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GROUP PLC

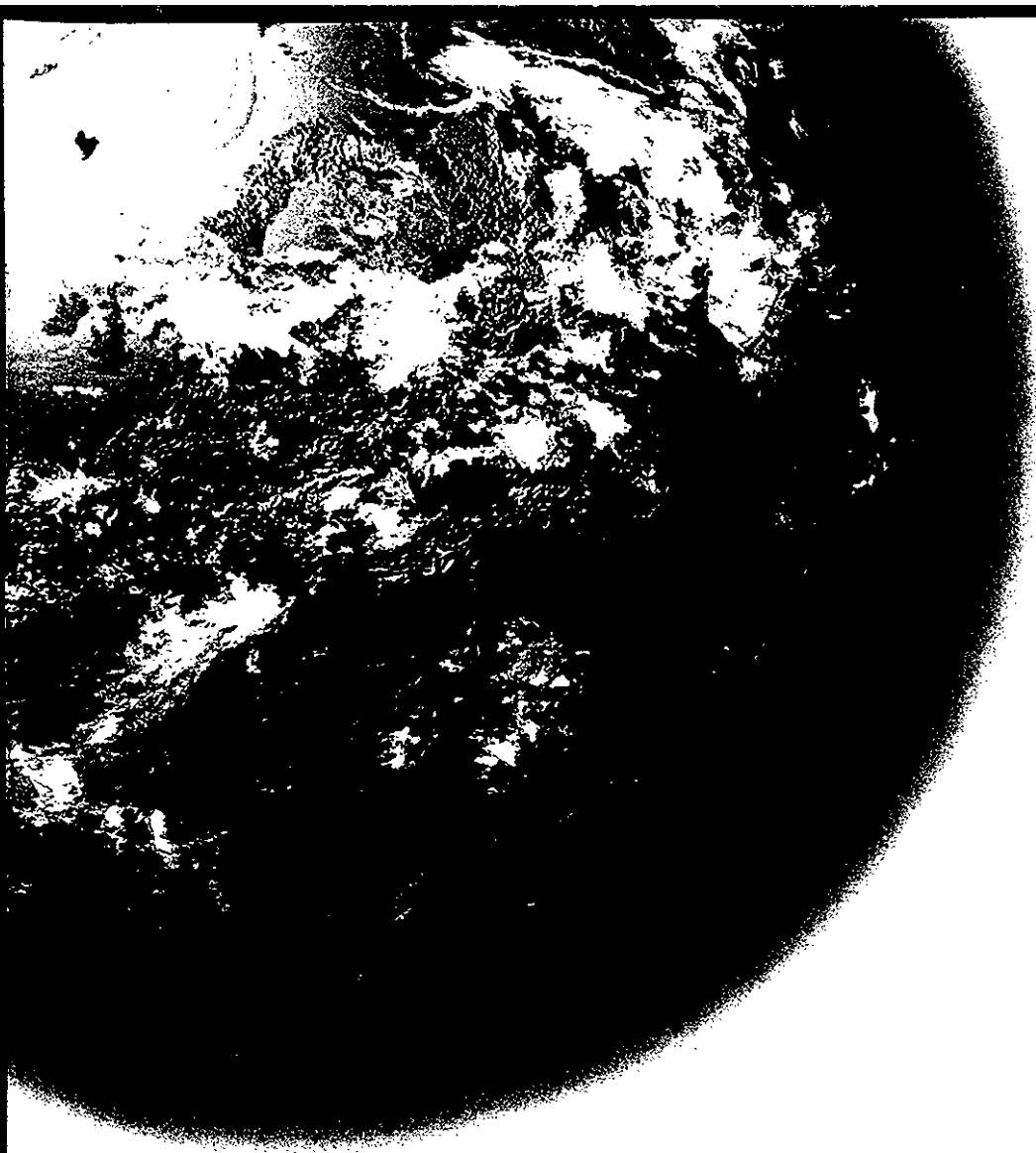
Annual Report and Accounts

1997



JMA \*J8UIK3MC\* 566  
COMPANIES HOUSE 11/02/98

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API reports its results as two divisions; For  
consists of the manufacture of hot s  
The Converted Film and Paper division produ  
based flexible packaging. Although these activit  
table indicates the spread of the Group

#### Analysis of Turnover by Destination £'000



1997



1996



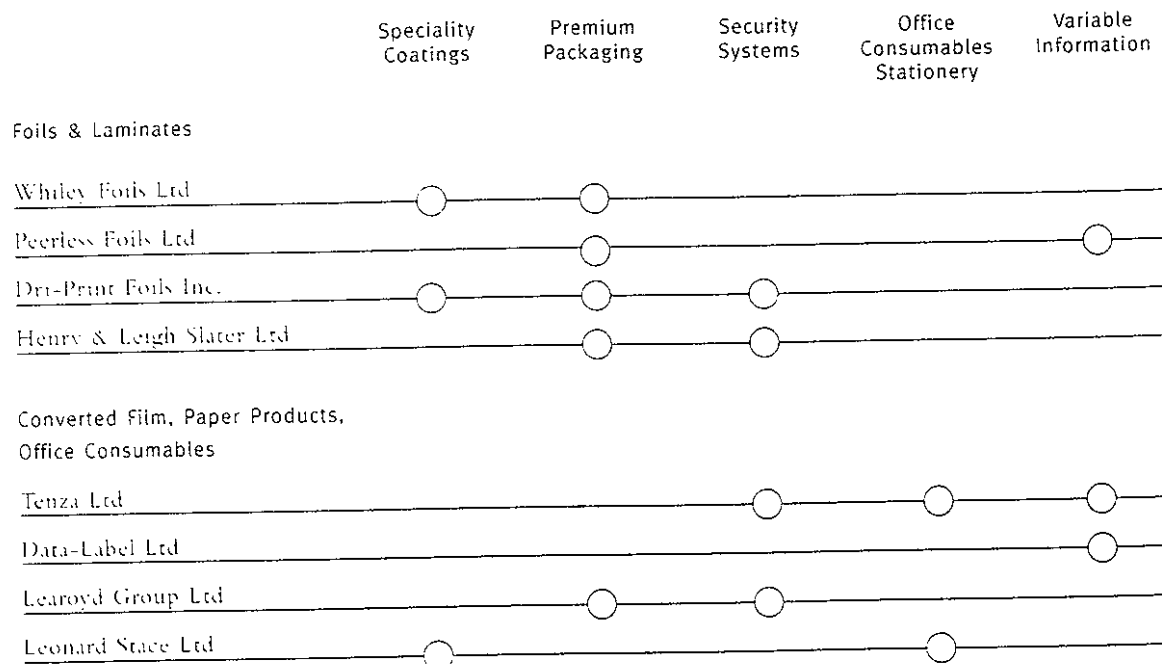
Speciality Coatings

- United Kingdom
- Continental Europe
- Americas
- Rest of World

87,815	77,828
32,837	27,869
15,860	15,577
7,307	6,683

**Business activities**  
**Concentrating on niche sectors**

169249



# The API Group plc

and Laminates, and Converted Paper and Film. Foils and Laminates  
 umping foils, metallised laminated board and direct metallised papers.  
 es siliconised release papers and films, self adhesive products and film  
 s fall within the general category of the packaging sector, the above  
 activities into niche market segments offering potential for growth.



Premium Packaging



Security Systems



Office Consumables Stationery



Variable Information

# Corporate Statement

**THE API GROUP PLC** is an international holding company using advanced manufacturing techniques to supply and sell to its customers, the best possible products at the most competitive prices. This is accomplished by a clear understanding of customers requirements and continuous improvement in processes, technology, products and services. The Group is committed to operating with the highest standard of ethics in a team-like manner, bringing credit to ourselves, our shareholders and the community. We are conscious of the vital importance in having regard for the environment in the operation of processes and the manufacture of products.

The Board is committed to further development of the Group and enhancing shareholder value through continued organic growth, new product and process development and the acquisition of complementary businesses which meet strict pre-determined criteria.

Sales advance **+12%** to £144m (£128m)

Pre tax profit **+29%** to £14.0m (£10.8m)

Earnings per share **+15%** to 36.2p (31.4p)

Full year dividend **+10%** to 12.1p (11.0p)

# Board of Directors



**Michael  
Smith**  
Group Chief  
Executive

**Moger Woolley**  
Non-executive  
Chairman



**Dennis Holt**  
Group Finance  
Director



**John Sheldrick**  
Non-executive

# Chairman's Statement

**THE GROUP HAS** produced a creditable performance in what has turned out to be a difficult year due to the impact of currency and the technical issues that have plagued the new paper metallising plant. Profits increased by 29% to £14.0m (1996: £10.8m) with turnover advancing by 12% to £144m (1996: £128m).

Earnings per share improved 15% from 31.4p to 36.2p and as a result your Board is recommending an increase in the final ordinary dividend to 7.17p (6.52p) making a total for the year of 12.1p (11.0p), a 10% increase on last year. The cost of the dividend is covered 3 times by earnings compared with 2.9 times last year.

The Group finished the year with a strong balance sheet. Shareholders' funds rose to £65.5m (1996: £59.1m) and the closing cash position was £10.2m (1996: £10.8m).

## Corporate Activity

Learoyd achieved the earnout requirements specified on acquisition and, therefore, an additional £2m was paid to the original shareholders during the year.

A key part of the Board's strategy remains the expansion of the Group's selected business areas through organic growth including the development of new products and by acquisition. In December 1997, we announced the acquisition of Label World, which operates in the variable information market providing data tracking systems. This company will be merged with our Data-Label business.

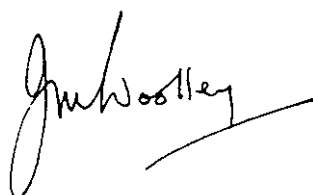
## Circular to Shareholders

With this Annual Report and Accounts you will find a separate circular containing the Notice of the Annual General Meeting. The circular explains the items of special business which will be proposed at the meeting.

## People

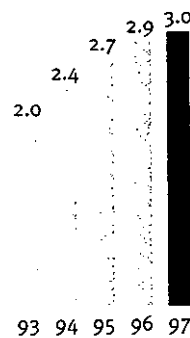
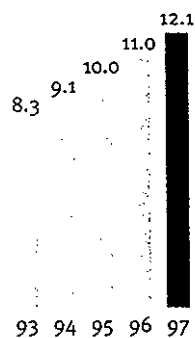
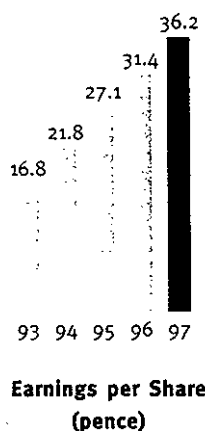
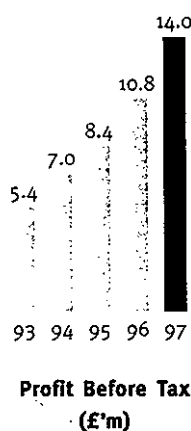
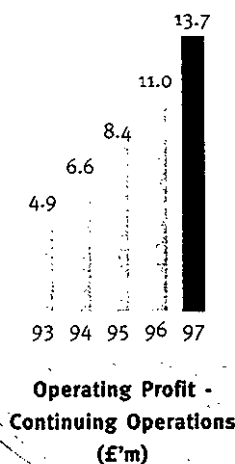
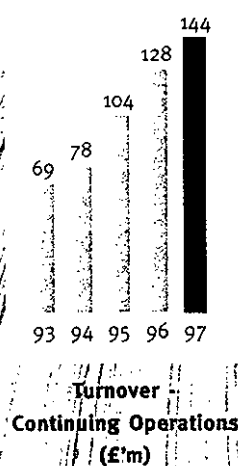
The Board of your Company is currently four in number: two non-executive Directors and two executive Directors. The Directors intend, in due course, to appoint a further non-executive Director with suitable background and experience.

I would like to take this opportunity to thank all the Group's employees for their unstinting efforts in achieving these results in what was clearly a challenging year.



J Moger Woolley, Non-Executive Chairman  
22 December 1997

# Five Year Highlights





# Group Chief Executive's Review

**THE YEAR'S RESULTS:** The Group achieved a 29% increase in pre tax profits to £14.0m (1996: £10.8m) against the background of a strong pound, which adversely impacted sales and profits.

Adjusting for currency, sales would have been £7m higher at £151m, an increase of 18% compared with actual sales of £144m (1996: £128m) a rise of 12%. The negative effect on profits of currency movement is estimated at £2.6m over the full year, reflecting the translation of international earnings, maintaining prices in overseas currencies and defending domestic market share against imports at lower prices.

