3,262)
Interest cost on scheme liabilities	3,474	99	3,573
Other finance cost / (revenue)	332	(21)	311
Taken to the Statement of Recognised Income and Expense			
Actual return on scheme assets	4,582	120	4,702
Less expected return on scheme assets	(3,142)	(120)	(3,262)
	1,440	–	1,440
Other actuarial gains and losses	(2,601)	(150)	(2,751)
Actuarial gains and losses recognised in the Statement of Recognised Income and Expense	(1,161)	(150)	(1,311)

18 PENSIONS AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

Pension contributions are determined with the advice of an independent qualified actuary on the basis of triennial valuations using the projected unit method Scheme assets are stated at their market values at the respective balance sheet dates and overall expected rates of return are established by applying published brokers' forecasts to each category of scheme assets

	United Kingdom		United States	
	31 March 2008 %	30 September 2006 %	**31 March 2008 %**	30 September 2006 %
Main assumptions				
Rate of salary increases	**3 50**	3 25	**N/A**	N/A
Rate of increase in pensions in payment	**3 10**	2 60	**N/A**	N/A
Rate of increase to deferred pensions	**3 10**	2 60	**N/A**	N/A
Discount rate	**6 50**	5 10	**6 00**	5 50
Expected rates of return on scheme assets				
Equities	**7 40**	7 30	**7 75**	8 00
Bonds	**4 70**	4 60	**–**	–
Inflation	**3 30**	2 75	**3 00**	3 00

In the UK, it is assumed that mortality will be in line with nationally published PA00 yob tables incorporating the medium cohort and adjusted to take account of the demographic profile of the members (plus 3 years)

These major assumptions have been selected after consultation with the Group's UK pension advisors, PricewaterhouseCoopers and the Group s US actuaries, Principal Financial Services

In order to eliminate the deficit on the UK scheme, in addition to the employers regular contribution of 8%, the Group also makes contributions of 4% of pensionable earnings, pays all pension fund related administration fees and makes additional contributions of £300,000 per annum

Changes in present value of the defined benefit obligations are analysed as follows

	United Kingdom £'000	United States £'000	Total £'000
At 1 October 2005	69,080	1,867	70,947
Current service cost	742	–	742
Contributions by employees	542	–	542
Past service cost	25	–	25
Interest cost	3,474	99	3,573
Benefits paid	(2,875)	(71)	(2,946)
Actuarial gains and losses	2,601	150	2,751
Foreign currency differences	–	(84)	(84)
At 30 September 2006	73,589	1,961	75,550
Current service cost	1,064	–	1,064
Contributions by employees	712	–	712
Past service cost	10	–	10
Interest cost	5,626	133	5,759
Benefits paid	(3,877)	(103)	(3,980)
Actuarial gains and losses	(8,946)	(261)	(9,207)
Foreign currency differences	–	(116)	(116)
At 31 March 2008	**68,178**	**1,614**	**69,792**

18. PENSIONS AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

Changes in present value of the defined benefit assets are analysed as follows

	United Kingdom £'000	United States £'000	Total £'000
At 1 October 2005	58,882	1,562	60,444
Expected return on plan assets	3,142	120	3,262
Employer contributions	2,014	–	2,014
Contributions by employees	542	–	542
Benefits paid	(2,875)	(71)	(2,946)
Actuarial gains and losses	1,440	–	1,440
Foreign currency differences	–	(85)	(85)
At 30 September 2006	63,145	1,526	64,671
Expected return on plan assets	5,522	160	5,682
Employer contributions	2,540	45	2,585
Contributions by employees	712	–	712
Benefits paid	(3,877)	(103)	(3,980)
Actuarial gains and losses	(3,191)	(80)	(3,271)
Foreign currency differences	–	(89)	(89)
At 31 March 2008	**64,851**	**1,459**	**66,310**

Employer contributions are expected to continue at similar levels to those made over the last eighteen months (£1 7m over a 12 month period)