Operating profit of £13.7m (1996: £11.0m) is 25% up on the previous year with the operating margin on sales improving from 8.6% to 9.5%, despite the impact of the strong pound and start-up losses incurred by the new paper metallising plant.

The Group finished the year with a healthy balance sheet. Shareholders' funds rose to £65.5m (1996: £59.1m) and the closing cash position was £10.2m (1996: £10.8m). Return on capital employed was 25% compared with last year's 23% and excluding the investment and losses attributable to the metallising plant increased to 34%. Including goodwill on acquisitions previously written off against reserves ROCE would be 15% and after the results of metallisation, 22%.

## The Group's Business

The Group is categorised as though the whole of its business falls under the packaging sector. It splits its results between Foils and Laminates, and Converted Paper and Film, although within both of these divisions, a significant proportion of the Group's business has been concentrated towards the markets of Speciality Coatings, Premium Packaging, Security, Office Consumables, and Variable Information. These sectors offer the opportunity to supply niche products compared with general commodity items, where margins are under pressure.



*Michael Smith*  
Group Chief Executive

## Group Chief Executive's Review

### Foils and Laminates

Operating profit rose 6% to £7.4m (£7.0m) on sales up 8% to £87.9m (£81.7m). Currency and the initial costs associated with the introduction of the

paper metallising plant have substantially affected the division's results. Restating the operating profit for comparison purposes by excluding the net impact of currency and the loss at the new metallising plant increases operating profit £2.4m, giving an operating margin of 11%.

#### Foils

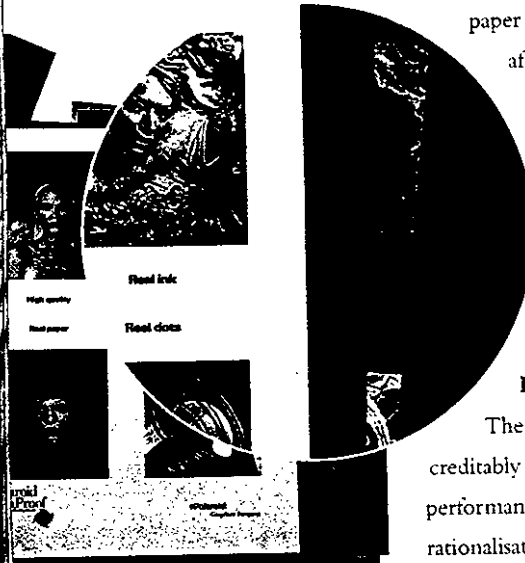
The stamping foils business performed creditably with a significant improvement in performance. This was achieved as a result of the rationalisation of French operations, productivity improvements from streamlining the product range with the introduction of highly flexible lacquer based foils and the expansion of higher margin speciality coatings. Foils mitigated some currency movement with raw material cost reductions.

In November 1997, API announced the merger of the Whiley and Peerless high quality foils businesses, onto the Whiley site at Livingston, Scotland. This decision is anticipated to produce annual cost savings of £1m. Furthermore a £6m investment over 2-3 years, supported by a Scottish Office grant will aid new product development and cost effectiveness at Whiley's.


Dri-Print, API's American hot stamping foil operation, is following up its success in formulating and producing superior performance foils for holographic embossing, by installing the latest technology for "in house" production of multi dimensional and diffraction patterns. This investment enables the Group to provide customers with a comprehensive

service and establishes a platform for new products in the security and specialist foils market.

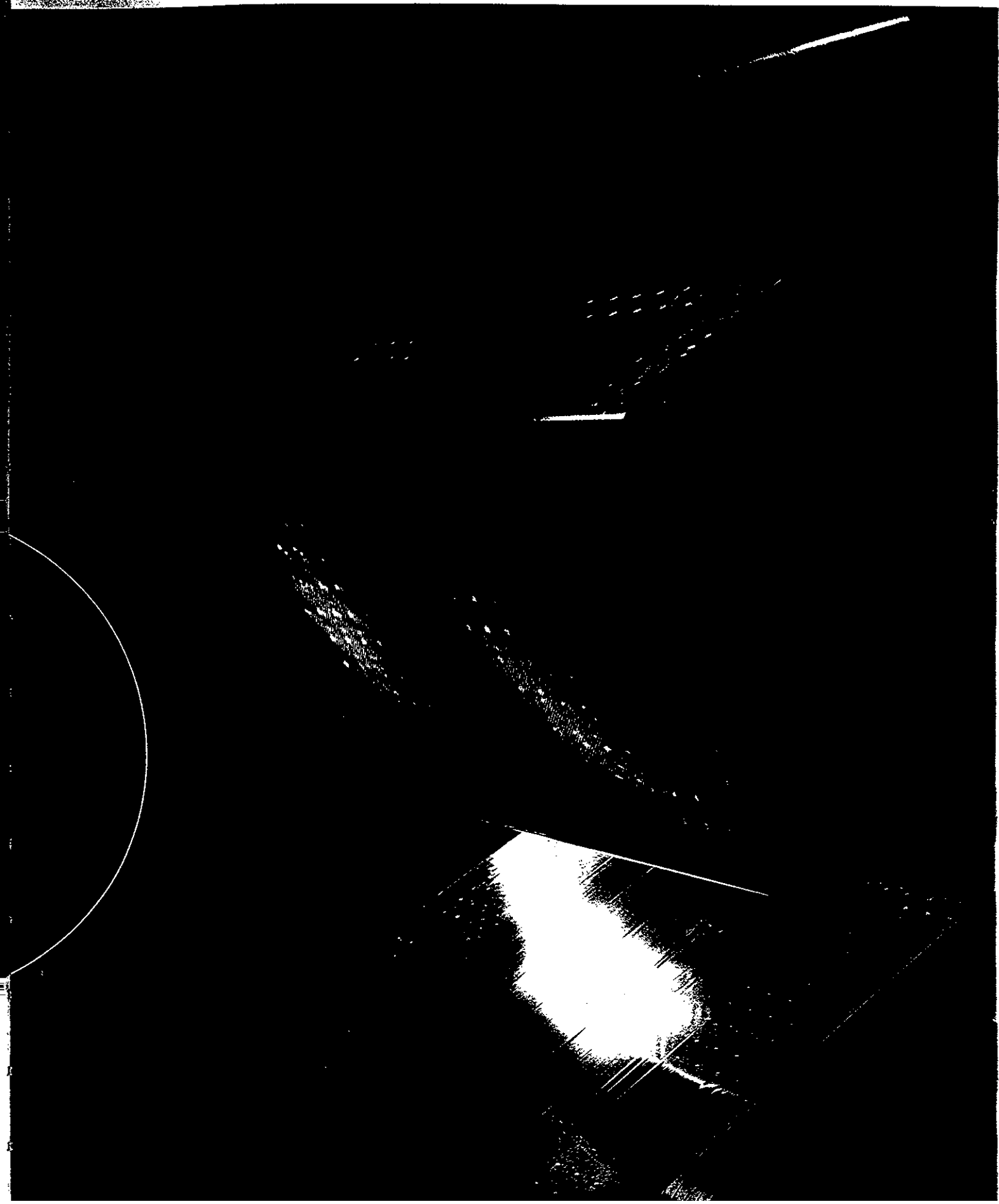
Thermal transfer ribbon (TTR) is being developed and manufactured by a team dedicated to the production of the standard solvent based ribbon and a water based product for "online" marking of variable data as merchandise is packaged on the production line. TTR is one of the consumables required to support API's single source philosophy in its variable information activities. Data-Label and the newly acquired Label World are examples of systems integrators who require TTR for barcoding applications.



*Polaroid PolaProof a new digital halftone proofing system, providing a high resolution, realistic proof that matches the actual press sheet with unparalleled accuracy. By utilising Dri-Print's thermal transfer overlay coatings, the PolaProof finish provides a durable matt, semi-gloss or gloss finish that anticipates the optical gain of the press.*



*A new laminator installed at Poyton adds further capacity for the current product range such as pictured above, and will allow entry in new market areas, for example security applications.*





## Group Chief Executive's Review

### Laminates

The results of the laminates business include the new paper metallising plant which began production at the beginning of the financial year. The metallised paper project experienced an operating loss of £2.0m (1996: loss £0.2m).

During 1997, the paper metallising plant endured machinery difficulties which caused excessive waste and downtime, increasing costs and disrupting shipments. Turnover reached £5.4m in the year, but by the year end was running at an annualised rate of £10m, confirming manufacturing output had moved closer to expectation. Sales are rising, but with 70% currently exported, sterling remains an issue and at existing levels will have a detrimental impact of £1.5m on sales in 1998 compared to the original project evaluation.

Another factor for the results being below budget was the need to use sub-contractors embossing services which cost the business in excess of £0.5m.

Demand for embossed product has risen so greatly an in house capability was installed in November 1997, to improve customer service and eradicate these unplanned costs.

The laminating business results excluding metallised paper were broadly in line with the previous year, suffering from the high value of sterling which directly forced price reductions, primarily where sales were invoiced in local European currencies. The business operates from two facilities and provides metallised

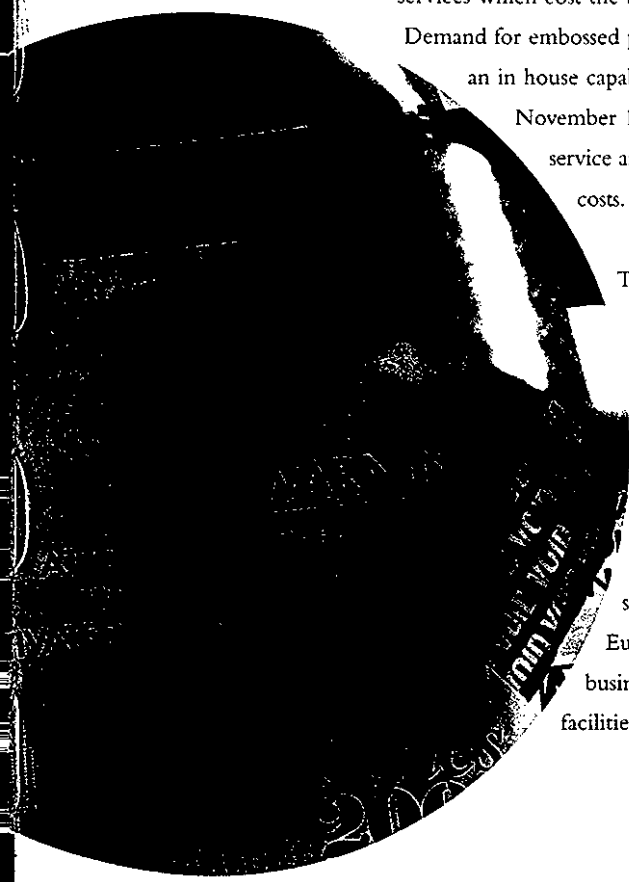
laminates for the premium packaging of spirits, cosmetics, chocolates and cigarettes. A sophisticated multi-purpose transfer laminating machine was installed at Henry & Leigh Slater towards the end of the financial year. The machine was purchased second hand, but was virtually unused, and was acquired at a considerably lower price than the cost of an equivalent new machine. This equipment will provide extra capacity for existing products but, more importantly, will allow API to enter the high growth anti-counterfeiting market for authentication of products and documents, and markets requiring laminates with superior gloss, bond strengths and variable printing capability.

### Converted Film, Paper Products and Office Consumables

Operating profit increased by 37% to £7.7m (£5.6m) on sales up by 21% to £55.9m (£46.3m) and without currency impact by 66 % and 26% respectively.

The improved results came from the inclusion of a full year of Learoyd - acquired in May 1996 - and solid performances, given the conditions, from Tenza and Stace. The high level of exports, particularly by Tenza and a strategy to protect sales against active and competitive overseas suppliers is estimated to have reduced profits by £1.6m and sales £2.5m compared with last year. Currency had such a dramatic adverse impact on the divisional results because a high proportion of sales are through Tenza's Swedish subsidiary, which has experienced a 20% appreciation of sterling against the Swedish krona.

*Main photo & inset:  
Void tape tamper evident  
system as used on  
Learoyd's range of security  
packaging products in a  
key growth market area.  
Extensive quality control  
and technical performance  
reviews are conducted  
throughout the  
manufacturing process.*



## Group Chief Executive's Review

### Release Products

The Group's high volume base release products for general self-adhesive labels are encountering over capacity in the sector and, therefore, low prices. API is reducing exposure to volume grades concentrating on specialist ultra-violet cured silicone release films and release lacquers.

### Anti-corrosion Papers and Films

Strong growth is being experienced in the anti-corrosion business as film based bags and pouches stimulate interest from general engineering and motor industry applications.

### Fire Retardant Products

Sales started slowly in 1997 but, following certification by the loss prevention authorities of the first non-plastic based temporary floor covering, in tandem with extensive promotion, sales are growing.

### Self Adhesive Office and Stationery Consumables

While volume growth was 15%, local overseas currency prices meant turnover was at a similar level to 1996. Margins are still under pressure, particularly in export markets, but recent investment in equipment to improve productivity is expected to assist margins. Product innovations including a new range of stationery for the "Home Office" market will create opportunities for product portfolio extension and greater penetration in the growing Catalogue and Cash and Carry markets. The positive outlook continues for the niche pressure sensitive laminates business, which achieved volume growth of 28% in 1997.

### Variable Information

During the year this business was divisionalised under Tenza with label manufacturing centralised at Saxmundham. The second phase is the merger of API's variable information operation with Label

World, our recent acquisition. Sales and marketing will be consolidated at Label World with the amalgamated business supplying a comprehensive range of variable information products ranging from industrial tracking systems through to our manufactured consumables.








### Plastics and Security Packaging

Learoyd, in its first full year with API, posted operating profits that satisfied the earn-out conditions applying twelve months following completion. This resulted in an additional £2m being paid to the shareholders bringing the total consideration to £22m.

*An ongoing investment programme at Tenza in "state of the art" equipment ensures low cost manufacturing with enhanced quality and service levels provided to a worldwide customer base.*





 013		 013		 010100100012345615960109	
RECEIVER LINE1		QUANTITY (Q) <b>2000</b>		COUNTRY: BRITAIN COUNT/WEIGHT: 12X500G PACKERS CODE: DAT 123	
SERIAL (S) <b>987098</b>		SUPPLIER (V) <b>\$5190</b>		DESCRIPTION <b>POTATOES KING EDWARDS</b>	
 <b>98769999</b>		 <b>987098</b>		SUPPLIER PART NO <b>765</b>	
 <b>98769999</b>		 <b>987098</b>		DOCK RATE <b>098</b>	
DESCRIPTION <b>JKL JK</b>		SUPPLIER ADDRESS <b>CASTINGS PLC</b>		ENGR <b>89</b>	
SUPPLIER		NET WT (KG) <b>89</b>		GROSS WT (KG) <b>89</b>	
				BROWN MILLS EN	



## Group Chief Executive's Review

### Retail Packaging

A volume uplift of 10% reflected API's increasing market share into many of the UK's major High Street retailers and mail order businesses supplying specialised packaging for toiletries, textiles, clothing and food.

### Tamper Evident Bags

The prospects for tamper evident enclosures used in the conveyance of currency, cheques and sensitive documents are very encouraging in spite of the relatively static volumes last year. Negotiations with a number of clients have recently come to fruition and are expected to take effect in 1998.

### Polypropylene Extrusion

This unit is benefiting from the backwards integration of the supply chain at Learoyd and Tenza. Additional applications have been identified in the video film, stationery, confectionery and fresh produce markets.

### Injection Moulding

This business supports the Learoyd plastic conversion company supplying moulded components for products such as integrated hanging bags. Sales growth over the corresponding period in 1996 was an encouraging 28% as the customer and product base was expanded.

### International Partnerships

API is contemplating extending its manufacturing into the Far East, in concert with major end-users. API's large international customers are requiring global agreements where specification and quality must be guaranteed, to meet their worldwide standards and where logistics demand local production.

Heads of agreement have been signed with a subsidiary of a major Chinese public group whose activities include involvement in the manufacture of

metallised laminates and hot stamping foil. Parallel discussions are taking place with major accounts to balance their requirements with any commitment we may make to a joint venture partner.

### Continuous Improvement

Most of our operations realised volumes in excess of 15% last year. This gain has been managed without increasing the cost base and is proof that the Group's managing for continuous improvement programmes (MFCI) generate tangible benefits. Unfortunately the additional contribution from these gains has been offset by the impact of sterling this year. These continuous improvement programmes encompass all aspects of operational procedures and involve teams comprising all employee levels.

### Environmental Policy

The Group is committed to the protection of the environment by ensuring it is pro-active in implementing effective programmes. It is recognised that environmental diligence generates unavoidable cost and the Group is working with experienced advisers to ensure this is minimised. Two factors will affect API, the first one being the control of solvent emissions, where the legislation restricts the release of volatile organic compounds into the atmosphere. The consolidation of Whiley and Peerless at Livingston and the investment programme which provides for a new incinerator will ensure that all the Group's activities at the very least, comply with the required standards. The other area where environmental legislation impinges on the Group involves the reclamation of secondary packaging, which will not create a significant direct cost burden on API, based on current Government guidelines.

*The API Group, spearheaded by Data-Label, provides a solution to end users searching for the complete answer to data capture requirements.*

## Group Chief Executive's Review

### Management

The Group's management team has been strengthened this year with the appointment of a Group Business Development Director from within API. The new post of Foils Divisional Chief Executive was filled by an external appointee. The Group Executive structure is nearly complete and will provide the breadth of management necessary to support the expansion of the Group's selected business segments by organic, acquisition, geographical and new product growth.

### People

People are vital to API and our determination is absolute in training to support our employees and attract high calibre recruits, to ensure our continued successful progress.

### Prospects

In the short term the strength of sterling, the paper metallising plant not being in profit until the second half, destocking by the tobacco industry and one off costs to be borne in the first half in centralising UK foil manufacture, will depress the first half results.

However, the medium to long term prospects are positive for a number of reasons:

- the improving results from paper metallising;
- significant new security bag business now being achieved in both the UK and the US;
- the cost benefit of integrating UK foil operations;
- anticipated productivity gains from the investment in Scotland;
- emphasis on new high margin niche market products, such as those from the recently commissioned Poynton laminator.

Obviously any weakening in the strength of sterling would be of immediate benefit to our Group.



Michael J Smith, Group Chief Executive  
22 December 1997

# Financial Review

The trading results of the business and the headline results for the year under review are reported in both the Chairman's and Chief Executive's reviews. The purpose of this review is to give further financial information on the performance of the business.

## Cash flow

The Group cash flow statement is set out in full on page 35 and shows operating cash flow of £15.7m up £6.8m from £8.9m reported in 1996. This increase reflects both the greater operating profit and the smaller growth in working capital, increasing by 3% less than turnover.

Capital expenditure is greater than the depreciation charge by £3.0m as the Group invests in process and technology improvements.

The Group has maintained a positive cash balance to enable it to take advantage of acquisition opportunities, such as Label World which was purchased after year end in December 1997.

## Working capital

Stocks increased £1.0m (8%), trade debtors increased £0.5m (1%), and trade creditors increased £1.0m (5%). These increases all reflect the increased sales of the Group and the work to contain the growth in working capital despite the increase in activity.

The Group continues to protect most of its exposure to potential bad debts through the use of credit insurance.

## Treasury and funding

The Group continually reviews its interest rate management, and control over treasury management is exercised by the Board through the setting of policy and review of rolling cash flow forecasts. The net interest credit for the year of £0.3m (1996 charge £0.1m) results from the retention of cash raised from the 1996 share placing.

Appropriate policies are agreed to ensure that the Group has sufficient liquidity and can implement investment opportunities without undue funding constraint.

Sales in overseas currencies are hedged by six month rolling contracts and, where appropriate, a proportion of foreign currency investments are covered by borrowings in local currency.

## Taxation

The current year effective tax rate of 27% is below last year's rate of 30% due to the reduction in the rate of Corporation Tax and the investment in capital expenditure, both current and planned, with timing differences not expected to reverse in the foreseeable future.

## Shareholders' funds

The reconciliation of movements in shareholders' funds is shown on page 37. It shows an increase in Shareholders' funds of £6.4m due to the retention of £6.8m profit, share options exercised £0.2m, offset by exchange on foreign currency investments £0.6m.



Dennis J Holt, Group Finance Director  
22 December 1997

# Directors & Advisers

## Directors

JM Woolley, Chairman\*  
MJ Smith, Group Chief Executive  
DJ Holt, ACMA, Group Finance Director  
JN Sheldrick, MA, MSC, FCMA\*

\*non-executive

## Secretary

TK Johnston, LLB

Registered Office: Silk House, Park Green, Macclefield,  
Cheshire SK11 7NU.

Registered Number: 169249

## Bankers

Barclays Bank PLC, City Office Business Centre,  
P.O. Box 228, 51 Mosley Street, Manchester M60 3DQ

The Royal Bank of Scotland PLC, Sidlaw House,  
4 Almondvale South, Livingston, West Lothian EH54 6NB

## Registrars and Transfer Agents

IRG plc, Bourne House,  
34 Beckenham Road, Beckenham, Kent BR3 4TU

## Auditors

Ernst & Young, Chartered Accountants,  
100 Barbirolli Square, Manchester, M2 3EY

## Solicitors

Addleshaw Booth & Co,  
100 Barbirolli Square, Manchester, M2 3AB

## Stockbrokers

Credit Lyonnais Laing, Broadwalk House,  
5 Appold Street, London EC2A 2DA

## Merchant Bankers

Baring Brothers International Limited,  
60 London Wall, London EC2M 5TQ

# Directors' Report

The Directors present their annual report for the year ended 4 October 1997.

## Results and Dividends

The Group results for the year, together with the appropriations made and proposed, are set out in the Group profit and loss account on page 32. Profit before taxation was £14.0m (1996:£10.8m). After taxation, distributable profit amounted to £10.2m (1996:£7.6m) and from this amount dividends of £21,000 (1996:£21,000) have been paid on the preference share capital of the Company. The earnings per ordinary 25p share have increased from 31.44p in 1996 to 36.16p in 1997 and the Directors recommend a final dividend of 7.17p per ordinary share making a total for the year of 12.1p (1996: 11.0p). If approved at the Annual General Meeting, the final dividend will be paid on 9 February 1998 to Ordinary Shareholders on the register on 9 January 1998.

## Activities

API Group plc is a holding company.

The Group operates in the following markets: foils and laminates and converted film, paper products and office consumables.

A review of the Group's activities, intended future developments and product research and development, is contained in the Group Chief Executive's Review on pages 5 to 14. An analysis of turnover, operating profit and net operating assets by geographical area and by activity is set out in note 2 on page 40. The principal operating companies of the Group are listed on page 52.

## Directors

The Directors of the Company are shown on page 16. Information about the Directors is set out below and details of the remuneration and service agreements of the Directors are set out in the Report of the Remuneration Committee to Shareholders on pages 26 to 31.

Moger Woolley, 62, was until 1989 Chief Executive of DRG plc, and he joined the Board on 6 February 1992. He is Chairman of Brunel Holdings plc and Floral Street plc, and a director of Staveley Industries plc and Bristol Water (Holdings) plc. He is also Chairman of the Council of the University of Bristol. Mr Woolley is the Chairman of the Company's Remuneration Committee and a member of the Audit and Nomination Committees.

Michael Smith, 51, has held key senior Chief Executive positions for 23 years. At 28 he became Managing Director of the USA listed multinational Dennison Company, with responsibility for their European office products activities. For 12 years he worked for Avery International, a Fortune 500 Corporation, ultimately becoming Vice President/General Manager and main Board Corporate Officer of their labelling, machinery, office products and licensee operations. Prior to joining API on 1 June 1992 as Group Chief Executive, he was Chief Executive of the Jefferson Smurfit Group plc UK print, packaging and converting companies. Mr Smith is a member of the Company's Nomination Committee.

Dennis Holt, 53, is a Chartered Management Accountant and joined the Board on 17 September 1990 as Group Finance Director. Prior to joining API, he was formerly Finance Director of The East Lancashire Paper Group plc from 1975 to 1985 and Microvitec plc from 1985 to 1990, both publicly quoted companies.

John Sheldrick is aged 48 and joined the Board on 10 February 1995. He has an MA from Cambridge University, an MSc in Management Sciences from the University of Manchester Institute of Science and Technology and is a Chartered Management Accountant. Mr Sheldrick is an executive director of Johnson Matthey plc with responsibility for finance, technology, planning and systems, and, prior to joining Johnson Matthey plc in September 1990, he was the Group Treasurer of The BOC Group plc. Mr Sheldrick is the Chairman of the Company's Audit Committee and a member of the Remuneration and Nomination Committees.

# Directors' Report

The Director retiring by rotation is Mr J N Sheldrick who, being eligible, offers himself for re-election. The non-executive Directors of the Company are Mr J M Woolley and Mr J N Sheldrick.

## Directors' Interests

The interests of the Directors in the issued shares and share options of the Company are set out in the Report of the Remuneration Committee to Shareholders on pages 26 to 31. During the year no Director had an interest in any significant contract relating to the business of the Company or its subsidiaries other than the contract of service of certain directors.