History of experience gains and losses

	Eighteen months ended 31 March 2008 £'000	Year ended 30 September 2006 £'000	Year ended 30 September 2005 £'000	Year ended 30 September 2004 £'000	Year ended 30 September 2003 £'000
United Kingdom					
Fair value of scheme assets	**64,851**	63,145	58,882	50,900	47,000
Present value of defined benefit obligation	**(68,178)**	(73,589)	(69,080)	(63,800)	(61,200)
Deficit in the scheme	**(3,327)**	(10,444)	(10,198)	(12,900)	(14,200)
Experience adjustments arising on plan liabilities	**8,946**	(2,601)	(2,656)	(1,020)	900
Experience adjustments arising on plan assets	**(3,191)**	1,440	4,685	620	2,900
United States					
Fair value of scheme assets	**1,459**	1,526	1,562	1,482	1,352
Present value of defined benefit obligation	**(1,614)**	(1,961)	(1,867)	(1,681)	(1,990)
Deficit in the scheme	**(155)**	(435)	(305)	(199)	(638)
Experience adjustments arising on plan liabilities	**261**	(150)	(173)	(103)	(364)
Experience adjustments arising on plan assets	**(80)**	–	61	23	33

The cumulative amount of actuarial gains recognised since 1 October 2004 in the Group Statement of Recognised Income and Expense is £6,545,000 (2006 £609,000) The directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRS and taken directly to equity of £13,099,000 is attributable to actuarial gains and losses since inception of those schemes Consequently, the directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Group Statement of Recognised Income and Expense before 1 October 2004

19 AUTHORISED AND ISSUED SHARE CAPITAL

	31 March 2008 thousands	30 September 2006 thousands	31 March 2008 £'000	30 September 2006 £'000
Authorised				
Ordinary shares of 25p	–	46,541	–	11,635
Ordinary shares of 1p	**333,869**	–	**3,338**	–
Deferred shares of 24p	**34,570**	–	**8,297**	–
			11,635	11,635
Allotted, called up and fully paid				
Ordinary shares of 25p	–	34,450	–	8,612
Ordinary shares of 1p	**70,127**	–	**701**	–
Deferred shares of 24p	**34,570**	–	**8,297**	–
			8,998	8,612

On 29 August 2007, options over 120,000 ordinary shares of 25p were exercised under the employee share option scheme for consideration of £80,000 Following a General Meeting on 9 January 2008, each authorised and issued ordinary share of 25p was split into one ordinary share of 1p and one deferred share of 24p and each authorised and unissued share of 25p was subdivided into 25 ordinary shares of 1p On 18 January 2008, following an open offer, 35,557,213 ordinary shares of 1p were issued for consideration of £8,000,000 (before costs of £802,000) This share issue was made as part of a financial restructuring of the Group

During the period options were granted over 1,243,025 ordinary shares Full exercise of the options granted under the Company's share option schemes would result in the issue, not later than March 2018, of a further 1,591,812 ordinary shares made up of 10,000 shares at 642 5p, 4,279 shares at 310p, 2,500 shares at 336p, 265,000 shares at 65 5p, 45,000 shares at 64p, 120,148 shares at 79 5p and 1,144,885 shares at nil

20. RECONCILIATION OF MOVEMENTS IN EQUITY

	Equity share capital £'000	Share premium £'000	Other reserves £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total Shareholders equity £'000
At 1 October 2005	8,592	211	298	439	13,419	22,959
Total recognised income and expense for the year	–	–	–	(805)	(4,371)	(5,176)
Exercise of employee share options	20	33	–	–	–	53
Share based payment	–	–	–	–	131	131
At 30 September 2006	8,612	244	298	(366)	9,179	17,967
Total recognised income and expense for the period	–	–	–	178	(3,912)	(3,734)
Issue of shares under open offer	356	7,644	–	–	–	8,000
Costs relating to shares issued under open offer	–	(802)	–	–	–	(802)
Exercise of employee share options	30	50	–	–	–	80
Share based payment	–	–	–	–	301	301
At 31 March 2008	**8,998**	**7,136**	**298**	**(188)**	**5,568**	**21,812**