## Board Committees

An Audit Committee of the Board, which comprises solely the non-executive Directors, is chaired by John Sheldrick with the Company's Auditors normally in attendance. The Audit Committee 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.

A Nomination Committee of the Board, comprising the Chairman, the Group Chief Executive and one non-executive Director, 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 and make recommendations regarding the composition and balance of the Board.

Details of the Remuneration Committee of the Board and its activities are set out in its Report to Shareholders on page 26.

The Group Company Secretary acts as Secretary to the Committees and keeps appropriate records of their proceedings.

## Employees and Pensions

The Group continues to recognise that good relationships and clear communications with employees are important. Reflecting its overall policy of decentralisation, the Company does not impose a formalised uniform policy on employee involvement in the Group. Nevertheless, each operating company is encouraged to develop its own policies and priorities to encourage their employees to be involved in their company's performance through managing for continuous improvement and participation in company bonus schemes. Furthermore, Management Resource Planning continues to be developed throughout the Group which, together with employee personal development and training, is designed to fit the qualifications, aptitude and ability of each individual employee to the appropriate job and to provide equal opportunity for personal development regardless of sex, religion or ethnic origin.

The Group endeavours to employ and train disabled people whenever their aptitudes and abilities allow and suitable vacancies are available.

The Group has two funded pension schemes in the UK, the principal scheme being the API Group plc Pension and Life Assurance Fund, the other being a small insured scheme operated by its wholly owned subsidiary, Learoyd Packaging Ltd. A full actuarial valuation of the API Fund was undertaken as at 30 March 1996 and reviewed as at 29 March 1997 by Watson Wyatt Partners, Independent Consulting Actuaries. The valuation and reviews confirmed that, on an ongoing basis, the assets of the API fund exceeded its liabilities and that contributions into the API Group plc Pension and Life Assurance Fund by the Company and its subsidiaries could remain suspended.

The Group continues to pay pensions under three unfunded non-contributory pension schemes, membership of which is now closed. The charge to profits for the year to 4 October 1997 in respect of these unfunded schemes amounted to £25,000 (1996: £28,000).

Dri-Print Foils, Inc. has three funded pension plans. Total contributions for the period ended 4 October 1997 were £47,000 (1996: £111,000) and contributions continue to be paid in accordance with the advice of independent consulting actuaries.

### Group Environmental Policy

The Company recognises that in the operations of its subsidiaries, the effects on the environment of their manufacturing processes and products need to be kept under review for the purposes of seeking to ensure a healthy environment for employees and for the communities which use those products or within which the operations are based. It is, therefore, the Group's policy that its operating subsidiaries should take all appropriate measures to prevent or abate undesirable emissions and comply with applicable environmental laws and regulations.

Because of the diversity and ongoing development of environmental laws and regulations, it is impractical to adopt standard compliance procedures. Accordingly, it is the responsibility of the management of each of the Group operating units to adopt appropriate procedures or measures to comply both with the Group's policy and applicable environmental laws and regulations.

### Share Capital

Full details of shares issued during the year are shown in note 18 on page 47. Further information about the Company's Share Capital is given in note 18 on page 48. The Company operates executive share option schemes, details of which can be found on page 27.

### Interests in Company's shares

The Company has been notified of the following substantial interests in the issued preference and ordinary shares of the Company as 22 December 1997.

	%
<b>Preference shares</b>	
Jove Investment Trust plc	34.61%
The Investment Company plc	22.58%
Danae Investment Trust plc	18.21%
Aboyne-Clyde Rubber Estates of Ceylon plc	9.19%
Merrill Lynch Gilts (Nominees) Ltd	3.73%
<b>Ordinary Shares</b>	
Lloyds TSB Group plc	13.58%
M & G Group plc	10.24%
(including M & G Investment Management Limited which is the investment management subsidiary)	
Standard Life Assurance Company and subsidiaries	9.75%
Edinburgh Fund Managers plc	6.34%
Framlington Investment Management Limited	5.96%
Prudential Corporation plc	5.51%
Axa Sun Life Holdings plc and Subsidiaries	5.14%
General Accident plc	4.49%
Norwich Union Life Assurance Society	3.50%

Except as disclosed above, as at 22 December 1997 the Directors are not aware of any interests amounting to 3% or more in any class of share of the Company.

# Directors' Report

## Annual General Meeting

The Annual General Meeting will be held at The Savoy Hotel, The Strand, London, WC2R 0EU on 5 February 1998 at 12.30pm. The Notice of the Annual General Meeting and a description of the special business to be put to the meeting is contained in the separate circular to shareholders which accompanies these Reports and Accounts.

## Payments to Suppliers

The Group's policy is normally to pay suppliers according to agreed terms of business. These 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 has no trade creditors at the end of the year.

## Charitable and Political Donations

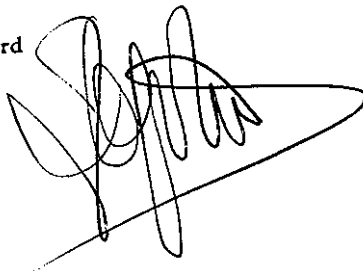
Charitable donations made by the Group during the year amounted to £8,350 (1996: £5,660). There were no political donations.

## Auditors

Ernst & Young have expressed their willingness to continue in office as Auditors and in accordance with Section 384(1) of the Companies Act 1985 a resolution proposing their re-appointment will be put to the members at the Annual General Meeting.

By order of the Board

T K Johnston, LLB  
Secretary  
Macclesfield  
22 December 1997

A large, stylized handwritten signature in black ink, likely belonging to T K Johnston, LLB, the Secretary.



# Corporate Governance

## Code of Best Practice

The Board continues to support the principles contained in the Cadbury Committee's Code of Best Practice.

For the financial year ended 4 October 1997, the Company complied with the code of Best Practice with the exception of the paragraph relating to the composition of Audit Committees which, following the retirement of Mr Adey, is comprised of two non-executive Directors. It is the Board's intention to appoint a further non-executive Director. The Company's Auditors, Ernst & Young, have reviewed compliance with specific matters in the Code which the London Stock Exchange requires auditors to review and their report to the Directors is reproduced on page 24.

Compliance with the Code assists the Group to maintain control over its business, increases accountability and gives confidence to shareholders, customers and employees. The Directors are committed to ensuring that the Company continues to comply with the code.

The statement below covers some areas of governance in more detail.

## The Board of Directors

The Board meets on a regular basis. There is a clear division of responsibility at the head of the Company with a non-executive Chairman and a full time Group Chief Executive. The Board has a formal schedule of reserve powers, a procedure for Directors to obtain independent legal advice and all Directors have unrestricted access to the Company Secretary. In relation to non-reserved matters it is assisted by a number of committees with delegated authority. The Board currently comprises a non-executive Chairman, two full time executive Directors and one non-executive Director and it is the Board's intention to appoint a further non-executive Director in due course, when a suitable candidate has been identified. It is the Board's policy to maintain an appropriate balance between executive and non-executive Directors. Details of the non-executive Directors are given on page 17 of the Directors' Report. Non-executive Directors do not participate in the Company's share option schemes or senior executive bonus scheme and their service is non-pensionable. Details of the executive Directors are given on page 17 of the Directors' Report. The remuneration of the directors and other matters, including terms of service contracts, are determined by a Remuneration Committee, whose Report to Shareholders is given on pages 26 to 31.

## Board Committees

Details of the Remuneration Committee, the Audit Committee and the Nomination Committee are given on page 18 of the Directors' Report and in the report of the Remuneration Committee. These Committees are an important element of the Board's compliance with the code and reflect the Board's approach to Corporate governance issues.

## Internal Financial Control

The Board has overall responsibility for ensuring that the Group maintains a system of internal financial control and has formally reviewed the effectiveness of the internal financial control system of the Group for the year ended 4 October 1997. Internal control systems, by their nature, can provide reasonable, but not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets.

The key internal financial control procedures which the Board has established and which operated throughout the period covered by the financial statements are as follows:

### Control Environment

There is a clearly defined organisational structure in which levels of authority and accountability are well defined. The Group's businesses operate within a framework of procedures laid down in written manuals and the Group's personnel are required to comply with these procedures as relevant to their functions and responsibilities. Financial reporting follows generally accepted accounting practice in all areas.

# Corporate Governance

## Identification and Evaluation of Risks and Control Objectives

The process of risk assessment and the evaluation of its related financial impact is an ongoing process reflected in decision-making at Group and operating levels. Central review and approval procedures are in place in respect of major areas of risk such as acquisitions and disposals, major contracts, capital expenditure, litigation, treasury management, taxation and environmental issues. Wherever practical, duties are segregated and a high degree of management control is also exercised through review by executives of historical and forecast financial information. Conformity with procedures is monitored on an ongoing basis with operating units required to submit a detailed confirmation of compliance by reference to control checklists.

## Information and Communication

Comprehensive information systems are maintained at Group and operating unit levels and are subject to scrutiny by the Board as follows:

- Detailed budgeting systems with an annual budget approval.
- Monthly consideration of actual results compared with budgets and forecasts.
- Monthly review of rolling profit and cash flow forecasts.
- Monthly review of the Group capital expenditure plan.
- Reporting of legal and accounting developments.

Regular Executive and Board meetings and ongoing site based operational reviews are held with a view to ensuring variances and discrepancies are identified and investigated on a timely basis. The Group also reports to Shareholders half yearly.

## Control Procedures

Extensive systems of internal financial control (including information system control) are operated throughout the Group with authority levels established, designed to limit exposure. There is recognition of personal responsibility and accountability by the management team members of the individual operating units. Detailed control checklists are required to be signed both monthly and for other periods as tasks are completed in accordance with the Group's policy manual. Compliance with legislation is closely monitored, including compliance with environmental legislation.

## Internal Audit Function

An internal audit function is in operation and its work is focused on areas of greatest risk as identified and in accordance with an annual internal audit plan approved each year by the Audit Committee.

## Monitoring and Corrective Action

Review of the control checklists and comprehensive management information is 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 and also by the Auditors as part of their annual statutory audit. The Auditors report to the Audit Committee.

## Going Concern

The Directors consider that, after making appropriate enquiries and at the time of approving these accounts, 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 these accounts.

## Statement of Directors' Responsibilities

Company law requires the Directors to prepare accounts for each financial year which 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 year and of the profit or loss of the Group for that period. In preparing those accounts the Directors are required to:

# Corporate Governance

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- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates which are reasonable and prudent.
- State whether applicable accounting standards have been followed.
- 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 these accounts comply with the above requirements.

The Directors are also 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 accounts comply with the Companies Act 1985. The Directors also have a general responsibility at law for taking such steps that are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

# Corporate Governance Report

Report by the Auditors to the Directors of API Group plc on corporate governance matters

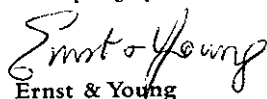
In addition to our audit of the accounts we have reviewed the directors' statements on pages 21 and 22 concerning the company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the accounts. The objective of our review is to draw attention to any non-compliance with Listing Rules 12.43 (j) and 12.43(v).

We carried out our review in accordance with guidance issued by the Auditing Practices Board, and assessed whether the directors' statements on going concern and internal financial control are consistent with the information of which we are aware from our audit. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or its corporate governance procedures nor on the ability of the Group to continue in operational existence.

## Opinion

With respect to the directors' statements on internal financial control on pages 21 and 22 and going concern on page 22, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are consistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statement on page 21 appropriately reflects the company's compliance with the other paragraphs of the Code specified for our review by Listing Rule 12.43 (j).

  
Ernst & Young

Chartered Accountants

Manchester

22 December 1997

# Auditors' Report

## Auditors' Report

### To the Members of API Group plc

We have audited the accounts on pages 32 to 49 which have been prepared under the historical cost convention as modified by the revaluation of certain land and buildings and on the basis of the accounting policies set out on pages 38 to 39. We have also examined the amounts disclosed relating to the emoluments, share options and Long Term Incentive Scheme interests of the Directors which form part of the Report to the Shareholders by the Remuneration Committee on pages 26 to 31.

### Respective responsibilities of Directors and Auditors

As described above, the Company's Directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

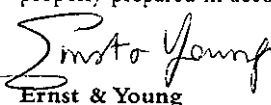
### Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group'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 accounts 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 accounts.

### Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 4 October 1997 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**Ernst & Young**

Chartered Accountants

Registered Auditor

Manchester

22 December 1997

# Remuneration Committee Report

The Remuneration Committee ("the Committee"), on behalf of the Board of the Company, presents its report to Shareholders. The purpose of this report is to explain the key considerations affecting the policy on Directors' remuneration and to provide additional information analysing each element of individual Directors' remuneration packages.

## The Role of the Committee

The Committee, on behalf of the Board, determines all elements of the remuneration packages of the executive directors of the Company and certain senior executives of the Group. It approves all contracts with executive Directors and would also approve any compensation arrangements resulting from early termination of a Director's service contract. The committee also approves the grant of share options and administers the share option schemes, employee benefit trusts and the Company's long term incentive scheme.

## The Committee

The Committee comprises all the non-executive Directors of the Company and is chaired by the Chairman, Mr Moger Woolley. Although not a member of the Committee, on occasions and for matters not related to himself, the Group Chief Executive may be invited to attend meetings and he is consulted by the Committee on proposals relating to the remuneration of the other executive Director and members of the senior management teams of the subsidiary companies.

The Company complies with the recommendations of the Greenbury Committee relating to remuneration committees now incorporated in Section A of the best practice provisions annexed to the Listing Rules of the London Stock Exchange. In formulating remuneration policy the Committee also gives full consideration to the best practice provisions set out in Section B.

The remuneration of non-executive Directors other than the Chairman, is reviewed and determined by the Chairman and Group Chief Executive. The Remuneration of the Chairman is reviewed and determined by the other non-executive Directors and the Group Chief Executive.

## Remuneration Policy

The Committee recognises that, in order to attract and retain a senior management team which will secure maximum shareholder value, it is necessary to operate a competitive pay and benefits structure and it is the Committee's policy to maintain such a structure. To assist with this, the Committee receives regular advice from independent consultants on the pay and incentive arrangements prevailing in comparably sized industrial companies. The Committee also uses, for guidance, published job matched surveys of similar companies and specific surveys are also commissioned. The remuneration of the executive Directors is determined by reference to that policy and following a review of the performance of each executive Director. The Committee monitors practices in other companies to ensure that it remains in touch with current best practice in the market, whilst accepting its obligations to continue to honour pre-existing contractual commitments.

## Executive Directors' Remuneration Packages

The components of the remuneration packages for the executive Directors are as follows:

**Basic Salary** - which is fixed by reference to the advice of independent consultants and takes into account the market level for jobs with similar responsibilities in an appropriate comparator group. Basic salary is normally reviewed as at 1 October each year and takes account of individual performance during the year.

**Annual Bonus** - which is paid as a percentage of basic salary under the terms of the Company's Executive Bonus Scheme. The executive Directors' bonus awards are based on the consolidated profit before tax (PBT) of the Company and its subsidiaries as compared with the PBT for the prior year and the annual budget. Under the rules of the scheme, an annual bonus payment of 20% of basic salary is normally paid as a profit-related element, if the Group meets the annual budget, and this may rise to a maximum of 25% of basic salary if other performance objectives are achieved. There will be no payment of the profit-related element if performance is below an agreed level above PBT for the previous year. The Committee retains overall discretion in determining the amount of the bonus payments taking into account the above factors. The bonuses provided to be paid to executive Directors in 1997 are 15% (1996: 25%) of salary at 1 October 1996.

**Long Term Incentive Scheme (LTIS)** - The LTIS was introduced to motivate and reward the most senior executives of the Company and its subsidiaries for the achievement of longer term objectives leading to enhanced Shareholder value.

The award of shares under the LTIS is conditional on a significant increase in the Company's adjusted earnings per share in each of the financial years ending 1996, 1997 and 1998. Under the rules of the LTIS these increases in adjusted earnings per share must be at least 15 per cent per annum compound compared with the level achieved in the financial year ended 30 September 1995. The results for the year ended 4 October 1997 have been adversely affected by the strength of sterling and start up losses incurred by the new paper metallising plant. As a consequence, the performance condition relating to the increase in earnings per share for that year has not been met. The Committee has reconsidered the performance conditions and, in comparison with other similar schemes adopted by other companies, believes that the imposition of this annual target is unnecessarily harsh and that awards should be capable of being made, provided that, over the three year period taken as a whole, adjusted earnings per share have increased by at least 52 per cent when comparing the year ending 3 October 1998 with the year ended 30 September 1995. Therefore a resolution to amend the rules of the LTIS will be proposed at the forthcoming Annual General Meeting of the Company.

**Share Options** - Under the Company's executive share option schemes, executive Directors and senior executives may be granted options to acquire for ordinary shares in the Company after a period of three years or five years from the date of grant. The exercise of options granted before 8 February 1993 is not conditional upon the achievement of any performance criteria, but options granted subsequently are conditional upon the achievement of certain performance criteria. Under the rules of the schemes, as adopted by Shareholders in 1993 there were three classes of option. "Class 1 Options" can normally only be exercised if, in any period of three consecutive financial years commencing no earlier than the beginning of the financial year in which the option is granted, the earnings per share of the Company have increased by a percentage being no less than the percentage increase in the Retail Price Index during such three financial years (as determined by the Auditors of the Company). "Class 2 Options" were options to be granted at an option price less than market value at the date of grant. No Class 2 Options have been granted and following the Finance Act 1996 the schemes were amended on 19 July 1996 to delete the power to grant Class 2 Options. "Class 3 Options" can normally only be exercised if, in any period of five consecutive financial years commencing no earlier than the beginning of the financial year in which the option is granted, the increase in the earnings per share of the Company has been such as to place the Company in the top quartile of the FTSE 100 companies by reference to increase in earnings per share during such five financial years (as determined by the Auditors of the Company). No class 3 Options have been granted and accordingly all options granted since 8 February 1993 are Class 1 Options. The Committee has been advised by external consultants that, the exercise conditions for Class 3 Options are such that grants of those options to the Group's senior executives will not operate effectively as an



# Remuneration Committee Report

incentive. Accordingly, the Committee has decided that, in future, no Class 3 Options shall be granted. In order to simplify the rules of the Company's Executive Share Option Schemes a resolution will therefore be proposed at the forthcoming Annual General Meeting to authorise the Directors to remove from the rules all those provisions which relate to Class 3 Options. The resolution will also authorise the Directors to amend the limits on individual participation in the Company Executive Share Option Scheme. Details of options granted to Directors during the year, are given later in this report.

**Pensions and Life Assurance** - executive Directors participate in a contributory final salary pension scheme which is Inland Revenue approved. The scheme provides, at normal retirement age and subject to length of service, a pension of up to two thirds of pensionable salary at retirement subject to a minimum of 20 years service with the Group and subject to Inland Revenue limits and other statutory rules. Pension entitlement is calculated by reference to basic salary only (subject to the earnings cap for pension purposes) and neither annual bonuses nor benefits in kind are pensionable. Service as a non-executive Director is not pensionable. Life assurance cover is provided based on four times the capped salary except in the case of the Group Chief Executive who, under the terms of his service agreement, is entitled to life assurance cover of four times his full basic salary. In addition to basic salary, a supplementary payment is made to executive Directors based on 24% of the difference between the earnings cap and the basic salary in order to allow the executive Directors to make their own additional pension provision. Because of the funding position of the pension scheme, the Company's contributions made during the year ended 4 October 1997 were nil (1996: nil).

**Other benefits** - available to the executive Directors are private health care insurance, permanent health insurance (to secure income in the event of ill health or disability) and a company car. These are benefits available to executive Directors of similar companies.

## Service Contracts

### Executive Directors

Michael Smith and Dennis Holt serve under contracts which are terminable by the Company giving, in the case of Michael Smith, not less than thirty six months' notice, and, in the case of Dennis Holt, twenty four months' notice. Both service contracts were entered into several years before the Greenbury Code of Best Practice was published and, in the light of the progress of the Company since their appointment, the Committee believes that it would not be appropriate at this time to seek to reduce the degree of security which the contracts confer on the executive Directors. The committee, therefore, considers these notice periods to be reasonable in the circumstances and in the interest of the Company and its executive Directors.

### Non-executive Directors

The Company's practice is to appoint non-executive Directors under letters of engagement rather than under service contracts. Mr John Sheldrick was appointed for a term of three years, expiring on 9 February 1998. Mr Sheldrick retires by rotation at the forthcoming Annual General Meeting and, subject to him being re-elected at that meeting, (or at any adjournment thereof,) the Board has agreed with Mr Sheldrick an extension of his appointment for a further three years.

Mr Moger Woolley serves the Company as a non-executive Director and Chairman under the terms of a service contract which may be terminated by the Company or Mr Woolley giving not less than twelve months' notice at any time.

The remuneration for the Chairman and the other non-executive Directors consists of annual fees for their services both as members of the Board and of the committees on which they serve.

## Emoluments

In the year to 4 October 1997 the Group Chief Executive was the highest paid Director and his aggregate emoluments, were as follows:

	1997 £'000	1996 £'000
Aggregate emoluments	252	224
Performance-related bonus (accrued)	32	47
Remuneration as shown in the table below	284	271

The remuneration and benefits provided for and received by each Director during the year to 4 October 1997 were as follows:

	Salary £'000	Taxable Benefits £'000	Payment Above Pension cap £'000	Performance -related Annual Bonus £'000	Total £'000	Total (Prior yr) £'000
<b>Executive</b>						
M J Smith	210	11	31	32	284	271
D J Holt	101	11	5	15	132	125
<b>Non-executive</b>						
J M Woolley	55	—	—	—	55	50
J F Adey	6	—	—	—	6	15
J N Sheldrick	17	—	—	—	17	15

The amended Stock Exchange Listing Rules published in May 1997 (effective for accounting periods ending on or after 1 July 1997) state that, for defined benefit schemes, companies should disclose the following information:

- the amount of the increase during the year and of the accumulated total amount as at the reporting date in respect of the accrued pension to which each director would be entitled on leaving service, over and above any general increase to compensate for inflation to which early leavers would be entitled.
- the transfer value of the relevant increase in accrued pension or sufficient information in order to make a reasonable estimate of this value.

These details are given in the following table:

	M J Smith	D J Holt
Age at 4 October 1997	51	53
Years of service at 4 October 1997	5	7
Increase in accrued pension (after allowing for statutory revaluation) during the year	£2,810	£2,002
Transfer value of the increase in accrued pension	£28,300	£14,700
Accumulated total accrued pension at 4 October 1997	£14,933	£10,446

# Remuneration Committee Report

- a) The pension entitlements shown are those which would be paid annually on retirement based on service to the end of the year.
- b) The increase in accrued pension during the year excludes any increase for inflation.
- c) The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11, less directors' contributions (if any).
- d) Members of the scheme have the option to pay additional voluntary contributions. Such contributions (if any) and the resulting benefits are not reflected in the above table.

## Directors' Interests

Share Options (Class 1)	Date of Grant	No of Shares	Exercisable Price	Exercise From	Market Price	Gain	Date Exercised	Expiry Date
<b>M J Smith</b>								
Opening 95/96	25/12/92	56,000	211p	26/12/95				25/12/2002
	*23/06/95	40,000	454p	24/06/98				23/06/2005
		96,000						
Granted 95/96	*03/01/96	60,000	553p	04/01/99				03/01/2006
Exercised 95/96		56,000	211p		600p	£217,840	08/02/96	
Closing 95/96*		100,000						
Granted 96/97	*11/06/97	30,000	694p	12/06/2000				11/06/2007
Exercised 96/97		0						
Closing 96/97#		130,000						
<b>D J Holt</b>								
Opening 95/96	13/07/92	24,800	183p	14/07/95				13/07/2002
	25/12/92	24,000	211p	26/12/95				25/12/2002
	*23/06/95	20,000	454p	24/06/98				23/06/2005
		68,800						
Granted 95/96	*03/01/96	25,000	553p	04/01/99				03/01/2006
Exercised 95/96		24,800	183p		600p	£103,416	08/02/96	
		24,000	211p		600p	£93,360	08/02/96	
Closing 95/96*		45,000						
Granted 96/97	*11/06/97	15,000	694p	12/06/2000				11/06/2007
Exercised 96/97		0						
Closing 96/97#		60,000						

No options lapsed during the year. The mid market price of the Company's shares at 3 October 1997 (4 October 1997 being a Saturday) was 630 pence and the range during 1996/97 was 587.5 pence to 782 pence.

\*Included in closing balance 28 September 1996

#Included in closing balance 4 October 1997

In addition to the share options set out above, the interests of the Directors and their immediate families in the shares of the Company, according to the register required to be kept pursuant to Section 325(i) of the Act were as shown below:

### Directors' Interests

	Ordinary Shares		Ordinary Share Options	
	04/10/97	28/09/96	04/10/97	28/09/96
J M Woolley	40,000	40,000	0	0
M J Smith	27,000	27,000	130,000	100,000
D J Holt	21,000	21,000	60,000	45,000
J N Sheldrick	12,857	12,857	0	0

From 4 October 1997 to 22 December 1997 there have been no changes in the above interests.