	Shareholders' equity (as above) £'000	Minority interest £'000	Total equity £'000
At 1 October 2005	22,959	5,460	28,419
Total recognised income and expense for the year	(5,176)	528	(4,648)
Exercise of employee share options	53	–	53
Share based payment	131	–	131
Dividends	–	(550)	(550)
At 30 September 2006	17,967	5,438	23,405
Total recognised income and expense for the period	(3,734)	449	(3,285)
Issue of shares under open offer	8,000	–	8,000
Costs relating to shares issued under open offer	(802)	–	(802)
Exercise of employee share options	80	–	80
Share based payment	301	–	301
At 31 March 2008	**21,812**	**5,887**	**27,699**

Other reserves

Other reserves comprise the capital redemption reserves (£549,000) and the ESOP reserve (deficit £251,000)

The capital redemption reserve arose as a result of the cancellation of £549,000 preference shares of £1 each in March 1999

The ESOP reserve relates to shares held by a discretionary trust established in 1997 to facilitate the operation of the Company executive share option schemes which are described in the Directors' Report At 31 March 2008 and 30 September 2006 the trust held 58,221 ordinary shares at an average cost of £4 27 per share and a total cost of £251,000

Foreign exchange reserve

The foreign exchange reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries

21 SHARE BASED PAYMENTS

Share options are granted to employees of API Group companies through a number of share option schemes Prior to 2006, the exercise price of the options is equal to the market price of the shares on the date of grant The share options that have been granted since 2005 are nil cost options The ability to exercise options over shares is conditional on the attainment of specified performance targets over a three year performance period To the extent that options vest, they lapse if they are not exercised within ten years of the date of grant

The expense recognised for share based payments in respect of employee services received during the period is £301,000 (2006 £131,000)

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options during the year

	31 March 2008 No	**31 March 2008 WAEP (p)**	30 September 2006 No	30 September 2006 WAEP (p)
Outstanding at beginning of period	**2,201,030**	**85 6**	2,170,862	114 2
Granted during the period	**1,234,025**	**-**	348,750	-
Exercised during the period	**(120,000)**	**(65 5)**	(80,000)	(65 8)
Expired during the period	**(1,723,243)**	**(77 3)**	(238,582)	(226 9)
Outstanding at end of period	**1,591,812**	**24 1**	2,201,030	85 6
Exercisable at end of period	**446,927**	**85 9**	661,364	96 2

The weighted average fair value of options granted during the period was 35 8p (2006 48 0p) The range of exercise prices for options outstanding at the end of the period was nil - 642 5p (2006 nil - 694p)

The fair value of equity-settled share options granted is estimated as at the date of grant using a Monte-Carlo model, taking into account the terms and conditions upon which the options were granted The following table lists the inputs to the model used

	Eighteen months ended 31 March 2008 £'000	Year ended 30 September 2006 £'000
Dividend yield	**0%**	0%
Expected share price volatility	**26%**	30%
Historical volatility	**26%**	30%
Risk-free interest rate	**5 8%**	4 3%
Expected life of option	**5 years**	5 years
Weighted average share price	**92p**	119p

The expected life of the options is usually based on historical data Limited data exists for API Group, therefore expected life has been based on experience at other companies The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome

22 FINANCIAL INSTRUMENTS

Details of the treasury operations and funding of the Group are described in the Financial Review on pages 6 to 11

Interest rate risk profile of financial assets and liabilities

The interest rate profile of the financial assets and liabilities of the group is as follows

At 31 March 2008

Floating rate	Within 1 Year £'000	1-2 Years £'000	2-3 Years £'000	3-4 Years £'000	4-5 Years £'000	More than 5 Years £'000	Total £'000
Cash	1,270	–	–	–	–	–	1,270
Short term deposits	861	–	–	–	–	–	861
Forward currency hedging contracts							
- assets	108	–	–	–	–	–	108
- liabilities	(295)	–	–	–	–	–	(295)
Interest rate swap	(116)	(116)	(28)	–	–	–	(260)
Bank overdrafts	(1,116)	–	–	–	–	–	(1,116)
Revolving credit facility	–	(7,500)	–	–	–	–	(7,500)
Term loans	(5,267)	(5,221)	(176)	–	–	–	(10,664)
	(4,555)	**(12,837)**	**(204)**	–	–	–	**(17,596)**

In the UK, the Group has taken out an interest rate swap contract on £10m of its borrowings This swaps floating rate borrowings at 3 month LIBOR with a fixed rate of 6 165% until 30 June 2010

At 30 September 2006

Floating rate	Within 1 Year £'000	1-2 Years £'000	2-3 Years £'000	3-4 Years £'000	4-5 Years £'000	More than 5 Years £'000	Total £'000
Cash	4,909	–	–	–	–	–	4,909
Bank overdrafts	(1,563)	–	–	–	–	–	(1,563)
Revolving credit facility	–	–	(10,000)	–	–	–	(10,000)
Term loans	(195)	(843)	(7,831)	–	–	–	(8,869)
	3,151	(843)	(17,831)	–	–	–	(15,523)

Fair values of financial assets and liabilities

The fair values of the financial assets and liabilities is equivalent to their book values

Credit risk

The Group's credit risks relates to trade receivables There are no significant concentrations of credit risk within the Group which are not covered by third party credit insurance

Price risk

Price risks are not significant to the Group as the Group does not currently have any tradeable investments

23. CAPITAL COMMITMENTS

	31 March 2008 £'000	30 September 2006 £'000
Contracted amounts not provided for in these accounts	**191**	259

24 OBLIGATIONS UNDER LEASES AND HIRE PURCHASE CONTRACTS

Future minimum rentals payable under non-cancellable operating leases are as follows

	31 March 2008 £'000	30 September 2006 £'000
Not later than one year	**285**	203
After one year but not more than five years	**511**	420
After five years	**38**	33
	834	656

25 CONTINGENT LIABILITIES

During the period, the Group received a claim in respect of alleged breach of warranties in connection with the sale of the Converted Products Division in January 2005 The purchaser has acknowledged that the maximum amount which it may recover in connection with the material element of the claim is capped at £3 1 million plus interest and costs The Directors believe that the Group has a strong basis upon which the claim can be defended Accordingly, no provision has been made in the accounts in respect of this claim

26. RELATED PARTY TRANSACTIONS

Entities with significant influence over the group

During the period, Steel Partners II, L P and Wynnefield Capital Inc , holders of 35 7% and 31 5% of the ordinary share capital of the company respectively, advanced bridging loans to the Company amounting in total to £2,500,000 These loans were advanced on 17 December 2007 and were repaid on 15 January 2008, following receipt of the proceeds of the open offer These loans were advanced at commercial rates of interest Interest of £27,000 and fees of £40,000 were paid to the shareholders

Compensation of key management personnel (including executive directors)

	Eighteen months ended 31 March 2008 £'000	Year ended 30 September 2006 £'000
Short term employee benefits	**1,338**	778
Post employment benefits	**95**	71
Termination benefits	**346**	33
Share based payment	**197**	90
	1,976	972

Statement of Directors' Responsibilities in relation to the Company Financial Statements

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

Company law requires the Directors to prepare financial statements for each financial period Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) 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 those 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, and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,

The Directors are responsible for keeping proper accounting records that 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

Auditor's Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF API GROUP PLC

We have audited the parent company financial statements of API Group plc for the period ended 31 March 2008 which comprise the Balance Sheet and the related notes 1 to 9 These parent company financial statements have been prepared under the accounting policies set out therein

We have reported separately on the group financial statements of API Group plc for the period ended 31 March 2008

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 Annual Report and the parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the parent company 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 parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the company directors' report is consistent with the financial statements The information given in the Directors' Report includes that specific information presented in the Chief Executive's and Financial Reviews that is cross referred from the Results and Dividends section of the Directors' Report

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 other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements The other information comprises only the Chairman's Statement, the Chief Executive's Review and the Financial Review We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements Our responsibilities do not extend to any other information

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 parent company financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company 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 parent company 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 parent company financial statements

Opinion

In our opinion

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2008,
- the parent company 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 parent company financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
Manchester
22 May 2008