All the above interests were beneficial at the above dates.

Each of the executive Directors was, at the date of this report, deemed to be interested as a discretionary beneficiary of the Company's Executive Share Option Schemes in all the 80,000 ordinary shares of the Company held by the API Group plc No.2 Employee Benefit Trust. On 1 October 1997 that trust waived all future dividends in respect of the Company's shares held by the Trust.

Save as mentioned above, no Director had any interest in any share capital of the Company or of any subsidiary.

# Group Profit & Loss Account

for the year ended 4 October 1997

	Note	12 months to 4 October 1997 £'000	12 months to 28 September 1996 £'000
<b>Turnover</b>	2	143,819	127,957
Cost of sales	3	(108,183)	(96,512)
<b>Gross profit</b>		<b>35,636</b>	<b>31,445</b>
Distribution costs	3	(5,673)	(4,983)
Administrative expenses	3	(16,279)	(15,486)
<b>Operating profit</b>		<b>13,684</b>	<b>10,976</b>
Net finance income/(expense)	4	297	(128)
Profit before taxation		13,981	10,848
Taxation	6	(3,781)	(3,249)
Profit for the financial year		10,200	7,599
Preference dividends	7	(21)	(21)
Profit attributable to ordinary shareholders		10,179	7,578
Ordinary dividends	7	(3,404)	(2,807)
Balance transferred to reserves	19	6,775	4,771
Earnings per ordinary 25p share	8	36.16p	31.44p

# Group Balance Sheet

at 4 October 1997

	Note	1997 £'000	1997 £'000	1996 £'000	1996 £'000
<b>Fixed assets</b>					
Tangible assets	9	40,364		38,519	
Investments	10	548	40,912	—	38,519
<b>Current assets</b>					
Stocks	12	13,190		12,190	
Debtors	13	37,856		37,001	
Cash at bank and in hand		10,213		10,842	
		61,259		60,033	
<b>Creditors – Amounts falling due within one year</b>					
Creditors	14	(30,060)		(31,923)	
Short term borrowings	16	—		(45)	
Current taxation		(3,266)		(3,657)	
Dividends		(2,015)		(1,832)	
		(35,341)		(37,457)	
<b>Net current assets</b>			25,918		22,576
<b>Total assets less current liabilities</b>			66,830		61,095
<b>Creditors – Amounts falling due after more than one year</b>					
Other creditors	15		(853)		(1,370)
<b>Provisions for liabilities and charges</b>	17		(442)		(344)
<b>Deferred credit – Government grants</b>			(22)		(314)
<b>Total net assets</b>			65,513		59,067
<b>Share capital and reserves</b>					
Called up share capital	18		7,594		7,574
Share premium account	19	21,843		21,645	
Other reserves	19	2,189		2,189	
Profit and loss account	19	33,887		27,659	
			57,919		51,493
<b>Non-equity shareholders' funds</b>		549		549	
<b>Equity shareholders' funds</b>		64,964		58,518	
		65,513		59,067	

M J Smith  
D J Holt

Group Chief Executive  
Group Finance Director

22 December 1997

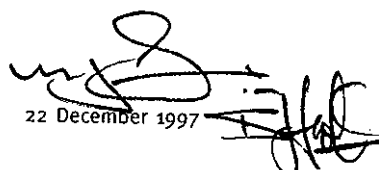
# Company Balance Sheet

at 4 October 1997

	Note	1997 £'000	1997 £'000	1996 £'000	1996 £'000
<b>Fixed assets</b>					
Tangible assets	9	2,147		6,572	
Investments	10	548		—	
Subsidiary undertakings	11	36,808	39,503	40,319	46,891
<b>Current assets</b>					
Debtors	13	675		756	
Amounts due from subsidiary undertakings		16,454		8,799	
Cash at bank and in hand		11,018		8,253	
		28,147		17,808	
<b>Creditors - Amounts falling due within one year</b>					
Creditors	14	(335)		(2,437)	
Amounts due to subsidiary undertakings		(4,460)		(1,073)	
Current taxation		(317)		(595)	
Dividends		(2,015)		(1,832)	
		(7,127)		(5,937)	
<b>Net current assets</b>			21,020		11,871
<b>Total assets less current liabilities</b>			60,523		58,762
<b>Creditors - Amounts falling due after more than one year</b>					
Creditors			(33)		(67)
<b>Provisions for liabilities and charges</b>	17		(442)		(344)
<b>Total net assets</b>			60,048		58,351
<b>Share capital and reserves</b>					
Called up share capital	18		7,594		7,574
Share premium account	19	21,843		21,645	
Other reserves	19	23,554		23,554	
Profit and loss account	19	7,057		5,578	
			52,454		50,777
<b>Non equity shareholders' funds</b>		549		549	
<b>Equity shareholders' funds</b>		59,499		57,802	
<b>Shareholders' funds</b>			60,048		58,351

M J Smith  
D J HoltGroup Chief Executive  
Group Finance Director

22 December 1997



# Cash Flow Statement

for the year ended 4 October 1997

	1997 £'000	1997 £'000	1996 £'000	1996 £'000
<b>Net cash flow from operating activities (Note A)</b>		<b>15,688</b>		<b>8,926</b>
<b>Returns on investment and servicing of finance</b>				
Interest paid	—		(624)	
Interest received	337		112	
Interest element of finance lease rentals	(40)		(21)	
Preference dividend paid	(21)	276	(21)	(554)
<b>Taxation</b>				
UK	(3,016)		(1,771)	
Overseas	(1,227)	(4,243)	(749)	(2,520)
<b>Capital expenditure and financial investment</b>				
Payments to acquire tangible fixed assets	(6,603)		(6,666)	
Receipts from sales of tangible fixed assets	350		444	
Payments to acquire investments	(548)	(6,801)	—	(6,222)
<b>Acquisition and disposals (Note D)</b>		(2,155)		(1,728)
<b>Equity dividends paid</b>		(3,221)		(2,253)
<b>Cash outflow before financing</b>		(456)		(4,351)
<b>Financing</b>				
Issue of new shares	218		17,747	
(Repayment) of medium term loans	—		(8,474)	
Capital element of finance lease rental payments	(335)	(117)	(44)	9,229
<b>(Decrease)/Increase in cash in the period</b>		(573)		4,878
Exchange movement		(11)		31
<b>Balance sheet movement in net cash</b>		(584)		4,909



# Cash Flow Statement

for the year ended 4 October 1997

## Notes to the cash flow statement

### A. Reconciliation of operating profit to net cash inflow from operating activities

	1997 £'000	1996 £'000
Operating profit	13,684	10,976
Depreciation less government grants	3,925	3,407
Loss/(Profit) on replacement of fixed assets	35	(102)
(Increase) in stocks	(1,056)	(1,270)
(Increase) in debtors	(893)	(5,406)
(Decrease)/Increase in creditors	(105)	1,564
Increase/(Decrease) in provisions	98	(243)
Net Cash Inflow	15,688	8,926

### B. Analysis of net funds

	1996 £'000	Cash Flow £'000	Exchange difference £'000	1997 £'000
Cash at bank and in hand	10,842	(618)	(11)	10,213
Bank overdrafts	(45)	45	—	—
Cash	10,797	(573)	(11)	10,213
Finance leases	(646)	335	—	(311)
	10,151	(238)	(11)	9,902

### C. Reconciliation of net cash flow to movement in net funds

	1997 £'000	1996 £'000
(Decrease)/Increase in cash	(573)	4,878
Repayment of loans	—	8,474
Repayment of capital elements of finance leases	335	44
Change in net funds resulting from cash flows	(238)	13,396
Finance leases acquired with subsidiaries	—	(647)
Inception of finance lease contracts	—	(43)
Exchange differences	(11)	31
Movement in net funds	(249)	12,737
Net funds/(debt) at start of year	10,151	(2,586)
Net funds at end of year	9,902	10,151

### D. Analysis of the net outflow of cash in respect of the acquisition of subsidiary undertakings and businesses (note 23)

1997	Gold Impressions £'000	Learoyd £'000	Total £'000
Cash consideration paid	122	2,033	2,155
Net outflow in respect of acquisitions	122	2,033	2,155

1996	Data-Label £'000	Gold Impressions £'000	Learoyd £'000	Total £'000
Cash consideration paid	1,925	131	310	2,366
Cash at bank and in hand acquired	—	—	(638)	(638)
Net outflow/(inflow) in respect of acquisitions	1,925	131	(328)	1,728

# Other Statements

	1997 £'000	1996 £'000
<b>Statement of total recognised gains and losses</b>		
Profit for the financial year	10,200	7,599
Unrealised surplus on revaluation of properties	–	318
Currency transaction differences		
on foreign currency net investments	(547)	151
Total gains and losses recognised since last annual report and accounts	9,653	8,068

	1997 £'000	1996 £'000
<b>Reconciliation of movements in shareholders' funds</b>		
Profit for the financial year	10,200	7,599
New shares issued	20	1,638
Premium on shares issued (net of associated issue costs) – taken to share premium account	198	16,923
Premium on shares issued – taken to merger reserve	–	19,186
Goodwill written off to merger reserve		
on acquisition of Learoyd	–	(14,365)
Prior period goodwill offset against merger reserve	–	(4,821)
Prior period goodwill written back to profit and loss reserve	–	4,821
Revaluation surplus	–	318
Dividends	(3,425)	(2,828)
Currency translation difference		
on foreign currency net investments	(547)	151
Net addition to shareholders' funds	6,446	28,622
Opening shareholders' funds	59,067	30,445
Closing shareholders' funds	65,513	59,067

# Notes to the Accounts

## 1. Accounting Policies

The following are the more important policies adopted by the Group.

### Accounting convention

The accounts 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 applicable accounting standards.

### Basis of consolidation

The accounting dates of all companies in the Group are coterminous and results for the year ended on the accounting date are included in the Group results in full except where subsidiary undertakings are acquired or sold during the year when results are included from or to the date of acquisition or sale. No transfer to share premium account is made on account of premiums on shares issued in consideration for the acquisition of companies which fulfil the conditions of Section 131 of the Companies Act 1985 in respect of merger relief.

### Turnover

Turnover represents amounts invoiced to third parties excluding value added tax.

### Fixed assets

Cost includes gross interest on capital invested in major construction projects.

### Depreciation

Freehold and long leasehold land is not depreciated. The cost or valuation of other fixed assets is written off in equal annual instalments over the expected useful lives as follows:

Freehold and long leasehold properties	- 14 to 50 years
Short leasehold properties	- over period of lease
Plant	- 5 to 20 years
Vehicles	- 4 years
Furniture and equipment	- 5 to 10 years

### Government grants

Government grants, being investment and development grants and energy conservation grants, received and receivable, are credited to the government grants account and are released to the profit and loss account over the estimated lives of the assets concerned.

### Research and development

Expenditure in respect of pure and applied research is charged in the profit and loss account in the year in which it is incurred.

### Stock and work in progress

Stocks 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.

### Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that the liability will crystallise. Full provision is made for timing differences related to pensions. Deferred taxation is not provided in respect of the effects of remitting overseas earnings to the United Kingdom.

## 1. Accounting Policies (continued)

### Pensions

#### NON-CONTRIBUTORY PENSION SCHEMES

Admission to the Group's non-contributory schemes has ceased, the principal ones ceasing admission on 31 March 1974. The provision for future payments under the schemes is shown in the balance sheet at their net present value as estimated by the Group's actuary. The profit and loss account is charged with the change in the estimated net present value over the financial year, together with interest on the provision at the commencement of the year.

#### PENSION AND LIFE ASSURANCE FUNDS

Pension costs are recognised on a systematic basis so that the cost of providing retirement benefits to members are evenly matched, so far as possible, to the service lives of the members concerned. Any excess or deficiency of the actuarial value of assets over the actuarial value of liabilities of the pension funds is allocated over the average remaining service lives of the current members.

### Foreign currencies

Assets and liabilities in foreign currencies are translated at rates ruling at the balance sheet date and trading items at the average rate for the period. Exchange differences arising on consolidation on the translation of foreign manufacturing subsidiary undertakings' accounts and of related foreign currency loans are dealt with in retained profit. All other exchange gains and losses are dealt with through the profit and loss account.

### Goodwill

Goodwill arising on consolidation is written off against reserves as it arises.

### Leases

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

Fixed assets held under finance lease arrangements are capitalised and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding.