Company Balance Sheet
at 31 March 2008

	Note	**31 March 2008 £'000**	30 September 2006 £'000
Fixed Assets			
Investments	2	**6,218**	6,218
		6,218	6,218
Current assets			
Debtors (£36,515,000> 1 year – 2006 £60,524,000> 1 year)	3	**36,515**	62,693
Cash at bank and in hand and short term deposits		**861**	1,235
		37,376	63,928
Creditors - amounts falling due within one year	4	**(5,628)**	–
Net current assets		**31,748**	63,928
Total assets less current liabilities		**37,966**	70,146
Creditors - amounts falling due after more than one year	5	**(12,545)**	(18,000)
		25,421	52,146
Share capital and reserves			
Called up share capital	6	**8,998**	8,612
Share premium account	7	**7,136**	244
Other reserves	7	**298**	298
Profit and loss account	7	**8,989**	42,992
Equity shareholders' funds		**25,421**	52,146

Signed on behalf of the Board
A Turner
22 May 2008

Notes to the Company Financial Statements

1. ACCOUNTING POLICIES

Accounting convention

The Company's financial statements have been prepared under the historical cost convention except for the inclusion of certain assets which are at valuation and have been prepared in accordance with UK GAAP and with the Companies Act 1985

The Company has taken advantage of the exemption provided under section 230 of the Companies Act 1985 not to publish its individual income statement and related notes

The principal accounting policies adopted by the Company are set out below

Investments in and loans due from subsidiaries

Investments in and loans due from subsidiaries are stated at cost less any impairment which is charged to the profit and loss account

Deferred taxation

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 receive 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, and
- 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

In the UK the majority of employees are members of either a defined benefit or a defined contribution pension scheme The defined benefit scheme is run on a basis that does not enable individual companies within the Group to identify their share of the underlying assets and liabilities In accordance with FRS 17, the Company has accounted for the scheme as a defined contribution scheme and has given additional disclosures in the consolidated financial statements This additional information is provided in accordance with International Accounting Standard 19, 'Employee benefits' The Directors believe that information disclosed in accordance with that standard is not materially different to that which would be disclosed in accordance with FRS 17

All defined contribution scheme costs are charged directly to the profit and loss account as incurred

Foreign currencies

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transaction Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account

Financial instruments

All loans and borrowings are initially recognised at fair value of the consideration received net of issue costs associated with the borrowing After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost under the effective interest rate method

In accordance with paragraph 3(c) of FRS 25, the Company is exempt from the disclosure requirements of paragraphs 51 to 95 of FRS 25 The Company's financial instruments are consolidated with those of the group and are incorporated into the disclosures in note 22 of the Group's financial statements

Leases

The costs of operating leases are charged to the profit and loss account in equal instalments over the periods of the leases

Notes to the Company Financial Statements (continued)

2 INVESTMENTS

Subsidiary undertakings

	£'000
Cost	
At 1 October 2006 and 31 March 2008	**6,218**

Details of the principal investments in which the Company (unless otherwise indicated) holds 20% or more of the nominal value of any class of share capital are as follows

Name of company	Country of incorporation	Holding	Proportion of voting rights and shares held
API Laminates Limited +	UK	Ordinary shares	100%
API Foils Holdings Limited #	UK	Ordinary shares	100%
API Foils Limited *+	UK	Ordinary shares	100%
API Holographics Limited *+	UK	Ordinary shares	100%
API Overseas Holdings Limited *#	UK	Ordinary shares	100%
API (USA) Holdings Limited *#	USA	Common and preferred stocks	100%
API Foils, Inc *+	USA	Common and preferred stocks	100%
API Foils SAS *+	France	Ordinary shares	100%
API Asia Limited *#	UK	Ordinary shares	100%
API Wing Fat Limited *# Δ	Hong Kong	Ordinary shares	63 75%
Shanghai Shen Yong Stamping Foil Company Limited *+ Δ	China	Ordinary shares	51%
API Foils Pty Limited *+	Australia	Ordinary shares	100%
API Foils New Zealand Limited *+	New Zealand	Ordinary shares	100%
API Foils Deutschland GmbH (formerly MEPA-S Blattmetalle und Prägefolien GmbH) *+ Δ	Germany	Ordinary shares	100%
API Italia srl *+ Δ	Italy	Ordinary shares	100%

* Held by subsidiary undertaking
\+ Operating company
\# Intermediate holding company
Δ 31 December year end

All the operating subsidiary undertakings are involved in the principal activities of the Group

3. DEBTORS

	31 March 2008 £'000	30 September 2006 £'000
Amounts falling due within one year		
Other debtors	–	2,169
Amounts falling due after more than one year		
Amounts due from subsidiary undertakings	**36,515**	60,524
	36,515	62,693

Amounts due from subsidiary undertakings are stated after an impairment provision of £34,000,000 (2006 nil)

4 CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 March 2008 £'000	30 September 2006 £'000
Bank overdraft	**1,001**	–
Current instalments on bank loans	**2,460**	–
Corporation tax	**1,366**	–
Accruals	**801**	–
	5,628	–

Corporate tax represents group relief payable

5. CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	31 March 2008 £'000	30 September 2006 £'000
Bank loans	**12,545**	18,000

6 SHARE CAPITAL

	31 March 2008 thousands	30 September 2006 thousands	31 March 2008 £'000	30 September 2006 £'000
Authorised				
Ordinary shares of 25p	–	46,541	–	11,635
Ordinary shares of 1p	**333,869**	–	**3,338**	–
Deferred shares of 24p	**34,570**	–	**8,297**	–
			11,635	11,635
Allotted, called up and fully paid				
Ordinary shares of 25p	–	34,450	–	8,612
Ordinary shares of 1p	**70,127**	–	**701**	–
Deferred shares of 24p	**34,570**	–	**8,297**	–
			8,998	8,612

On 29 August 2007, options over 120,000 ordinary shares of 25p were exercised under the employee share option scheme for consideration of £80,000 Following a General Meeting on 9 January 2008, each authorised and issued ordinary share of 25p was split into one ordinary share of 1p and one deferred share of 24p and each authorised and unissued share of 25p was subdivided into 25 ordinary shares of 1p On 18 January 2008, following an open offer, 35,557,213 ordinary shares of 1p were issued for consideration of £8,000,000 (before costs of £802,000) This share issue was made as part of a financial restructuring of the Group

During the period options were granted over 1,243,025 ordinary shares Full exercise of the options granted under the Company's share option schemes would result in the issue, not later than March 2018, of a further 1,591,812 ordinary shares made up of 10,000 shares at 642 5p, 4,279 shares at 310p, 2,500 shares at 336p, 265,000 shares at 65 5p, 45,000 shares at 64p, 120,148 shares at 79 5p and 1,144,885 shares at nil

7. RECONCILIATION OF MOVEMENTS IN EQUITY

	Equity share capital £'000	Share premium £'000	Other reserves £'000	Profit and loss account £'000	Shareholders' equity £'000
Balance at 1 October 2005	8,592	211	298	41,225	50,326
Balance from profit and loss account	–	–	–	1,767	1,767
Exercise of employee share options	20	33	–	–	53
Balance at 30 September 2006	8,612	244	298	42,992	52,146
Balance from profit and loss account	–	–	–	(34,003)	(34,003)
Issue of shares under open offer	356	7,644	–	–	8,000
Costs relating to shares issued under open offer	–	(802)	–	–	(802)
Exercise of employee share options	30	50	–	–	80
Balance at 31 March 2008	**8,998**	**7,136**	**298**	**8,989**	**25,421**

Other reserves

Other reserves comprise the capital redemption reserves (£549,000) and the ESOP reserve (deficit £251,000)

The capital redemption reserve arose as a result of the cancellation of £549,000 preference shares of £1 each in March 1999

The ESOP reserve relates to shares held by a discretionary trust established in 1997 to facilitate the operation of the Company executive share option schemes which are described in the Directors' Report At 31 March 2008 and 30 September 2006 the trust held 58,221 ordinary shares at an average cost of £4 27 per share and a total cost of £251,000

8. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

A loss of £34,003,000 for the eighteen months ended 31 March 2008 (year ended 30 September 2006 profit of £1,767,000) has been dealt with in the accounts of the parent company The loss is stated after an impairment provision of £34,000,000 (2006 nil) relating to amounts due from subsidiary undertakings As permitted by section 230 of the Companies Act 1985 the Company has not presented its own profit and loss account