# Notes to the Accounts

## 2. Segmental Analysis

### Analysis of turnover by destination

	1997 £'000	1996 £'000
United Kingdom	87,815	77,828
France	6,903	6,787
Germany	5,869	4,725
Scandinavia	6,045	5,105
Other European countries	14,020	11,252
Americas	15,860	15,577
Rest of World	7,307	6,683
	<b>143,819</b>	<b>127,957</b>

### Analysis of turnover, operating profit and net assets by origin

	Turnover		Total operating profit		Net operating assets	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000	1997 £'000	1996 £'000
United Kingdom	124,960	108,360	11,968	10,293	53,297	45,120
Continental Europe	1,052	1,221	(39)	(249)	525	1,064
Americas	17,137	17,772	3,131	2,497	7,091	7,957
Rest of World	670	604	17	39	343	1,074
	<b>143,819</b>	<b>127,957</b>	<b>15,077</b>	<b>12,580</b>	<b>61,256</b>	<b>55,215</b>
Group company costs	—	—	(1,393)	(1,604)	—	—
Non operating assets	—	—	—	—	4,257	3,852
	<b>143,819</b>	<b>127,957</b>	<b>13,684</b>	<b>10,976</b>	<b>65,513</b>	<b>59,067</b>

Following a change to the basis of calculation, the prior year segmental analysis of turnover by origin has been restated.

Turnover originating in the United Kingdom includes £37,415,000 of sales to overseas destinations (1996: £27,326,000).

### Analysis of turnover, operating profit and net assets by activity

	Turnover		Total operating profit		Net operating assets	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Foils and laminates	87,896	81,690	7,417	7,002	37,877	31,994
Converted film, paper products and office consumables	55,923	46,267	7,660	5,578	20,931	19,789
	<b>143,819</b>	<b>127,957</b>	<b>15,077</b>	<b>12,580</b>	<b>58,808</b>	<b>51,783</b>
Group company costs/assets	—	—	(1,393)	(1,604)	2,448	3,432
Non operating assets	—	—	—	—	4,257	3,852
	<b>143,819</b>	<b>127,957</b>	<b>13,684</b>	<b>10,976</b>	<b>65,513</b>	<b>59,067</b>

Net operating assets comprise total assets less current liabilities and exclude dividends, taxation and all assets and liabilities of a financing nature.

Following the transfer of Data-Label Limited from the Foils and laminates division to the Converted film and paper products division, the 1996 figures have been restated for comparison purposes.

### 3. Operating Profit

Operating profit is stated after charging

	1997 £'000	1996 £'000
Depreciation – less government grants of £292,000 (1996: £24,000)	3,925	3,407
Hire of plant	53	98
Other operating lease costs	685	613
Research and development costs written off	964	549
Auditors' remuneration – audit services	213	174
– non audit services	96	44

### 4. Net Finance Income/(Expense)

	1997 £'000	1996 £'000
Interest payable on bank overdrafts and loans repayable within five years	–	(624)
Interest payable on finance leases	(40)	(21)
Interest receivable	337	112
Interest capitalised (note 9)	–	405
Net interest income/(expense)	297	(128)

### 5. Employment Costs – Including Directors

	1997 £'000	1996 £'000
The total group employment costs were:		
Wages and salaries	22,907	20,517
Employers' national insurance and similar costs	2,215	2,043
Pensions (note 17):		
Provided under non-contributory pension schemes	72	84
Contributions provided under pension and life assurance funds	234	111
	25,428	22,755
<b>Average number of persons employed</b>		
	1997	1996
Foils and laminates	574	558
Converted film, paper products and office consumables	595	402
API Group plc	8	9
	1,177	969

# Notes to the Accounts

## 6. Taxation

	1997 £'000	1996 £'000
Corporation tax payable at 32% (1996: 33%)	2,489	2,335
Overseas taxation	1,274	898
Prior year adjustments	42	(56)
Deferred taxation	(24)	72
	<u>3,781</u>	<u>3,249</u>

The taxation charge has been reduced/(increased) by:

Accelerated capital allowances	865	222
Prior year adjustments	(42)	56
Decrease in deferred taxation provision	24	(72)
Other factors	(154)	125
	<u>693</u>	<u>331</u>
A full taxation charge at 32% (1996: 33%) on the profit before taxation would be	<u>4,474</u>	<u>3,580</u>

## 7. Dividends

### Preference

	1997 £'000	1996 £'000
Paid 1 April 1997	11	11
Paid 30 September 1997	10	10
	<u>21</u>	<u>21</u>

### Ordinary

	1997 Pence per Share	1996 Pence per Share	1997 £'000	1996 £'000
Interim paid 1 July 1997	4.93	4.48	1,389	975
Proposed final payable 9 February 1998	7.17	6.52	2,015	1,832
	<u>12.10</u>	<u>11.00</u>	<u>3,404</u>	<u>2,807</u>

## 8. Earnings per Share

The basic earnings per share, the fully diluted earnings per share and basic earnings with taxation charge on a nil distribution basis are not materially different. They are calculated by dividing the profit after taxation and after preference dividends by 28,149,861, being the weighted average number of shares in issue during the year (1996 divisor 24,105,644).

## 9. Tangible Fixed Assets

### Group

	Freehold Land £'000	Freehold Buildings £'000	Leasehold Land & Buildings		Plant & Equipment £'000	Total £'000
	£'000	£'000	Long £'000	Short £'000	£'000	£'000
<b>Cost or valuation</b>						
At 28 September 1996	2,734	5,582	2,382	222	54,241	65,161
Additions	53	191	29	—	6,330	6,603
Foreign exchange movement	(55)	(78)	—	—	(354)	(487)
Disposals	—	(37)	—	—	(1,129)	(1,166)
<b>At 4 October 1997</b>	<b>2,732</b>	<b>5,658</b>	<b>2,411</b>	<b>222</b>	<b>59,088</b>	<b>70,111</b>
Being:						
Cost	53	191	29	—	59,088	59,361
Professional valuation 1996	2,679	5,467	2,382	222	—	10,750
	<b>2,732</b>	<b>5,658</b>	<b>2,411</b>	<b>222</b>	<b>59,088</b>	<b>70,111</b>
<b>Depreciation</b>						
At 28 September 1996	—	18	169	35	26,420	26,642
Provided during period	—	214	68	31	3,904	4,217
Foreign exchange movement	—	(66)	—	—	(265)	(331)
Disposals	—	(3)	—	—	(778)	(781)
<b>At 4 October 1997</b>	<b>—</b>	<b>163</b>	<b>237</b>	<b>66</b>	<b>29,281</b>	<b>29,747</b>
<b>Net book value at</b>						
<b>4 October 1997</b>	<b>2,732</b>	<b>5,495</b>	<b>2,174</b>	<b>156</b>	<b>29,807</b>	<b>40,364</b>

The net book value of the Group's plant and equipment includes £638,000 (1996: £700,000) in respect of assets held under finance leases and hire purchase contracts.

Interest capitalised included in the net book value of tangible fixed assets is £516,000 (1996: £553,000).

### Revaluation of land and buildings

The Group's UK land and buildings were revalued as at 28 September 1996 by Edward Rushton Son & Kenyon, International Surveyors and Valuers on an open market value for existing use basis.

The USA land and buildings were similarly revalued by AF Appraisal Company (professional valuers).

The potential liability for deferred taxation on the revaluation reserve is regarded as remote and therefore not quantified.

If stated under historical cost principles the comparable cost of land and buildings is £8,834,000. The difference between the historical cost depreciation charge and the actual charge, calculated on revalued amounts, is insignificant in terms of the reported profit for the year and net carrying value of land and buildings. The associated net book value is £3,957,000.



# Notes to the Accounts

## 9. Tangible Fixed Assets (continued)

### Company

	Freehold Land £'000	Freehold Buildings £'000	Long Leasehold Land & Buildings £'000	Plant & Equipment £'000	Total £'000
<b>Cost or valuation</b>					
At 28 September 1996	1,589	4,358	1,100	340	7,387
Additions	53	—	—	24	77
Disposals	(1,414)	(3,339)	—	—	(4,753)
<b>At 4 October 1997</b>	<b>228</b>	<b>1,019</b>	<b>1,100</b>	<b>364</b>	<b>2,711</b>
<b>Depreciation</b>					
At 28 September 1996	—	505	156	154	815
Provided during period	—	99	32	68	199
Disposals	—	(450)	—	—	(450)
<b>At 4 October 1997</b>	<b>—</b>	<b>154</b>	<b>188</b>	<b>222</b>	<b>564</b>
<b>Net book value at</b>					
<b>4 October 1997</b>	<b>228</b>	<b>865</b>	<b>912</b>	<b>142</b>	<b>2,147</b>

## 10. Fixed Asset Investments

### Own shares

	Group		Company	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
<b>Cost</b>				
At 28 September 1996	—	—	—	—
Additions	548	—	548	—
<b>At 4 October 1997</b>	<b>548</b>	<b>—</b>	<b>548</b>	<b>—</b>

During 1997 a discretionary trust was established to facilitate the operation of the Company executive share option scheme which is described in the remuneration committee report.

At 4 October 1997 the trust held 80,000 ordinary shares at a cost of 680p per share and a total cost of £548,000. The market value of the shares at 3 October 1997 (4 October 1997 being a Saturday) was 630p per share and a total value of £504,000.

The purchase of the shares was financed by an interest free loan from API Group plc. Rights to dividends on the shares held by the trust have been waived by the trustees. The administration costs of the trust are charged to the profit and loss account. "Class 1 Options" (described in the Remuneration Committee Report on page 27) over these shares, exercisable at 694p from June 2000, have been conditionally awarded to senior employees.

## 11. Subsidiary Undertakings

	1997 £'000	1996 £'000
Investment at cost 4 October 1997	34,852	34,852
Amount due from subsidiary undertakings – non-trading balances	5,115	8,626
	<b>39,967</b>	<b>43,478</b>
Provisions 4 October 1997	(3,159)	(3,159)
<b>Net book value 4 October 1997</b>	<b>36,808</b>	<b>40,319</b>

### 11. Subsidiary Undertakings (continued)

All the principal subsidiary undertakings are wholly owned by the Company except Dri-Print Foils, Inc. which is wholly owned by a subsidiary undertaking of the Company. All the companies are incorporated and operate principally in the United Kingdom except for Dri-Print Foils, Inc. and Learoyd Packaging (USA) Inc. which are incorporated and operate principally in the United States of America.

The Company's principal subsidiary undertakings are listed on page 52.

The change in amounts due from subsidiary undertakings reflect movements in loan accounts in the current year.

### 12. Stocks

	1997 £'000	1996 £'000
Raw materials	5,043	6,205
Finished goods and work in progress	8,147	5,985
	<u>13,190</u>	<u>12,190</u>

The estimated replacement cost of stock does not exceed the balance sheet value by a material amount.

### 13. Debtors

	Group		Company	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
<b>Under one year</b>				
Trade debtors	34,493	34,013	—	—
Prepayments	1,384	941	6	72
Other debtors	1,151	1,280	164	226
VAT	186	196	—	—
	<u>37,214</u>	<u>36,430</u>	<u>170</u>	<u>298</u>
<b>Over one year</b>				
Deferred taxation	137	113	—	—
Advance corporation tax recoverable	505	458	505	458
	<u>37,856</u>	<u>37,001</u>	<u>675</u>	<u>756</u>

#### Deferred taxation

The major components of the provision for deferred taxation and the amounts not provided for are as follows:

	Group		Company	
	Provided 1997 £'000	Provided 1996 £'000	Provided 1997 £'000	Provided 1996 £'000
Future pension payments	137	113	—	—
	<u>137</u>	<u>113</u>	<u>—</u>	<u>—</u>
	Group		Company	
	Not Provided 1997 £'000	Not Provided 1996 £'000	Not Provided 1997 £'000	Not Provided 1996 £'000
Accelerated capital allowances	(4,122)	(3,257)	547	610
Tax losses	165	185	—	—
Other timing differences	18	368	(120)	(160)
	<u>(3,939)</u>	<u>(2,704)</u>	<u>(427)</u>	<u>450</u>

# Notes to the Accounts

## 14. Creditors – Amounts Falling Due within One Year

	Group		Company	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Trade creditors	23,799	22,770	–	–
Bills of exchange	54	18	–	–
Accruals	4,253	3,645	272	382
Net obligations under finance leases and hire purchase contracts	143	143	–	–
Other creditors	461	3,079	33	2,033
National insurance and income tax	440	682	24	22
VAT	910	1,586	6	–
	<u>30,060</u>	<u>31,923</u>	<u>335</u>	<u>2,437</u>

## 15. Creditors – Amounts Falling Due after more than One Year

	Group		Company	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Net obligations under finance leases and hire purchase contracts	168	503	–	–
Other creditors	685	867	33	67
Total	<u>853</u>	<u>1,370</u>	<u>33</u>	<u>67</u>

The finance lease/hire purchase contracts expire within five years of the balance sheet date.