Fees paid to the Auditor in respect of audit services provided to the Company for the period amounted to £5,000 (2006 £5,000)

9. CONTINGENT LIABILITIES

The Company is party to a composite banking agreement providing unlimited guarantees between the company and its UK subsidiaries A $2,000,000 guarantee has been provided by the Company to the bank providing facilities to a wholly owned US subsidiary

During the period, the Group received a claim in respect of alleged breach of warranties in connection with the sale of the Converted Products Division in January 2005 The purchaser has acknowledged that the maximum amount which it may recover in connection with the material element of the claim is capped at £3 1 million plus interest and costs The Directors believe that the Group has a strong basis upon which the claim can be defended Accordingly, no provision has been made in the accounts in respect of this claim

Five Year Record

Prepared under IFRS	Eighteen months ended 31 March 2008 £'000	Year ended 30 September 2006 £'000	Year ended 30 September 2005 £'000
Continuing operations			
Revenue	**143,783**	101,979	105,570
Operating profit before exceptional items	**408**	994	3,562
Exceptional items	**(3,417)**	(863)	(430)
Operating (loss) / profit	**(3,009)**	131	3,132
Net finance costs	**(4,126)**	(1,924)	(1,549)
(Loss) / profit before taxation	**(7,135)**	(1,793)	1,583
Tax credit / (expense)	**407**	(735)	(504)
(Loss) / profit	**(6,728)**	(2,528)	1,079
Discontinued operations			
Loss from discontinued operations	**(1,130)**	(230)	(10,149)
Loss for the year	**(7,858)**	(2,758)	(9,070)
Attributable to			
Profit attributable to minority equity interest	**137**	695	574
Loss attributable to equity holders of the parent	**(7,995)**	(3,453)	(9,644)
Total loss for the year	**(7,858)**	(2,758)	(9,070)
Statistics relating to ordinary shareholders			
Basic loss per ordinary share (pence) (adjusted for the bonus element of Open Offer)	**(19 5)**	(9 5)	(27 2)
Net debt (£'000)	**(17,149)**	(15,523)	(6,686)
Gearing (%)	**62%**	66%	24%
Average number of employees	**899**	934	1,041

Prepared under UK GAAP	Year ended 30 September 2005 £'000	Year ended 30 September 2004 £ 000	Year ended 30 September 2003 £'000
Turnover	118,350	169,545	176,192
Operating profit before goodwill amortisation and exceptional items	1,751	1,418	600
Goodwill amortisation	(407)	(450)	(447)
Exceptional items	(16,921)	(23,026)	(5,593)
Joint venture	(55)	(91)	-
Loss on ordinary activities before interest and taxation	(15,632)	(22,149)	(5,440)
Interest expense	(1,407)	(1,696)	(1,621)
Loss on ordinary activities before taxation	(17,039)	(23,845)	(7,061)
Taxation	(338)	(559)	753
Loss on ordinary activities after taxation	(17,377)	(24,404)	(6,308)
Profit attributable to minority equity interest	(574)	(982)	(995)
Loss attributable to ordinary shareholders	(17,951)	(25,386)	(7,303)
Statistics relating to ordinary shareholders			
Basic loss per share (pence) (adjusted for the bonus element the Open Offer)	(50 9)	(72 4)	(20 8)
Net debt (£ 000)	(6,686)	(10,535)	(9,821)
Gearing (%)	18%	23%	17%
Average number of employees	1,041	1,421	1,606

Financial Calendar

ANNUAL GENERAL MEETING

To be held at 3pm, 30 June 2008 at the London offices of the Company's Solicitors
Addleshaw Goddard, 150 Aldersgate Street, London EC1A 4EJ

REPORTS

Interim Report for 6 months to 30 September 2008 circulated November 2008

Preliminary Announcement for the year ended 31 March 2009 issued May 2009

Report and Accounts for the year ended 31 March 2009 circulated June 2009

CAPITAL GAINS TAX

The market value of an ordinary share on 31 March 1982 was 60 5p

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