## 16. Borrowings

### Short term borrowings

	Group		Company	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Bank overdrafts	–	45	–	–

## 17. Provisions for Liabilities and Charges

	Group		Company	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Pension scheme provision	<u>442</u>	<u>344</u>	<u>442</u>	<u>344</u>

### Pension scheme provisions

The total pension cost for the Group for 1997 was £306,000 (1996: £195,000). The Group made payments to a number of schemes during the year including £114,000 charged to the accounts in respect of Learoyd Group Ltd, Morris Plastics Ltd, and Filmcast Extrusions Ltd.

Pension scheme assets are managed by independent professional investment managers. The contributions to the schemes are assessed in accordance with independent actuarial advice and it is the Group's policy that none of the assets of the funds are invested directly or indirectly in any Group company.

The principal pension schemes operate in the UK and North America and further disclosures in respect of these schemes are set out below:

## 17. Provisions for Liabilities and Charges (continued)

### Principal pension schemes

The Group operates a funded pension scheme for the Company and its UK subsidiaries, providing benefits based on final pensionable earnings. The assets of the scheme are held separately from those of the Group, being invested in a number of UK and overseas equities, unit trusts and other securities. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over members' working lives with the Group. The contributions charged are determined by a qualified actuary. An actuarial valuation of the Group's UK pension scheme was carried out as at 30 March 1996 using a Projected Unit Costing method. The assumptions which have the most significant effect on the results of the review are those relating to the rate of return on investments, the rate of growth of dividends and the rate of increase in salaries and pensions. It was assumed that investment returns will be 9% per annum, dividends will grow on average by 4.5% per annum, salary increases will average 6.5% per annum and that present and future pensions will increase at the rate of 4% per annum.

The actuarial valuation as at 30 March 1996 showed that the market value of the assets of the API Group plc Pension and Life Assurance Fund was £33,077,000 and that the actuarial value of those assets represented 124% of the benefits which had accrued to members on an ongoing basis. The surplus revealed by the review is being amortised over 15 years in equal instalments. After taking account of interest credits on the balance of unamortised surplus and interest charges on the pensions provision, the pensions charge taken for 1997 is £120,000 (1996: £4,000). There were no further charges for specific purposes (1996: £9,700). As a result of these charges the balance sheet provision has been increased to £181,000 (1996: £61,000).

The Group still pays pensions under three unfunded, non-contributory pension schemes, membership of which is now closed. A provision of £261,000 stood at 4 October 1997 (1996: £283,000) for the present value of future payments under these schemes and the charge to the accounts in the year ended 4 October 1997 was £25,000 (1996: £28,000). The amount amortised from the provision for the year was £22,000 (1996: £27,000).

Dri-Print Foils, Inc. has three funded pension schemes. In the context of the Group, none of these funds has a material deficiency or surplus of assets and there is believed by the Directors to be no material difference between the funding rate as recommended by actuaries and charged in the accounts and the charge which would have been required under the provisions of SSAP24. The charge to the accounts in respect of these pension schemes is £47,000 (1996: £111,000).

## 18. Share Capital

	Authorised		Allotted, Called Up and Fully Paid	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
549,000 3.85% (formerly 5.5%) Cumulative preference shares of £1 each	549	549	549	549
Ordinary shares of 25p each				
At 28 September 1996	9,329	7,000	7,025	5,387
Increase in authorised share capital	—	2,329	—	—
Shares issued – options exercised	—	—	20	83
Shares issued – placing and open offer	—	—	—	1,555
At 4 October 1997				
(28,180,732 shares in issue – 1996: 28,099,994)	9,329	9,329	7,045	7,025
<b>Total shares</b>	<b>9,878</b>	<b>9,878</b>	<b>7,594</b>	<b>7,574</b>

# Notes to the Accounts

## 18. Share Capital (continued)

The holders of non-equity shares have the following rights:

- i) to a cumulative preferential dividend at the rate of 3.85% (formerly 5.5%) per annum.
- ii) on a return of assets whether in a winding up, reduction of capital or otherwise in priority to all other shares in the capital of the Company, to a return of the nominal amount paid up on each share together with any arrears and accruals of dividend if any. In addition, a premium is also payable calculated as the difference between the average quoted price of each such share on the London Stock Exchange during the period of six months preceding a notice of a meeting for the winding up, reduction of capital or otherwise and the nominal amount paid up on each such share.

In the event of a repayment of capital involving the payment of a part only of the amount paid up on each such share the aforementioned premium shall be paid in proportion to the amount of capital repaid.

- iii) one vote for every share held whether on a show of hands or on a poll.

During the year options were granted under the Group Executive Share Option Schemes on 150,000 ordinary shares at 694p per share.

Full exercise of the options granted under the Company's share option schemes would result in the issue, not later than June 2007, of a further £174,050 ordinary share capital made up of 150,000 shares at 694p, 335,000 shares at 553p, 10,000 shares at 455p, 172,500 shares at 454p, 15,000 shares at 394p, 10,000 shares at 218p and 3,700 shares at 183p.

## 19. Reserves

### Share premium account

	Group		Company	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
At 28 September 1996	21,645	4,722	21,645	4,722
Premium on shares issued	198	18,151	198	18,151
Share issue costs	—	(1,228)	—	(1,228)
<b>At 4 October 1997</b>	<b>21,843</b>	<b>21,645</b>	<b>21,843</b>	<b>21,645</b>

### Other reserves

#### Revaluation reserve

At 28 September 1996	2,189	1,871	6	6
Surplus on property revaluation	—	318	—	—
<b>At 4 October 1997</b>	<b>2,189</b>	<b>2,189</b>	<b>6</b>	<b>6</b>

#### Merger reserve

At 28 September 1996	—	4,946	23,548	4,362
Arising on acquisition of subsidiary undertakings	—	19,186	—	19,186
Elimination of goodwill	—	(24,132)	—	—
<b>At 4 October 1997</b>	<b>—</b>	<b>—</b>	<b>23,548</b>	<b>23,548</b>
	<b>2,189</b>	<b>2,189</b>	<b>23,554</b>	<b>23,554</b>

**19. Reserves (continued)****Profit and loss account**

	Group		Company	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
At 28 September 1996	27,659	17,916	5,578	7,058
Goodwill written off in prior years taken to merger reserve	—	4,821	—	—
Foreign exchange translation differences	(547)	151	54	1
Balance from profit and loss account	6,775	4,771	1,425	(1,481)
<b>At 4 October 1997</b>	<b>33,887</b>	<b>27,659</b>	<b>7,057</b>	<b>5,578</b>
<b>Total reserves</b>	<b>57,919</b>	<b>51,493</b>	<b>52,454</b>	<b>50,777</b>

The foreign exchange translation differences are stated after a profit of £24,000 (1996: loss £9,000) in respect of current year exchange differences from foreign currency borrowings financing foreign equity investments. Although the cumulative amount of goodwill written off against reserves cannot be easily ascertained, the amount written off since 1986 inclusive is £25,824,000 (1996: £25,824,000) of which £1,692,000 (1996: £1,692,000) has been written off against the profit and loss reserve.

**20. Profit Attributable to Members of the Parent Company**

A profit of £4,850,000 (1996: profit £1,347,000) has been dealt with in the accounts of the parent company. In accordance with section 230 of the Companies Act 1985 the Company is not required to publish its own profit and loss account.

**21. Leasing Commitments**

Leasing commitments under non-cancellable operating leases were as follows:

	Group Land and Buildings Leases		Group Other Operating Leases	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Payable in the following year and relating to leases terminating:				
Within one year	—	12	152	121
Two to five years	101	293	385	361
After five years	193	480	2	—
	<b>294</b>	<b>785</b>	<b>539</b>	<b>482</b>

**22. Capital Commitments**

	Group		Company	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Contracted amounts not provided for in these accounts are	2,958	770	—	—

**23. Acquisition of Businesses**

In 1994 agreement was reached to purchase all rights relating to the Gold Impressions customer base for a fixed consideration. Of the deferred consideration a further payment of £122,000 (1996: £131,000) was made in the current year. The balance of £776,000 has been carried forward in creditors, of which £652,000 (1996: £799,000) is payable after more than one year.

The £2,000,000 deferred consideration provided in 1996 relating to the Learoyd acquisition was paid during the year together with £33,000 of costs. £67,000 of costs remain payable by two equal annual instalments.

# Five Year Record

	1997 £'000	1996 £'000	1995 £'000	1994 £'000	1993 £'000
<b>Group profit and loss account</b>					
<b>Turnover</b>					
Continuing operations	143,819	127,957	104,014	78,164	69,431
Discontinued operations	—	—	—	1,393	3,934
<b>Total Turnover</b>	<b>143,819</b>	<b>127,957</b>	<b>104,014</b>	<b>79,557</b>	<b>73,365</b>
<b>Operating profit</b>					
Continuing operations	13,684	10,976	8,444	6,618	4,902
Discontinued operations	—	—	—	185	208
<b>Total operating profit</b>	<b>13,684</b>	<b>10,976</b>	<b>8,444</b>	<b>6,803</b>	<b>5,110</b>
Exceptional items	—	—	—	203	291
<b>Trading profit</b>	<b>13,684</b>	<b>10,976</b>	<b>8,444</b>	<b>7,006</b>	<b>5,401</b>
Finance income/(expense)	297	(128)	(90)	9	13
<b>Profit before taxation</b>	<b>13,981</b>	<b>10,848</b>	<b>8,354</b>	<b>7,015</b>	<b>5,414</b>
Taxation	(3,781)	(3,249)	(2,464)	(2,350)	(1,814)
<b>Profit after taxation</b>	<b>10,200</b>	<b>7,599</b>	<b>5,890</b>	<b>4,665</b>	<b>3,600</b>
Preference dividends	(21)	(21)	(21)	(21)	(21)
	<b>10,179</b>	<b>7,578</b>	<b>5,869</b>	<b>4,644</b>	<b>3,579</b>
Ordinary dividends	(3,404)	(2,807)	(2,148)	(1,938)	(1,753)
<b>Transferred to reserves</b>	<b>6,775</b>	<b>4,771</b>	<b>3,721</b>	<b>2,706</b>	<b>1,826</b>
<b>Group profit and loss account</b>					
<b>Net assets</b>					
Fixed assets	40,912	38,519	28,393	20,232	20,519
Net current assets	25,918	22,576	12,134	12,014	11,831
	<b>66,830</b>	<b>61,095</b>	<b>40,527</b>	<b>32,246</b>	<b>32,350</b>
Creditors over one year	(853)	(1,370)	(9,391)	(1,442)	(2,076)
Provisions for liabilities and charges	(442)	(344)	(470)	(712)	(645)
Government grants	(22)	(314)	(221)	(237)	(265)
	<b>65,513</b>	<b>59,067</b>	<b>30,445</b>	<b>29,855</b>	<b>29,364</b>
<b>Capital employed</b>					
Ordinary capital	7,045	7,025	5,387	5,341	5,320
Reserves	57,919	51,493	24,509	23,965	23,495
Ordinary Shareholders' equity	64,964	58,518	29,896	29,306	28,815
Preference capital	549	549	549	549	549
	<b>65,513</b>	<b>59,067</b>	<b>30,445</b>	<b>29,855</b>	<b>29,364</b>
<b>Statistics relating to ordinary shareholders</b>					
Earnings per share	36.2p	31.4p	27.1p	21.8p	16.8p
Dividend per ordinary share	12.10p	11.00p	10.00p	9.08p	8.25p
Dividend cover (times)	3.0	2.9	2.7	2.4	2.0
Ordinary shareholders' equity per share	230.50p	208.30p	138.70p	137.20p	135.40p
Net cash/(borrowings) as a percentage of shareholders' funds	15.6%	18.3%	(8.5%)	21.3%	12.3%
Average number of employees	1,177	969	793	708	704
£'000's profit per employee	11.6	11.3	10.6	9.9	7.7

# Financial Calendar

**Annual General Meeting**

To be held at 12.30pm, 5 February 1998  
The Savoy Hotel, The Strand, London WC2R OEU.

**Reports**

Interim Report for 6 months to 4 April 1998  
circulated May 1998.

Preliminary Announcement for the year to  
3 October 1998, issued December 1998.

Reports and Accounts for the year  
to 3 October 1998 circulated January 1999.

**Dividends on ordinary shares**

Proposed final 1996/7 announced 8 December  
1997, payable 9 February 1998.

Interim 1997/8 Announced May 1998, payable  
July 1998.

Proposed 1997/8 announced December 1998,  
payable February 1999.

**Dividends on preference shares**

Half yearly, 31 March 1998 and 30 September 1998.

**Capital Gains Tax**

The market value of an ordinary and preference  
share on 31 March 1982 was ordinary 60.5p,  
preference 28.5p.



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